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August 24, 1998

MEMORANDUM

TO: Council Members

FROM: John Shurts

SUBJECT: Funding fish and wildlife 2002-2006/the upcoming rate case: status report and possible issues for comment: **Fish and Wildlife Committee meeting, August 31, agenda item no. 6; Council work session, September 1, part of agenda item no. 2**

As you know, staff from Bonneville, the agencies and tribes, CBFWA, the Council, public interest organizations and certain customers have been working since the first of the year to define what might be Bonneville's fish and wildlife costs in the 2002-2006 period (and in the following period to 2012). The purpose is to determine how Bonneville should describe, in the upcoming rate case (which will set a rate for subscription), how it will cover those costs. On the basis of the cost estimate work, Bonneville's own analysis, and a number of meetings over many months, Bonneville recently produced a "White Paper" on fish and wildlife funding. The White Paper "proposes a general framework addressing how BPA will meet all of its financial obligations, including funding for Northwest fish and wildlife, for the 2002-2006 rate period." Accompanying that White Paper has been a Bonneville presentation and set of overheads titled "Revised Briefing on Fish Funding Options: July 21, 1998." I have included a copy of both with this memo (Attachments 1 and 2). Included in the Options are mechanisms like rate adjustment and a transmission surcharge that might be in conflict with the contingent cost recovery mechanism being developed by the Transition Board. I have also included a copy of the Transition Board's proposal (as Attachment 3).

Developments have reached a point that it is time for this status report to the Council. I have tried to outline the key procedural and substantive elements from the White Paper and the Options presentation, including points that overlap with and conflict with the Transition Board's cost recovery proposal. And I have identified points (in the sentences that are in both italics and bold) where the Council might be interested in commenting or responding or taking an action. This topic is on the agenda for the Fish and Wildlife Committee meeting, August 31, agenda item no. 6, and the Council's work session, September 1, part of agenda item no. 2for the Work Session at the end of August in Spokane. If the Council has any comments or reaction, Bonneville needs to hear them at that time, as Bonneville hopes to produce its fish and wildlife funding proposal for the rate case early in September.

The point of this effort is *not* to have the Council providing comments that are distinct from and possibly in conflict with the eventual recommendations of the governors' representatives on the

Transition Board, some of whom are also Council members. The point is to make sure that those Council members who are not on the Transition Board but are involved in fish and wildlife issues understand the issues at stake, including points of divergence between the Transition Board and Bonneville. On topics and issues *not* covered by the Transition Board's cost recovery proposal, the Council may want to comment formally or informally to Bonneville, as noted below. On the topics that are covered by the Transition Board's proposal, the Council can add its weight by including in any comments it makes that Bonneville ought not to act without waiting for and heeding the recommendations of the governors that will result from the Transition Board process. If individual Council members have any concerns with the Transition Board's cost recovery proposal, they should share those with the Board members before the Board finalizes its proposal to the governors.

Procedure

Bonneville is taking public comment on the White Paper. And while Bonneville does not plan any more public meetings on the subject (attendance at the last one, July 31, was pretty sparse), Bonneville representatives say they are willing and eager to meet with affected people and groups to discuss the ideas in the paper. ***The Council should decide whether it wants to comment on issues raised in the paper or schedule a consultation with Bonneville representatives on the topic of fish and wildlife funding or on the subject of the rate case/rate setting/cost recovery in general. (The official close of public comment in August 21, but Bonneville can live with a reaction from the Council at the end of the month.)***

In the next step, around the end of August/early September, Bonneville plans to turn its thinking into an actual proposal as to how it will handle fish and wildlife costs in the rate case. A meeting in D.C. is scheduled for mid-September with federal agency and administration personnel at which Bonneville will present its proposal. In the fish funding public meeting on July 31, Alex Smith of Bonneville (VP for environmental matters) said that administration and federal agency representatives asked Bonneville to present its proposal to the federal family first, before making it public generally. Alex also said that Bonneville hopes to get federal family agreement on what becomes the Bonneville approach to fish and wildlife funding, possibly memorialized through something like the "Alice Rivlin letter" in 1995 that capped the 1996-2001 budget agreement. Whether this means getting federal agreement on specifics or simply on the principles of the approach is not clear. Nor is it clear whether the idea is to actually obtain the federal agreement *first* before Bonneville releases the proposal to others. Alex and Paul Norman (VP for power marketing) noted that Bonneville and the other federal agencies have not yet thought through what should be the procedure. It also appears that Bonneville has not thought through the relationship between what it may propose and what may be the cost recovery recommendation of the Transition Board.

