

LARRY HITTLE

(Larry Hittle)

A: And that's right. That's right. ~~The concept~~, the concept was actually started in the Government by the Bureau of Reclamation. The Bureau of Reclamation <sup>often has</sup> used non-cash transfers as a way of buying certain specific rights and they got that approved in the Congress.

Q: Larry, can you give me a rundown on what your background is, where you went to school, how you happened, how you got to the point where you went to work for the Bonneville Power Administration?

A: Well, I started out in a Bonneville family. My father was a Bonneville employee in my earliest recollections of substance. He started working for Bonneville in 1940 and I was raised in ~~kind of~~ an interesting era. I knew most of the Bonneville luminaries like Schultz, Dittmer and Ostrander as company at dinners or going to family gatherings where the kids were expected to kind of make out while the parents talked <sup>a great deal</sup> ~~subsidy of politics~~ about the <sup>politics of the</sup> power business in the Pacific Northwest so my early recollections are of those types of things. After my dad came back from the service, he took a job as the District Manager of the Lower Columbia District, here in Portland, ~~and he~~ <sup>often</sup> was ~~essentially~~ assigned to being Paul Raver's chauffeur in hauling him around the various cities in the Lower Columbia District, ~~and so~~ I can remember going on some of those trips with my father when he was kind of commissioned to do something on a weekend to haul Raver somewhere ~~so I can remember these~~. I also can remember going to meetings of the, I think it was called the Bonneville League where such luminaries as Congressman Pierce, former Governor Pierce of Oregon, would

stand up, assisting himself with a cane, and talking about how he had been the sole mover and shaker putting together the Bonneville Act, ~~so~~ My early history was kind of that kind of Bonneville history. My dad took a job after Harry Truman was elected as the Manager of Cowlitz County PUD and I became very oriented to a ~~little~~ more direct area of public power, ~~and~~ When I went to college, I basically took the Electrical Engineering Course because of my father being an electrical engineer and I was interested in the power business, ~~and I thought that that was where I wanted to work.~~ So, I ended up, after a stint in the service and a little bit of defense industry, going to work for Lewis County PUD in Chehalis, Washington in 1956 or '57 and spent six and a half or so years working as a utility engineer, ~~for Lewis County PUD.~~ ~~I was~~, I thought that I got all <sup>The experience</sup> I needed there in a couple ~~of~~ three years. ~~I spent a little longer until I finally decided maybe I ought to come down and talk to Bernie Goldhammer.~~ So, in 1964, actually 1963, I saw Bernie <sup>Goldhammer (then BPA Power Manager)</sup> at a couple of meetings and talked to him about where I could go to work in industry around Portland and he said, "Why don't you come down and talk to us? Our program is really expanding and there's a lot of interesting engineering jobs," he said, "I think you ought to go up and talk to Ralph Gens up in System Engineering, he'd really, he could probably make good use of you. If you think you're a planner, come on down." So, in 1964, I took a job, not in planning, but down in the Contracts Office for the Division of Power Management working for Bernie Goldhammer, mainly because I thought that was where the action was, ~~and~~ I got <sup>Contract</sup> ~~great~~ advice. — Russ Richmond said, "Don't take a job down there. It's just a bunch of paper shuffling." ~~And I went in and~~ interviewed and talked to a lot of people and they said, "Well, it's kind of a non-engineering job. Maybe you don't really want it." And I said,

"Well, it just sounds like there's a lot of interesting things that I'd like to do." And so I ended up taking that job. From there, I ended up progressing through ~~the~~ that hierarchy and became Head of Contracts about 1968. And because there was a lot of motion and ~~because there were~~ a lot of good people in Bonneville at that time; Harold Kropitzer, Don Harris, Bernie Goldhammer. And it was a very open process. ~~You could say that~~ I was bathed with an awful lot of policy very early in my career at Bonneville. I ended up being in on <sup>many issues</sup> ~~an awful lot of action~~ that you wouldn't expect young engineers <sup>to be involved, in</sup> or young contract people. But it so happened that Harold Kropitzer moved up and was working very hard on Canadian Treaty Issues and they needed somebody to kind of fill his shoes in doing the day to day but very hard policy contracts, ~~related to~~ <sup>Southern Idaho transmission</sup> things like the Idaho Power Issue going down into Southern Idaho <sup>between BPA and Idaho Power Company were typical assignments</sup> so I ended up getting to travel <sup>to Boise</sup> with Don Harris, who was Luce's number one negotiator in trying to put together the Idaho deal, ~~and we~~ went down and had some face to face meetings with Tom Roach, <sup>IPC President</sup> ~~so the period,~~ that period was very yeasty and it gave me a chance to see the region working together at its best and seeing it work at its worst. After all, the Idaho thing was <sup>a policy loss for Luce and BPA.</sup> ~~a very big debacle.~~ The Treaty and the putting together <sup>implementing the</sup> all of those contracts was a very big high point, ~~and I was able to go to~~ <sup>went</sup> Lyndon Johnson's famous breakfast where we had all the utility executives <sup>(100 and public)</sup> from the West Coast, <sup>were seated at a very large head</sup> ~~up at a table~~ congratulating each other <sup>on</sup> ~~about~~ putting together the Intertie and the Canadian Treaty Program all at once.

Q: Let me have you backtrack for a moment. You mentioned that when you first came to work in 1963-64, something like that, that there was a lot of contract work being done. Related to what? Related to the Intertie? Related to the Canadian Dams? Related to the Coordination Agreement?

