

Comments of John Saven to Energy Northwest Board – April 23, 2008

Thanks for opportunity to address the Energy Northwest Board of Directors. Bill Drummond, Scott Corwin and I are BPA customer representatives, here on our own initiative, not at the request of BPA.

We want to discuss the BPA Energy Northwest business relationship, as it impacts BPA customers. Since we have about 45 minutes, each of us will make brief presentations, and then we can have general discussion.

I am the CEO of Northwest Requirements Utilities. While these comments have not been reviewed by the NRU Board, our Executive Committee strongly supports my being here today.

NRU is a nonprofit trade association of 53 utilities in 7 states, mostly Full Requirement customers of BPA that take about 1,800 aMW of power from BPA, about ¼ of the firm FBS.

As Full Requirement customers, BPA is our exclusive power supplier, and so our members have to absorb the full impact of any changes in BPA costs.

NRU members rely on our staff to help influence BPA to control its overall costs, while providing a reliable and environmentally acceptable power supply.

In addition to participating in all BPA Rate Cases:

I am a member of the BPA Customer Collaborative,
Participate in the BPA Power Function Review,
Chair the Board of Northwest RiverPartners

We have supported BPA requests to increase rates and budgets when justified, and have suggested reductions when the justification was lacking, or when the rate impacts were too severe. Our objective is to secure a high quality power supply at the lowest reasonable cost.

One lesson we have learned is while BPA has formal rate proceedings is that they are not the forum to influence the Agency's overall cost structure. Much of the Agency's costs reflected in the 2009 rates are associated with other agencies or parties including the following:

Energy Northwest	30%
Corps and Bureau O+M	15%
Fish and Wildlife Program	12% (not including hydro impacts)

Only 5% of our rates are for Internal BPA Operations

Therefore, NRU needs to press BPA to carefully scrutinize funding requests from third parties, and where possible to have customer involvement in reviewing them.

From a customer perspective there are a number of immediate issues regarding the Columbia Generating Station Budget, and the related interface between CGS and BPA staff.

The CGS O+M budget on a BPA forecast basis for FY 2009 was planned at \$243 M, but was revised to \$274 M, and recently bumped up again to \$308 M.

Our testimony for the BPA 2009 rate case was due on March 31st, before the last change in numbers. Our earlier data requests to BPA for additional CGS budget information to document the increases were not answered by BPA.

We were told that in May, as part of an Integrated Program Review, outside of the rate case, that BPA would “brief” customers and stakeholders on CGS operations and maintenance forecasts.

In other words NRU has no recourse in the BPA rate case to effectively challenge any of the revised numbers relating to CGS. Therefore we have to rely on BPA and ENW to get things right.

Since BPA has been effectively cut from day to day interaction with ENW staff, the Agency’s only review seems to be the consideration of final work products.

There is no track record of BPA disapproving an Energy Northwest budget or particular line item, triggering the use of an outside consultant to determine if the proposal meets the test of Prudent Utility Practice.

The only way for BPA customers to have reasonable checks and balances on the spending levels of ENW is for

- the CEO and staff to demonstrate adherence to an adopted financial plan, and/or
- the ENW governance Board to scrutinize the funding requests of the CEO with the rate implications and make informed decisions concerning all major items.

Actions for the Board to Consider

1. The Energy Northwest Board needs a Driving Principal to Guide Decision Making that is broadly shared with the public and that will give NRU members comfort.

Steve Wright recommended such a policy including the following key phrase *“long term, safe, reliable operation of CGS accomplished at the lowest reasonable cost.”*

I’m bewildered as to why such a policy was reportedly rejected by the Board. Isn’t consideration of lowest reasonable cost the proper function of a governing body?

It’s right out of the definition of Prudent Utility Practice from the 1971 Agreement between WPPSS and BPA.

This is my reading of the Agreement and seems to mesh with Rick Redmond’s observations in his reports to you.

2. Does the Executive Board, Full Board or PRB have its own independent staff that can help these bodies do some analytical work on their own?

I don't know if BPA really needs 8 full time positions for ENW related work. But my primary question is whether the ENW Board is willing to do more than listen to the technical perspective of the CEO and his staff? To shape policy alternatives for complex financial and operational matters, a board of generalists will need independent support. You can do this on your own by retaining professional staff of your own, or perhaps rely on outside consulting support.

3. Does the current Board budget review process really work, or does it need more of an oversight role?

The only way for me to gage this is by measuring the degree of change, if any, from the budget proposal of the CEO to the final budget adopted by the Board. My staff did not see this during your budget workshops.

Hopefully you will prove me wrong, but I am not aware of any substantive changes the Board is making to the CEO's \$400 M budget proposal for CGS that will have the effect of lowering BPA customer cost increases.

For example the risk reserve, the two year change in head count, and the reclassification of capital projects to expense items should be fruitful topics for the Board to review in greater detail.

4. How closely does the Budget Conform with a previously adopted Long Range Financial Plan, and if it deviates, is there good justification?
5. How well do ENW and BPA link their budgeting and rate setting processes, so that the public has a clear understanding of how the financial information from one organization meshes with the others, and is there is reasonable time for customer involvement?

In conclusion, I want you to know that I am a supporter of Columbia Generating Station, and view it as a cornerstone of the Federal Base System. I'm not trying to be critical of Vic or the staff, or to oppose any specific line items in the budget based on the limered time Geoff Carr and I had to review documents. But there are a number of key budget assumptions where policy makers could come to different conclusions.

My concerns focus on checks and balances, and whether the Board has

- the resources to do the analytical work
- the commitment to demonstrate your concern for cost effectiveness that I've seen you show in other forums.

The ENW Board needs to show the BPA customers that it will pursue safe and reliable power while giving consideration to lowest possible cost.

Thanks for your consideration.