At the same time that Bonneville works through the fish funding proposal, it will also be trying to define a proposal to address other subscription issues (products, allocation, etc.). The idea right now at Bonneville is to have a proposal or proposals to address all of the subscription/rate case issues by sometime in October, looking to file the rate case in January 1999.

To the extent the Council has a particular desire as to the procedure Bonneville and the other federal agencies should use to develop and agree to the proposal for addressing fish and wildlife costs and other issues in the rate case/subscription, now is the time to communicate that to Bonneville. At the very minimum, the Council should consider commenting to Bonneville to take care that they not foreclose options that are under consideration by the region through the Transition Board.

Highlights of substantive elements

For all of the substantive elements of Bonneville's framework for addressing fish and wildlife costs, see the White Paper and the Options analysis. My purpose here is to highlight what seem to be key points.

Commitment to meet all fish and wildlife obligations/not looking for an agreement on a specific funding level. As a fundamental point, Bonneville representatives emphasize that the point of this exercise is *not* to determine what level of fish and wildlife funding Bonneville will spend in the period 2002-2006. Bonneville intends to meet its fish and wildlife obligations in the period of 2002-2006, whatever they are. The point instead is to decide, as a planning matter for a rate case, how to handle what is right now an uncertain range of fish and wildlife costs. Paul Norman and others have emphasized in these meetings that Bonneville wants to treat Bonneville's fish and wildlife costs just like Bonneville's other costs, and not approach or limit future fish and wildlife funding obligations in any unusual or different way.

A corollary principle is that the Bonneville personnel involved in putting together the rate case appear comfortable working with a range of possible fish and wildlife costs. This recognizes that the region has too many fundamental decisions ahead of it right now to know precisely which fish and wildlife activities will be necessary in that period, and thus what the costs will be. Bonneville representatives have made clear, directly and implicitly, in these public meetings and papers, that Bonneville is *not* looking, between now and the time of the rate case/subscription, for an agreement on a *specific* budget commitment for fish and wildlife for this upcoming rate period, whether through an extension of the current budget agreement or in any other way. (We all assume there will come a time to talk about a post-2001 budget agreement, but that now is not the time.) Rate case techniques have always included handling uncertain future costs through ranges of costs and probabilities. The potential impact and spread of future fish and wildlife costs in this period may be greater than usual (although not as great as the impact to Bonneville of different water conditions), but not in a way that makes them unmanageable.

Principles underlying strategies. Bonneville has suggested (on the first page of the White Paper and pages 1 and 8 of the Options analysis) a set of underlying principles to guide Bonneville as it defines strategies for addressing fish and wildlife costs. These principles include:

- taking into account the full range of potential fish and wildlife costs;
- demonstrating a high probability (i.e., 88% for all 5 years) of making its Treasury payments throughout the rate period;
- produce significant financial reserves at the end of the rate period "if market prices over the period are high," to anticipate the potential for much larger fish and wildlife costs in the next rate period;
- minimize rate impacts on power and transmission customers; and
- be easy to implement and administer.

At the one meeting I attended at which a group discussed these principles, I heard these concerns (which is not to say that there are not others): Environmental group representatives and agency and tribal personnel had concerns that the principles do not express a sufficiently strong commitment to covering fish and wildlife obligations. Customer representatives have concerns about Bonneville collecting money in this rate period for the purpose of building up significant reserves by 2006. Others commented that the principle on reserves does not express the point correctly, which is that Bonneville's need to build up reserves by 2006 to keep future options open may be more important if the market is *low* than if it is high, although more difficult to do.

Perhaps the key principle, for the rate case, will be the choice of the 88% probability of meeting the Treasury payment over all five years. (This implies approximately a 97.5% probability of repayment in each of the five years.) Issues that have been raised include whether this is an appropriate level of risk and even if so, whether there are circumstances in which Bonneville and Treasury might be willing to accept a lesser probability on a planning basis. For example, what about a financial package that met the probability test over four years with a slight deviation in one year? ***The Council members should examine the principles, and decide if the Council has an interest in commenting on them.***

Range of costs/adjusted schedule. Bonneville has been making use of the cost estimate ranges developed by the agency personnel under the aegis of the Three Sovereigns process, with the aid of Bonneville, CBFWA and Council staff. Those estimates led to a range of potential average annual financial impacts to Bonneville over the 2002-2006 period of $438 million to $727 million.[1] The schedule underlying these cost estimates included, for example, that major cost impacts of a lower Snake drawdown, if decided upon, would hit Bonneville by 2004.