A: Both. <sup>part of a</sup> ~~It was~~ The Coordination Agreement, of course, was <sup>a</sup> very hot, <sup>negotiation</sup> but it was a concurrent negotiation, ~~also~~. There was a negotiation going on regarding the Canadian Treaty Projects <sup>and the Canadian share of downstream benefits,</sup> ~~Setting the contractual~~ ~~agreements for downstream rights back to the Canadians on the Treaty.~~ There was <sup>between US down stream parties was</sup> the Coordination Agreement, <sup>implementation.</sup> which is part and parcel to the Treaty ~~Had to be executed.~~ There had to be an agreement between all the operating utilities on the <sup>US side of the</sup> Columbia or <sup>There would be no way to get the benefits brought by</sup> you didn't have the Treaty because ~~so, therefore, that was going on.~~ The U.S. entity had to be able to say that it would act for all of the power interests in the United States, ~~so, therefore, that was going on.~~ And, of course, at the same time, Bernie was going to California and trying to put together the packages that were necessary to support the economics <sup>of</sup> ~~on~~ the Intertie, <sup>(and the Treaty)</sup> the Exchange Agreements and the Power Sales Contracts.

Q: What were the issues that came up in that connection? I assume that the contract is, represents the resolution of various kinds of conflicts between various parties. What were some of the major issues that divided the various entities that were involved and how were some of those resolved?

A: Well, of course, ~~to get the Intertie~~<sup>Intertie</sup>, to get those contracts in place, you had to overcome a very parochial and probably apt feeling<sup>of</sup> the Northwest power users that if they executed ~~an~~ agreements<sup>to</sup> allow<sup>way</sup> the Intertie to happen or allowed the<sup>Intertie</sup> legislation to happen, that ~~it was~~<sup>The intertie would become</sup> a super highway to drain the major economic assets of the Northwest away; the cheap power. There was a great worry that California was an endless<sup>power</sup> sink. ~~so~~ You had to solve ~~that~~<sup>fear</sup> from the standpoint of whether or not the Northwest's rights were protected, ~~and, of course, that resulted in~~<sup>The was</sup> the Northwest Preference Legislation<sup>(PL 87-552)</sup>. ~~That was~~<sup>Intertie</sup> a major<sup>the legislation</sup> issue and if ~~it~~<sup>the</sup> hadn't have fallen into place, we wouldn't have an Intertie and we probably wouldn't have had a Treaty implemented. The second thing was, how do you divide the rights or the benefits from the Canadian Treaty ~~around in the~~<sup>within</sup> the U.S. interests and how did you assure the Canadian interests of what they thought they had to have out of the Treaty without encroaching too much on ~~what~~<sup>(Bonnaville and Fed agencies)</sup> the benefits ~~were~~<sup>felt it should get,</sup> that the United States ~~no matter what.~~ Remember, the general agreement was that 50% of the ~~downstream~~<sup>resulting from upstream storage</sup> benefits had to go to Canada and 50% of the benefits ~~of upstream storage~~<sup>had to go to the United States.</sup> But determining what that 50% was, what were the logical projects to be ~~anticipated in that~~<sup>included</sup> in splitting up that ~~obligation among US parties~~<sup>The determination</sup> 50% ~~and making the promises back to the Canadians,~~<sup>in</sup> all had to be negotiated. ~~And~~<sup>And</sup> those were major negotiations. Then, how do you divvy up the pot in the U.S. between the private or non-Federal projects and the Federal projects as far as the ~~rights~~<sup>obligations and benefits</sup> go? And so what you ended up with was a very delicate, difficult negotiation where minor parties <sup>G</sup> would hold out until the very end to get the biggest piece of the pie they could get. Pacific Power and Light Company, for instance, on <sup>the</sup> coordination <sup>agreement</sup> and

~~on rights, would hold~~<sup>a</sup> out for coordination rights for non-Columbia ~~connected projects in order to get a bigger share of the pie, that they weren't entitled to because they were minor participants in the Columbia~~ ~~River~~ *River*

Q: Were they successful?

A: Yes, ~~yes~~ ~~By providing,~~ ~~By~~ doing eleventh hour kinds of negotiations. Waiting until the day before the negotiation was over and come in with a whole set of new demands and saying, "We aren't signing unless!" They did that.

Q: One of the, I guess the principal questions for my purposes, I'd like to get an answer to, and that was, it was patently obvious that the principal person, from Bonneville's point of view, in this whole period was Chuck Luce. He had succeeded in making himself the negotiator for the Department of the Interior. Now that was not necessarily simply representing, did not represent the total U.S. interest but he certainly was one of the principal negotiators for the United States, although, not the only one. On the other hand, you had, inside the Bonneville Power Administration, Bernie Goldhammer with a quite capable staff, I am told, but who was probably one of better thinkers that Bonneville has had probably comparable to Bill Dittmer in the early stages. At any rate, what, how did they do in that negotiation process in deciding those major issues? Who was doing what? What was Luce doing? What was Goldhammer doing? What was staff doing?