Bonneville then applied what it calls an "adjusted schedule" to these cost estimates, "based on an estimate of how the annual program costs may be affected by relatively short delays in the current expedited schedules of key implementation milestones such as Congressional authorization,

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[1] One specific point about the cost estimates that is a particular irritant to me -- Bonneville continues to use cost estimates (e.g., in the Options analysis) that treat the financial impact of system operations for fish and wildlife, including foregone revenues, as a fish and wildlife "cost," that is, as a set "cost" that is totaled with the out-of-pocket costs and then apparently analyzed as costs to be covered by rates. This has never made any analytical sense to me. The Council's market/revenue analysis treats the financial impact of operations as what it really is -- as a comparative effect on the revenues that come in the door, not as "costs" to be covered by revenues (except for the obvious out-of-pocket expenditures that are associated with operations, such a power purchases). Bonneville will likely do the same *in* the rate case; at least, it does not make any sense to do it otherwise. But that means that the analysis Bonneville is providing here seems skewed. For one example, the way Bonneville has handled these "costs" here is to apply a set price to the differences in generation produced by different operational scenarios. This means that Bonneville assumes a set price for what we and they are otherwise treating as an uncertainty -- the future market price of electricity. There is also the potential in the analysis here for a type of double counting, as different operational scenarios provide different revenue streams, while at the same time the analysis appears to count those revenue differences also as "costs."

A more fundamental problem with this approach is that the "costs" of the different operational scenarios under consideration in the future have been *added on to* the operational cost estimates for current Bi-Op operations. This means Bonneville begins with the *$180 million* per year estimate of the financial impacts of current operations as an underlying cost in all estimates. The problem is that the cost estimate for current Bi-Op operations is based on what is otherwise a discarded technique -- in which Bonneville treats as a cost (to be covered in rates) all possible financial impacts of operating the river other than as a power/irrigation/navigation-only base case. As far as I am concerned, all cost estimates should be reduced by $100 million or so for this reason. ***Assuming that anyone other than me is bugged by this, which may be a wildly off-base assumption, the Council might want to consider commenting.***

engineering and contracting processes." The adjusted schedule, for example, would mean that cost impacts of a lower Snake drawdown would hit Bonneville by 2006 or later. The adjusted fish and wildlife cost range for the 2002-2006 period is $438 million to $632 million including operational costs (power purchases and lost power revenues), which flattens the potential cost swing that Bonneville faces in this rate period. The Bonneville White Paper does not say for certain that Bonneville will use the adjusted schedule, but that seems to be the preferred approach -- at least to the extent of treating the adjusted schedule as a more probable event in a rate case probability analysis. ***The Council might consider whether it wants to make a comment, pro or con, about the use of this adjusted schedule.***

Probabilities. Bonneville has a host of future costs or financial impacts that are sufficiently uncertain that Bonneville will need to express them as a possible range, rather than as a set estimate. Besides future fish and wildlife costs, two of the main uncertainties include the revenue impacts of swings in water conditions and the impact of different market prices for power.[2] In addition, there are a host of the basic costs of running Bonneville that have some uncertainty. One Bonneville representative noted that Bonneville will probably go into the rate case with dozens of costs expressed as ranges.

In theory, there are a number of ways to handle a range of uncertain costs, such as we have for fish and wildlife needs from 2002-2006. One way, of course, is to pick the highest number of each range and use that for the rate analysis, to make sure that costs could always be covered. The obvious problem with that approach is that rates would end up quite high, and Bonneville would most likely significantly over-collect revenue as actual costs fall within the ranges and not at the highest level. The more usual approach in a rate case is a probability analysis. This requires assigning probabilities to various outcomes. In some instances, this is relatively easy. With water conditions, we have a historical record upon which to base an objective estimate of the probability.

Fish and wildlife costs, however, are effectively the result of policy decisions -- there is no historical record. So at this stage Bonneville is essentially forced to make a subjective assessment of the probabilities. For example, you might believe there is no basis for choosing between outcomes, in which case costs within a range are treated as of equal probability. Alternatively, you might have a reason to believe some costs within a possible range are more likely than others. In this case you would assign higher probabilities to those outcomes. In either case, the point to determine is the rate level (or a base rate level plus contingent revenue collecting methods) that can generate sufficient revenue to cover the various cost mixes taking into account their individual probabilities and yield an 88% probability of meeting the annual Treasury payment in all five years.[3]

[2] Market prices affect the amount of revenue that Bonneville can gain from spot market sales of surplus power, as well as the cost of power purchased to shape Bonneville's production to meet load in some months. Market prices also affect the revenue potential in a rate adjustment clause that will allow Bonneville to raise cost-based rates to cover additional costs and yet stay below market prices. Market prices will also affect any "indexed" power sales that Bonneville makes.

[3] Bonneville considers the Treasury payment to be the "last" of its costs that has to be paid, meaning that it will meet all other costs before making the Treasury payment. This is not just policy; this is how Bonneville understands the priority of payments set forth in its statutes, such as the Transmission Act. Thus the analysis is geared to having a high probability of paying all other costs and then having the revenue left to pay the Treasury payment. Also included in that calculation is having a cushion of reserves left over after meeting costs.

For the Options analysis, Bonneville chose to assign higher probability to costs in the middle of the range and lower probabilities to costs at the upper and lower extremes. More precisely, Bonneville assumed a lower probability that the fish and wildlife costs would fall at either end of the range ($440 million or $640 million average), and a significantly higher probability that the costs would fall in the middle ($550 million average). The Options analysis shows the results obtained using this type of probability analysis for the fish and wildlife costs (see pages 18 and 19 and page 5 of the White Paper). Weighting the probabilities toward the middle of the range has some intuitive appeal. However, one could make other assumptions that would yield different results. Assuming equal probabilities for all costs in the range, all else being equal, would require somewhat higher rates and/or greater reliance on contingent cost recovery mechanisms to achieve the required repayment probability.

Bonneville's clear preference is to use a probabilistic analysis for fish and wildlife costs. It may be more likely that Bonneville will assign *equal* probabilities to the levels within the fish and wildlife cost range. Bonneville has not developed an explanation for how it (or anyone else) might go about assigning weighted probabilities. And the latest Bonneville proposal for how to treat the direct program portion of the fish and wildlife costs is to treat each step along the range as of equal probability. But it is still possible Bonneville will apply the weighted probability assumption in the Options Analysis.

The Council should consider whether a probabilistic approach to fish and wildlife costs makes sense. If so, the Council should also consider whether it prefers the "equal" probability approach, or the "weighted" probability approach, and if the latter, whether the Council has any expertise to offer on assigning probabilities or comments to make on what probabilities Bonneville should assign to the range of costs.

Financial tools/fixed-price contracts vs. "floating price" sales (indexed sales; shorter-year contracts; non-firm surplus sales)/cost recovery rate adjustment charges/wires charges/comparison to Transition Board proposal. In theory it is possible to analyze the estimated costs and derive a specific, fixed, base rate at which Bonneville would offer for sale all of its firm power and yield the necessary revenue to cover costs and have the 88% probability of meeting the Treasury payment in all five years of the rate period. Bonneville (and the Transition Board) prefer, logically it seems to me and to most everyone else, to try to combine a base rate for fixed-price contracts with other financial tools to manage the uncertainties and wide ranges of possible future costs and still yield the necessary Treasury payment probability. The other tools include:

- counting on revenues from the spot market sale of non-firm surplus power (analyzed conservatively, although it could turn out to be a big source of revenue in higher markets -- this is not really a distinct mechanism, but one of the uncertainties Bonneville has to accommodate);
- use of reserves;
- use of 4(h)(10)(C) credits and the existing fish cost contingency fund;
- option fees to reserve a right to subscribe to power at a later date;
- index pricing (pricing that moves with the market, even if its level is set at a certain point below market);
- a certain percentage of shorter-term contracts (shorter than five years) that could be renewed at higher prices if justified;

- a Cost Recovery Adjustment Clause or CRAC (called a Capped Rate Adjustment Clause by the Transition Board), that is, a rate adjustment clause in the fixed-price contracts that would be triggered if reserves dropped to a level that would threaten Bonneville's ability to make a Treasury payment; and
- an additional emergency cost recovery mechanism, in the form of a surcharge on transmission, to be triggered by still declining reserves.