A: Well, first of all, Luce came in with an agenda that he had basically <sup>determined in</sup> pre-~~collected~~ <sup>by</sup> meetings with BPA employees who were survivors of the Pearl Administration; Ralph Gens, Ev Harrington, Bernie, to some extent Harold Kropitzer <sup>and many others,</sup> ~~But~~ Before he came on board, he had met with Paul Raver and a group of Bonneville luminaries including BPA existing staff to talk about what his agenda should be when he came on board. And, at that time, he was aware that the Treaty had been <sup>signed</sup> ~~agreed upon~~ and he understood the benefits of transferring major amounts of power to California. He understood the basic benefits of developing a high voltage grid for the Pacific Northwest, ~~but~~ the staff at Bonneville had not dried up during the Pearl era; they'd gone into having ~~kind of~~ staff meetings <sup>S</sup> ~~which were kind of extracurricular meetings~~, talking about what they would do if they ever <sup>BPA</sup> got back on track, ~~and~~ <sup>S</sup> so there was a ready-made environment for Luce to create an <sup>fresh</sup> agenda. ~~That was number one and~~ <sup>There was</sup> ~~secondly;~~ a group of very able people who <sup>G</sup> would execute on that agenda, ~~and if you look at it,~~ <sup>P</sup> part of Luce's success was he was very able to itemize what the agenda should be by listening to all the people who were capable of addressing those issues and then secondly, he was able to go after that agenda in a way that was very organized and was able to delegate responsibilities to very able people.

Q: Yet Luce said that, I asked him, well, you know, "This was probably the Golden Era of the Bonneville Power Administration," and I said, "But it didn't seem like the Golden Era while you were there." And he says, "No, it didn't seem that way at all because the first two years, I'd come back from these negotiating sessions and I thought it was a total disaster; nothing was happening, nothing was moving, nothing was being

accomplished." And he said one of the things that happened was one of the fellows who worked down in the motor pool kept telling him when he'd park his car down there and come up after one of his trips, he'd say, "Mr. Luce," you know, "Two years and it will begin falling together." He said, "Lo and behold! It did."

A: Well, the Northwest Power Business didn't recognize, as it always hadn't, the benefits of a more centralized policy-steering apparatus, ~~and~~ <sup>One of</sup> the things that Luce did, ~~was have to, he had to go back and resurrect a~~ <sup>was</sup> ~~better~~ <sup>The region's power assets</sup> ability to take economic advantage of ~~what we were given up here~~ <sup>and</sup> that took a lot of missionary work. After all, as you're aware from other interviews, the Eisenhower era had created a major recession <sup>in</sup> ~~the~~ <sup>the regional activity</sup> Bonneville. In fact, for a while it looked like ~~they were going to try~~ <sup>The Administration was</sup> ~~to~~ <sup>to</sup> just do away with the organization. ~~That~~ <sup>That</sup> wasn't possible, but it's kind of one of those theoretical battles that goes on once in a while, ~~they thought, "Gee, we can just do away with this thing and dismember the carcass and give it around to the people who will be probably to some"~~ ~~the answer was, they couldn't do it.~~ <sup>They</sup> The organization survived <sup>to some</sup> ~~actually, in many way, strengthened it.~~ <sup>Administration</sup> They certainly created the feeling among people that <sup>Bonneville</sup> ~~the organization~~ wasn't going to die, that it ~~was a~~ <sup>was a</sup> ~~had some long-term beneficial part of the Northwest, and that was a very~~ ~~major turning point.~~ So then, there were ~~a lot of latent advantages,~~ a lot of economic advantages that were <sup>salable</sup> ~~churnable~~ if you had somebody in the middle of it, ~~the middle~~ of the Northwest Power Business that would <sup>attempt to</sup> ~~take~~ advantage of those economic opportunities and convince the constituency, the utilities, both the private and the publics, that there was something to go after and Chuck Luce did that.

Q: On of the things I was trying to get, Larry, was an interpretation, YOUR interpretation of what Bernie Goldhammer's role was in this very significant period, the whole upstream storage/Intertie period of Bonneville history. Was he a major intellectual contributor or some other definition?

A: Well, I think Bernie was intellectual continuity between many related policy issues. He was an integrator, an intellectual integrator of the policy of what Bonneville should be in the Pacific Northwest. Bernie was a thinker. Bernie thought about the way things linked together and a man like Luce, who would come in without that kind of linkage, needed a Bernie and Bernie WAS Bonneville. Bernie was the centroid of the policy of Bonneville all the time that Luce was here and certainly all the time that Russ Richmond and Don Hodel ~~had him~~ <sup>were here</sup>. He was the centroid of what policies should be linked and what was pragmatically possible. ~~Was~~ <sup>He</sup> was a very down-to-earth intellectual, the brightest man I've ever worked for.

Q: In 1974, the Congress approved the Federal Columbia River Transmission System Act, April of 1974. Do you have any background? Were you involved in that issue in any way with Power Management?

A: Yes and let me take you back a little bit to say that when we started the Hydrothermal Power Program, I was a staff person assigned to do ~~a whole bunch~~ <sup>The</sup> of drafting of contracts related to policies and ideas which I ~~didn't~~ <sup>had not</sup> help formulate. Bernie put together a lot of those ideas and there was some precedent from things that they'd done before. <sup>But</sup> essentially, when Hyrdothermal Power Program came on, I'd been working on many, many

issues with Bernie in terms of how do you turn ideas <sup>and concepts</sup> into ~~contracts~~ <sup>working</sup>