See White Paper, at 3-4; Options analysis, at 9-17, also 19-22. The discussion here will highlight the possible use of a couple of these tools, including noting differences between the ideas Bonneville has floated and the recent cost recovery proposal from the Transition Board.

Bonneville suggests the use of what it called "floating price" sales to produce a certain portion of needed revenues. Part of this is not new: A big chunk of the expected revenue from such "floating price" sales is from a usual source -- short-term spot market sales of surplus power. *See* Options analysis, at 9, 13. Bonneville is considering, for the rate case, assuming a low or conservative revenue realization from these sales, which has the effect of boosting the revenue needed and thus the rate from fixed-price firm power contracts. ***The significance of the revenue from surplus sales for the ultimate analysis is such that the Council should consider asking Bonneville for a more detailed explanation as to how it plans to treat these sales in the rate case and why.***

In this "floating price" category Bonneville also proposes to offer some new products -- indexed subscription sales and shorter-term subscription sales. Bonneville feels these would allow the agency to plan more conservatively with regard to market prices for the fixed-price contracts and the initial prices on these "floating-price" contracts and yet have the flexibility to take advantage of higher market prices should they occur. This would also begin to increase the diversity of type and duration of its firm power sales contracts, to lessen Bonneville's risk by its ordinary reliance on one type of contract, all of which expire at the same time.

For the purposes of the Options analysis, Bonneville assumed under all but one scenario that 20% of its subscribed power would be in indexed sales, and under all but two scenarios an additional 20% would be in one- and three-year contracts. *See* White Paper, at 3-4; Options analysis, at 9, 10, 11, 13, 16. I have not heard much enthusiasm for these types of contracts, but Bonneville representatives have indicated they believe certain customers might be attracted to these products. What is not clear is whether Bonneville is considering simply offering these types of contracts or whether it will actively push to sell a certain percentage of power in indexed and short-term contracts. It is also not clear whether the assumptions in the Options analysis (that Bonneville could see 20% of its sales in indexed contracts and 20% in short-term contracts) are reasonable planning assumptions for the rate case. The Transition Board did *not* include these types of contracts as part of its cost recovery proposal; the Board has made no statement on this issue. **The *Council might consider commenting, pro or con, on the concept of these indexed and short-term sales, and if favorable to the concept, on what might be reasonable planning assumptions for these sales.***

Bonneville also proposes that it might use a combination of a rate adjustment clause and an emergency transmission surcharge to collect up to $100 million per year if necessary to meet costs and make its Treasury payment. Use of these tools would be triggered in succession by a drop in Bonneville's reserve levels to a point that threatens the Treasury Payment. The trigger reserve levels are not specified. *See* White Paper, at 4; Options analysis, at 11, 15, 17.

The rate adjustment proposed by Bonneville is a fixed figure as opposed to one that could float with the market. The Transition Board has proposed a relatively similar, if more detailed, rate adjustment clause. However, its rate adjustment is limited by market prices. This means it could yield greater revenues than Bonneville's proposal if markets are "good" and possibly less if markets are "poor."

The Transition Board's proposal rejected the idea of specifically recommending a transmission surcharge, due to the inability of affected interests in the region to agree on the use of the tool. Instead, the Transition Board proposes a cost recovery stage after use of the CRAC that basically punts the issue of method and allocation to FERC -- the end result might be a universal wires charge, or it might be something else, such as a directed wires charge, or some sort of fee directed at historic power customers or current power customers, etc. The Board's proposal would limit the use of this last tool to $100 million in any year; this is higher than the $100 million *total* for *both* the CRAC and the wires charge that Bonneville used in the Options analysis. The Transition Board also recommended a cumulative limit from this tool of $600 million over 15 years; Bonneville's analysis did not state a cumulative limit. Like Bonneville, the Board's proposed use of the CRAC and the follow-on cost recovery method would be triggered by a drop in reserve levels (excised was the idea of using Treasury deferral as the trigger), and like Bonneville, the Board did not specify the trigger levels. ***The Council should consider whether or how it might work with the Transition Board on this issue.***

Analysis of alternative funding packages. Bonneville has analyzed, at least in a preliminary way, the effect of using different financial tools under different market prices for power and with two different approaches to fish and wildlife costs (weighted probability and using the high point of the estimated cost range). The measures of effectiveness are the probability of meeting Treasury payment and end of period reserve levels. The results are shown in the Options analysis and discussed in the White Paper. *See* White Paper, at 5; Options, at 11, 19-22. At page 5 of the White Paper, Bonneville noted some of the conclusions suggested by the analysis, including: As expected, use of the contingent cost recovery methods help maintain the Treasury payment probability in low markets. Locking up as much of Bonneville's power as possible in five-year, fixed-cost contracts would be good protection against low markets, but would limit flexibility to cover future costs in higher markets. And, some of the financial packages build up huge reserves.