I've gotten a lot of drafting experience working with Ken Kaseburg, working with Bob Ratcliffe, working with a whole bunch of people, Don Harris, <sup>who was Bernie's assistant,</sup> ~~of course, who I think was,~~ by far the best of all the engineering intellects that we had. But <sup>in my opinion,</sup> ~~in doing all of that,~~ <sup>in creating the contracts</sup> we had gone through a whole bunch of extra hoops because Bonneville lacked requisite authority to do certain things <sup>directly</sup> and it was very obvious we had to get Bonneville statutorily <sup>designated</sup> ~~assigned~~ to more important functions in the Northwest. After all, Bonneville had never even been designated as the permanent marketer of all the Federal power in the region. <sup>until</sup> ~~What had been~~ <sup>Then</sup> ~~done is~~ the Secretary of Interior, with the authority invested in him, had delegated that authority to market power out of ~~these~~ <sup>regional Federal</sup> projects to the Administrator. <sup>But</sup> the Administrator was a temporary <sup>regional Federal</sup> office <sup>created</sup> ~~assigned out of~~ <sup>under</sup> ~~kind~~ of an obscure temporary piece of legislation called the Bonneville Project Act in 1937, <sup>and</sup> <sup>creation</sup> ~~the formalization~~ of the Bonneville Power Administration had never occurred, <sup>so</sup> ~~When~~ we started looking at legislation, <sup>we decided</sup> ~~first of all, you had to~~ articulate Bonneville's role as being transmitter of both Federal and non-Federal power better. And secondly, you had to figure out some way to stabilize Bonneville's relationship to the region by giving <sup>Bonneville "self"</sup> ~~itself~~ <sup>capabilities</sup> ~~financing~~ <sup>and so</sup> ~~Those are~~ <sup>were</sup> very major issues and ~~those~~ were issues you could get people to agree to.

Q: Why was it necessary to have self-financing? What was the problem . . . ?

A: Bonneville <sup>was</sup> ~~is~~ a creature of <sup>Congressional</sup> ~~appropriations~~ <sup>and budgets</sup> and it was ~~very~~ subject to fits and starts, whether <sup>there</sup> ~~it~~ was a Republican Administration or a Democratic Administration. <sup>We</sup> all know that <sup>the case of</sup> ~~appropriations~~ kind of come and go

depending on the fiscal <sup>state</sup> side of the Government, ~~and~~ If the Government is hard pressed to raise revenues to cover its programs, if you're in an appropriated program, ~~which is a little more obscure than defense or famine or any social programs,~~ what you have to do is fight for your very life in those <sup>lean</sup> periods ~~and~~ <sup>"self financing" or</sup> the theory of getting revolving fund financing was to get <sup>BPA</sup> out of that feast and famine kind of procedure, ~~and~~ ~~It~~ was obvious that Bonneville had to <sup>have</sup> be a key role, ~~because~~ ~~The~~ Transmission Act was a manifestation of an admission <sup>by regional utilities</sup> that was made in the '60's that Bonneville couldn't be treated as an obscure, non-necessary <sup>agency</sup>. ~~It~~ <sup>Hydro Thermal program and the Transmission Act</sup> ~~was a growth~~ of what had happened in the '60's through Hanford <sup>reconstruction of the</sup> and through <sup>Project</sup> the mid-Columbia <sup>integration through Bonneville's transmission system,</sup> ~~and~~ ~~all those other little pieces.~~ There was an admission by the private utility industry that they couldn't survive without having Bonneville have a permanent role and <sup>with the ability</sup> be able to contract with them in a way that wouldn't be challenged legally, ~~and~~ <sup>The BUs and the publics</sup> so ~~they~~ were willing to accept that kind of role for Bonneville <sup>as</sup> and articulated <sup>The Transmission Act</sup> in statute. The question came, at that time, was the legislation that was proposed enough? Should Bonneville be given something of more than the transmission role and the preservation of Net Billing? And the answer, in a <sup>many</sup> ~~lot~~ of quarters, was, "We should give <sup>Bonneville</sup> ~~it~~ a lot more <sup>authority</sup>. We should give it the ability to at least meet the load <sup>growth</sup> of the small public agencies who would never be economic entities capable of building their own generation." <sup>There was a</sup> ~~A~~ lot of debate about that. Of course, the people who were against that were the private utilities, some in greater degree than others and the big publics; the Seattles, the Tacomas and maybe <sup>The 1 major PUDs</sup> ~~at that~~ point, you were starting to see <sup>were</sup> some of the PUDs emerge as economic

<sup>plan and build resources</sup>  
entities ~~and~~ believing they could do ~~it~~ better by themselves, thank you.  
So, in '74, the decision was to go for a piece of remedial legislation at the minimum end. I went in and asked Bernie Goldhammer, I said, "Bernie, it just seems to me, while we're doing this, we ought to at least straighten out Net Billing. We ought to go in and at least allow Bonneville to buy power in the Net Billing sense and give Bonneville the role of buying <sup>power</sup> ~~the outplan appliances~~ directly from an agency like WPPSS without going through Net Billing." And Bernie said, "In this business, we take things at a very step-by-step order." He said, "That'll happen but it'll happen the next time <sup>we legislate</sup>" It won't happen this time. There's no question that we're going to need legislation <sup>authorizing direct purchases</sup> later and we'll get that <sup>using</sup> step-by-step <sup>method</sup> ~~and people will start recognizing that role.~~" But he said, "You're not going to get that the first crack out of the box." ~~When we'd finally gotten people to admit that it was better, they needed generic legislation to deal with Bonneville's problems.~~

Q: What was the origin of Net Billing?

A: The origin of Net Billing, well, I think we were talking earlier, I think the origin of Net Billing <sup>was</sup> as a crutch came out of some Bureau <sup>of Reclamation</sup> transactions, but ~~for~~ <sup>use</sup> Bonneville, the origin <sup>came</sup> when Bonneville was unable to prove <sup>BPA construction</sup> that <sup>lines</sup> to co-ops were feasible. There were a lot of service areas that were very thin and Bonneville's construction code or standards was so high that you couldn't build <sup>the line and have it pay out based on predicted revenues.</sup> ~~it expected a very, a very long term,~~ physically strong line and it was going to be built by contractors. ~~These~~ co-ops were used to running <sup>conductors</sup> ~~things~~ on little thin narrow poles and getting service to the customer at the lowest possible cost because that was the

only thing that the customer could afford to pay for in terms of rates. So, when Bonneville started looking at serving those kind of thin systems with its standard transmission lines, they were very much too expensive for the co-ops to absorb in terms of a <sup>BPA</sup> feasibility test, ~~that Bonneville would run to say whether they would build lines and~~ <sup>So</sup> the question was, could they get that same service by the co-op doing the building to a lesser standard. Co-ops had standards but they were much less <sup>costly</sup> and the answer was "yes", and ~~so~~ what happened was, Bonneville ended up <sup>getting the line</sup> building ~~those lines~~, those thin lines by having the co-op finance them and Bonneville agreeing to deduct the revenues <sup>(lease charges)</sup> necessary to support the ~~construction of~~ <sup>payoff of</sup> those lines from its bills for firm power to that co-op. In many cases, the cost of the line was equal to the revenue of the line. Interesting. And i.e. Bonneville's power sales over that line were not greater than the cost of constructing that facility and paying the ~~advertised~~ <sup>unadvertised</sup> debt and the O&M on it.

Q: So it was zero?

A: Yes, so essentially, Bonneville was giving the power away to achieve a result; getting power to those folks out there that can use it and on the prospect that ultimately they would grow into legitimate customers who would pay their <sup>own</sup> way, ~~and~~ <sup>It</sup> happened over and over again ~~that it was really true. That~~ <sup>Once</sup> you built the line and got the power there, ~~that~~ what happened was that then the farms then became more prosperous and they ~~and~~ other people decided that it was better to irrigate their acreage, ~~and~~ <sup>It</sup> really was a success story, ~~that~~ <sup>Use of net billing by EPA</sup> that was the first ~~at~~ and it was a good result.

Q: Was that . . . one region, one part of the region than the other?

A: It only, it really only happened in Eastern Oregon and Washington, although I think there might have been one or two lines in Western Oregon. Remember, the PUD movement was <sup>more</sup> encompassing, <sup>in</sup> that ~~is~~, in the State of Washington, where PUDs were formed, ~~they~~ took over a whole county, ~~and so~~ <sup>PUDs</sup> they got the center of the load as well as the outside of the load so that, one way or another, Bonneville or the PUD could afford to build a transmission based on ~~just very~~ <sup>more</sup> conventional financing <sup>methods</sup>. But where you had ~~smaller~~ <sup>smaller</sup> thin co-ops which ~~couldn't~~ <sup>use REA financing to</sup> serve any community more than 1,500 people and ~~that~~ they were trying to serve less than say, two or three customers a mile. <sup>customers</sup> Their load centers were diverse, ~~they~~ were scattered ~~way~~ <sup>out</sup> and the line losses and the voltage regulation was so terrible that the only way you could serve them <sup>at reasonable voltages</sup> was by building ~~some kind of~~ a transmission system or a sub-transmission system that held the voltage up and allowed the delivery of the power. ~~So~~ <sup>So</sup>, the natural places that this kind of scheme worked was where the co-op movement rather than the PUD movement was in effect, where the density was so skinny.

Q: How did that notion of Net Billing as applied to transmission and distribution really come to be applied to the financing of generation?

A: Well, then we get to the Hanford situation. Federal Government wanted, or at least the Administration wanted to build ~~what~~ <sup>The Hanford project, nuclear</sup> as a Federal <sup>generation</sup> center. <sup>See</sup> Jackson was very supportive of building the generation <sup>at</sup> ~~for~~ the Hanford <sup>Now</sup> Production Reactor as a demonstration Federal project as to the benefits of the Nuclear Program. And, of course, after several tries, <sup>he determined</sup> there was no chance that there would be Federal development at Hanford.

*The generating project.*

So the next question is, who would sponsor ~~it~~? ~~If it worked and~~, at that time, the Washington Public Power Supply System and Owen Hurd were essentially kind of floundering around looking for something that they could be behind, ~~and~~ <sup>Generating Project</sup> Hanford, because Owen was located in ~~Richland~~ <sup>The Tri-Cities</sup> and because the politics ~~in Richland~~ <sup>There</sup> were such that there would be a lot of support for public development of a generating project, ~~made the proposal~~ <sup>was easily sold to WPPSS.</sup> to Bonneville and to others that ~~they~~ <sup>WPPSS would</sup> make a run at ~~making that an~~ <sup>Owen Hurd</sup> all-public project, ~~and so~~, <sup>sponsored</sup> at that point, a concept for billing and integrating those public agency customers of Bonneville's into a project like Hanford, ~~had to come up and~~, <sup>was proposed.</sup> of course, the concept of offsetting revenues, ~~that idea, built through the transmission lines~~ <sup>or net billing</sup> was at least one of several ways you might do it. Bonneville Purchase was another way. Bonneville didn't have the authority <sup>directly</sup> to purchase, ~~unless it was economic~~ <sup>The actual time</sup> ~~embodied~~ <sup>of the federal system.</sup> ~~and probably then, to sell bonds, you probably couldn't sell it on the~~ <sup>Even then the ability to finance would be limited because</sup> ~~the~~ <sup>was not specific</sup> basis of Bonneville's ~~very nebulous~~ <sup>was</sup> authority ~~to purchase~~ <sup>So Net Billing</sup> became a way and Net Billing <sup>to provide security for Hanford</sup> wasn't sold on the basis of a concept that would look like <sup>BPA</sup> a purchase. It was sold on the basis of economic exchange, i.e. that Bonneville could exchange a similar amount of power to the amount of power that Hanford would produce with the public customers, Take that into a system and there would be an economic exchange with the Federal system. <sup>The transaction</sup> ~~It would not lose money or make money,~~ <sup>for BPA</sup> but it would be an exchange whereby you could get Bonneville's revenue stream to support the bonds that would be sold to, for the generation.