Two points not mentioned (perhaps because they are so obvious) seem worth noting: The first is the obvious sensitivity to low market conditions -- the results indicate that Bonneville has a real problem even in 2002-2006 covering costs and making Treasury payments under the very low (but not totally implausible) market case, and to some extent under the Council's low market case. The Council's market impacts analysis from earlier this year similarly noted problems in the low market cases. . The second is the fish and wildlife cost sensitivity illustrated by the difference in results between applying the probability approach to fish and wildlife costs and plugging in the high estimate (*compare* the results on pages 19 and 20 of the Options analysis).

As I understand it, Bonneville will be updating and making more sophisticated the analysis. and applying it to more combinations of financial tools/cost approaches. Also, all we have seen so far has been the end results. Bonneville has not yet shared the actual analysis, although it has promised to do so to at least some extent once it has firmed up the analysis.

A couple of points to ponder: First, the results indicate when a financial package fell below the desired Treasury payment probability. But what is not indicated is the extent of the failure (although that can be judged somewhat by looking at the projected revenue and reserve levels). A package that misses the mark by a few percentage points might be worth further consideration, at least under certain circumstances; a package that yielded only a 50% probability of making the Treasury payment would not be. Bonneville has promised to indicate in future model runs the extent of the failure to hit the desired Treasury payment probability. Second, given the obvious sensitivity in the analysis to power market prices, Bonneville needs to do more to explain how it plans to handle the uncertainty of future market prices in the rate case. ***The Council should consider asking Bonneville for further information on these two points.***

Considering beyond 2006/target reserve level in 2006. One of the guiding principles in the White Paper is to "[p]roduce significant financial reserves by the end of the rate period (i.e., 2006) if market prices are high." The White Paper does not otherwise mention this point, not even to note why Bonneville might want to have significant reserves in 2006. The Options analysis shows the why -- the costs of some system configuration options for fish and wildlife raise dramatically in the 2006-2012 period. To help soften what could otherwise be radical increases in rates in that period, Bonneville is looking to manage this risk by building up its reserves to a healthy level by 2006. The overheads at pages 21 and 22 of the Options packet illustrate the nature of the possible problem and how building up reserves if possible in the first rate period (that is, with somewhat higher rates than if the target were a more moderate reserve level in 2006) could dampen the size of any rate hike in the next rate period. The Transition Board's cost recovery proposal says the same thing: Bonneville's target reserve level "should be established for the last year of the initial rate period which takes into account anticipated costs during the 2007-2012 period." Neither the Bonneville briefing Options nor the Transition Board effort actually propose a target reserve level, only that it be significant in order to take into account possible cost increases in the next period.

Given the magnitude of the financial problem Bonneville might face, this seems a prudent planning strategy. But it is not free -- many of the customer representatives are up in arms over the idea. It means higher rates to them in 2002-2006 to build up what they see as a huge cash reserve at Bonneville. They are concerned that such reserve levels could be an "invitation" to higher fish and wildlife spending. They are also concerned that if there is not a decision to increase fish and wildlife spending, Bonneville is left with a large fund at its discretionary disposal rather than in the hands of the ratepayers or the region. At least some customers are likely to push hard to keep the target reserve level as low as possible, including arguing to FERC (and beyond?) that Bonneville does not have the authority to offer cost-based rates for the 2002-2006 period that are in fact collecting large amounts to pay for 2006-2012 costs. ***The Council might consider whether it wants to comment on this approach in general, and if so, how to make its comments consistent with the Transition Board.***

Assuming for now the validity of the approach, there remains the issue of just what the target level of reserves should be. There would also be the issue of what to do about the possible scenario in which the market-price of power in 2002-2006 and in the subsequent rate period is at or not much above the rate Bonneville needs to set to cover its costs in the first period This would make it hard for Bonneville to build up substantial reserves heading into the next period, but may make it even more imperative to try to do so. Are there strategies to handle this possibility, such as ways to cut costs now to preserve reserve planning flexibility for later? ***The Council might consider whether it wants to comment on these points.***