Q: Some years after . . . . .

THIRD PARTY: Well, it reflects itself in the Regional Power Act.

Yes  
A: Yeah, ~~the reason~~ the Regional Power Act goes much further. ~~But the exchange~~ <sup>used at Hanford really to support</sup> principal had been developed ~~by wheeling~~ <sup>with IOUs</sup> contracts by Bonneville, ~~to take~~ <sup>for</sup> care of the wheeling the power from the mid-Columbia projects for the ~~privates~~ <sup>was</sup> to their load centers, ~~and what had happened had been,~~ <sup>was</sup> that there ~~was a lot of scare talk that Bonneville could~~ <sup>BPA's lawyers doubted</sup> transmit ~~for any private~~ <sup>authority</sup> utility ~~over a long period~~ <sup>for term.</sup> and yet Bonneville ~~is~~ <sup>was</sup> building transmission that was capable of doing that from the mid-Columbia area. ~~They couldn't~~ <sup>BPA</sup> sign a contract that would have ~~meaning to those utilities,~~ <sup>met</sup> assure them ~~the delivery~~ <sup>long term of power</sup> without some wrinkle ~~and the wrinkle was that Bonneville~~ <sup>developed</sup> entered into what they called "Exchange Wheeling Contracts", ~~and~~ <sup>needs</sup> Bob Ratcliffe wrote a major opinion regarding Bonneville's right to exchange power with those utilities, ~~and validate some kind of a payment for~~ <sup>under a long term contract</sup> transmission on the exchange basis, ~~that it was an unequal exchange,~~ <sup>provided</sup> there had to be money, ~~to make the exchange work,~~ <sup>paid to BPA</sup> ~~but and then~~ Bonneville would then ~~kind of sneakily~~ <sup>The exchange</sup> appropriate funds for transmission lines which were built for guess what? Only one purpose; wheeling power from the mid-Columbia to Portland, ~~that~~ <sup>for the IOUs,</sup> ~~That concept then kind of worked its way in~~ <sup>satisfied the authority question and</sup> ~~and that had been going on in the '50's,~~ <sup>was in wide use</sup> late '50's. So when Hanford arose, you had the exchange contract, ~~on transmission,~~ <sup>with IOUs</sup> you had the Net Billing that had occurred with the co-ops, ~~and as the concept was kind of~~ <sup>for financing transmission lines</sup> ~~mushed around~~ <sup>and</sup> ~~and I would say~~ <sup>The Hanford Exchange arrangement</sup> the author of ~~that~~ <sup>that</sup> was Bernie Goldhammer. ~~Bernie,~~ This is before I came on board but Bernie was the intellect that integrated and so, in my view, if there was a coalescing of those ideas came with Bernie. Bernie was the ultimate integrater, both in terms of crunching numbers and in terms of crunching ideas and so he put those things together and made that proposal, I'm sure, and that ended up being the basis for the legislative approach.

Q: It may have had something that preceded it, but in 1965, David Black announces the Hydrothermal Power Program and the notion that all the utilities ought to get together in a Joint Power Planning Council and the Hydrothermal Power Program is officially born.

A: Yes.

Q: How are those sets of ideas, which you just discussed, related to that planning process set in motion by Black?

~~THIRD PARTY: Don't answer this.~~

END OF SIDE ONE

~~Q: you said something like "Lay it on me right now." He says, "You know, don't roll . . . ."~~

THIRD PARTY: Ask the question, "It is to relate to those previous ideas to the Hydrothermal Program."

A: Well, I would relate Hydrothermal to Chuck Luce. I don't think it really originated with David Black. I think David Black was the first Administrator who officially announced the idea, <sup>of the Hydrothermal Program</sup> but I would say that ~~the~~ <sup>the hydro thermal program emerged from</sup> Chuck Luce/Bernie Goldhammer thoughtfulness about the future, <sup>and</sup> ~~and~~ <sup>"How do we go about pushing along and keeping the region working as a region and Bonneville meeting the requirements of its customers, <sup>How do we</sup> and allowing</sup> Bonneville to continue to meet the <sup>low</sup> growth of large industrial electric

process loads, <sup>11</sup> ~~and~~ so, at the point that David Black announces the idea of Hydrothermal, there'd been a lot of malice of forethought. Russ Richmond was on board <sup>during</sup> at that period and there'd been a lot of brain trusting about what Bonneville's next stop was going to be in terms of staying in front of the regional utility business and so . . . .

Q: Well, there were some, you know, big things going on. You'd had kind of a watershed in the sense of, I think, around 1974, high mountain sheep had gone through ten years of iterations and then . . . went down the toilet.

A: You bet.

Q: And there seems to be a general feeling, on the part of the publics, that we were letting the Hydro Development go too soon, as represented by Owen Hurd and statements of his. And, on the other hand, the environmentalists were taking the position that, "Gee whiz, we've got to get into this nuclear thing. It's going to be too cheap to meter and besides, you'll stop screwing up our canyons and rivers and things." How do you recall that?

A: Well, I think there was a feeling, in this era, that the nuclear plant was the future, that the power business was going to be amazingly changed by the advent of large scale nuclear plants. GE had announced their TVA projects. The cost of power out of those was estimated to be 3 to 3 1/2 mills and high mountain sheep wasn't coming in for 3 to 3 1/2 mills and so there was a great deal of optimism about the alternatives. In fact, there were some people talking about turning the dams on the Columbia into

great concrete monuments with big holes in them blown because there wasn't any point in tying down the river, that it was valuable for other things and you could control it in a different way. So, there's a great deal of optimism in that period about large scale development. The pendulum had swung from small projects to very, very large projects in terms of the electric power industry's planning and the scale. <sup>The economies of scale</sup> that people believed were there, <sup>(for nuclear)</sup> were immense, ~~and~~ So, sure, the obvious thing then came to try and gear up to this new great economic bonanza that was facing the power industry, ~~and~~ It made it harder and harder to justify those projects on the Snake River where there was a lot of debate about the damages to fish runs. I can remember Senator Packwood making announcements about he was withdrawing his support or was not going to support, I guess he never really supported the high mountain sheep or Hells Canyon, any of that development on the Snake and he basically said, "I'm withdrawing any support for that concept on the ground that we can build Nukes a lot cheaper and they are less environmentally harmful. So there was a natural drag right then and then the Corps of Engineers, with some Bonneville input, had been drafting up ideas about integrating thermal into the hydro system and how you would use the Columbia for peaking, ~~and~~ there'd been a good deal of ongoing study of how you would operate the Columbia River as ~~a~~ peaking support for thermal generation, ~~and~~ ~~a lot of kind of hairbrained schemes for pushing,~~ One of the schemes I can remember is that they were going to fence the whole reservoir of below Grand Coulee Dam because they were going to put in these tremendous units <sup>generator</sup> which would vary stream flows markedly. ~~and~~ The theory was that there was no way that you could use the ~~reservoir~~ <sup>dam for peaking</sup> safely <sup>and allow use of the reservoir</sup> ~~for public participation so the theory was that you could go in,~~ They thought they'd have twenty foot waves going down that reservoir, ~~and~~

so the theory was that , "By golly, we'll just have to fence the public off to protect them from the danger." ~~and~~ <sup>A</sup> lot of that kind of thinking was going on trying to figure out what different kinds of operations would mean to the Columbia.

Q: Do you have any, either a participant in or know how Net Billing specifically came to be moved from the Hanford Project to the initial plants of the Hydrothermal Power Program? Who linked those two ideas?

A: Well, Hanford, remember the benefit of Hanford was a BPA guarantee of the revenue stream <sup>by guaranteeing the delivery of power from BPA's system.</sup> ~~straight out guarantee through what was called "an exchange".~~ <sup>But</sup> essentially, Bonneville agreed that it would deliver Bonneville power to those utilities who exchanged their Hanford output <sup>whether Hanford operated or not.</sup> Bonneville would deliver power <sup>was</sup> to these systems based on BPA's then existing rates, whatever they would be. And that was the Exchange <sup>divided into the annual cost of Hanford power.</sup> Guarantee that Bonneville entered into. Without that guarantee, there wouldn't have been a <sup>revenue</sup> WPPSS bond sold by the Washington Public Power Supply System other than, perhaps, that <sup>portion</sup> backed up by the private utilities. But the private utilities were so skeptical of the value of Hanford, that they wouldn't accept any economic risk on Hanford without a Bonneville Guarantee, too. So the guarantee that Bonneville made was both to the private utilities and the public utilities.

Q: And yet, Larry, is it not true that within a few years . . . was gained as to how the whole arrangement operated? That the public utilities began to hold the view that rather than an even break, an even split of the

benefits from the Hanford project, instead, the private utilities were getting far more because of the formula that was being used? Are you familiar with that?

A: Oh, I'm familiar with the feelings of Bob McKinney has had, particularly. I know Bob has always felt like the public agencies always were, took last at the table whenever Bonneville made a deal with the privates. There is no question that Hanford represented an economic bonanza to the utility system of the Northwest, ~~and~~ since the publics were essentially already guaranteed that bonanza by their participation in Federal power, if you expanded the people at the table and there was any <sup>lesser operation</sup> ~~the~~ <sup>in the way</sup> ~~that~~ Hanford ~~operated~~, obviously, somebody was going to eat a little less or pay a little more for what they were eating, ~~and~~ <sup>the publics</sup> the answer is that ~~they~~ didn't need the guarantee as bad as the privates did and the power that came onto the system, as it came on, ended up costing a little bit more. ~~and~~ you could say that if they'd retained the status quo, the equity in the Federal system might have been worth more but again, that's a pretty narrow parochial view from a very small taker, ~~and~~ <sup>The position</sup> ~~it~~ doesn't answer the question about the disparity in rates between the utilities that would have obviously forced more development of public agencies to compete. I just think it's a ~~an~~ argument.

Q: One of the criticisms that was made, basically not be people in the Northwest but a couple of writers, whose names escape me right now, after it was evident that the Hydrothermal Program had been a great disaster for a lot of reasons, the contention was that the fundamental error was that public control is vested in public representatives. The public

representatives don't particularly like to have that kind of responsibility. Kind of like get the benefits of big project in, you know, a public sense, but they do not like responsibility for large appropriations and all of these plans cost large amounts of money and that the financial arrangements that were made, relative to the Hydrothermal Program, were really just massive expenditures of public monies off budget, not responsible to the public through the appropriations process and duly elected representatives. Was there any kind of discussion of that at the point that Net Billing, as a concept, was being applied to the Hydrothermal Power Program?

A: Of course. The fear was that it was a very cumbersome and difficult process that it was difficult to get public entity representatives, whether they were technical or whether they were political representatives, to understand the depth of the commitments to, and there was a question of whether or not Bonneville's process with the Congress was adequate to keep some grounding on the process. <sup>There was</sup> A great deal of turmoil. The question became more pragmatic than it was theoretical though, Gene. The possibility that you could change the law enough to, say create a CVA, a Columbia Valley Authority, was over. That question was ended by the time the Kennedy Administration ~~came in~~ <sup>took office</sup> and there wasn't anybody advocating a CVA. <sup>The philosophy</sup> It was, enjoy the diversity of ownership in the electrical system, make the best of it as you can and make the best economic use of the cash register, Bonneville's <sup>or</sup> revues, that you can under existing law. <sup>Thinking</sup> Don't do very much tinkering ~~with that and ultimately, that~~ resulted in the Transmission Act <sup>Approval of</sup> and revolving fund expenditures but it didn't solve the political question; the question of whether or not the people who were actually benefiting or signing up on the contracts really.

knew what they were getting, and the answer was, very few understood it.

There were a few intellectually capable public agency management or ~~the~~ politically elected folks that understood <sup>the program</sup> but very few of them really.

When you count the <sup>great</sup> ~~grade~~ unwashed <sup>in public power</sup> ~~that~~ <sup>most</sup> didn't understand <sup>whether it was</sup>

Net Billing or Hanford or even ~~to that extent~~ when we were <sup>working on</sup> ~~doing~~ the

legislative <sup>effort.</sup> ~~thing.~~ The truth is that the public agencies, particularly

co-ops and public entities, have a great grass roots or understanding of

the business when it comes to delivery and the sensitivities regarding

price at the grass roots. They don't have a very good understanding of

major projects, nor should they. It's a, you can't ask people to take one

one-thousandths of the decision and make a good decision collectively.

The whole unit has to be looked at and there was a great deal of fear

right down the line that somehow or another, the scheme had to run better

through some kind of collective leadership. When Russ Richmond put

together the Joint Power Planning Council, it was an attempt to get the

intellectual community of the power industry, if there was one. (some

people would argue that there wasn't one) ~~but to get that community to~~

start acting as a whole and stop making spurious decisions, and, of course,

it was doomed to defeat because it was a confederation rather than

something more and there was no economic bond between any of the players,

really. But the attempt was there and JPPC was the attempt. Russ

Richmond thought he had the collective agreement of the private utilities

and the publics, that before they would announce going ahead with various

projects, that they would come to the group and talk about their plans and

hold off any announcements until some kind of regional participation was

arranged, <sup>instead</sup> ~~and~~ people would go ahead and, of course, what Harold <sup>without coordination</sup> ~~was~~ <sup>Krapitzar has been</sup> telling

you is exactly correct. Pacific Power and Light Company and Washington

Water Power Company bought up the coal fields up around Centralia. I was working for the PUD when they were doing that. They had that investment so, naturally, before anybody could talk about this great community of interest, Pacific Power and Light Company announced the Centralia Project as a project and they said, "We want some participation. We've been talking to Grays Harbor, ~~PUD~~ and Cowlitz ~~PUD~~ and Snohomish <sup>PUDs</sup> and Tacoma and Seattle and a bunch of other people about being participants in the <sup>project</sup> ~~thing~~." And they hadn't even talked to Bonneville and, of course, the economics were very dependent on Bonneville for those public agencies.

They wouldn't pay more for the project output than what, the Bonneville rate because they'd get into trouble with the rate payers. So they had to come back to Bonneville <sup>to</sup> ~~and~~ figure out a scheme. ~~and~~ Of course, all <sup>sorts</sup> ~~the~~

<sup>of</sup> other things were going on; Bernie's promise to CVP in terms of getting them <sup>a</sup> power <sup>supply</sup> to meet their customers' loads <sup>come over</sup> ~~out of~~ the Intertie, <sup>which</sup> ~~kind of~~ fortunately came along <sup>at the same time</sup> ~~and~~ Bernie, being the whiz that he was, made <sup>those</sup> ~~that~~ <sup>situations</sup> into a win for the region rather than an individual pipe dream of a whole

bunch of individual utilities. Bernie took Centralia and sold it to Seattle, Tacoma, Grays Harbor, Cowlitz and whatever. Cowlitz dropped out later but the idea of Centralia being the first thermal plant for the region and being a regional resource, was sold by Bernie Goldhammer to the intelligence<sup>h</sup> that thought that there ought to be a better way of putting together the system. At that time, John Nelson was the Superintendent of City Light. He was a great regionalist. He thought in terms of the region rather than individually. There had been success on the

mid-Columbia. And, so Bernie was able to put <sup>Centralia</sup> ~~it~~ together in a way that <sup>helped</sup> ~~took out~~ Water Power ~~and~~ Pacific. ~~bacon~~ Water Power was reasonably, ~~always looked at as a regionalist in terms of their leadership. Pacific~~

was kind of new to <sup>the</sup> ~~that~~ <sup>regulation</sup> business but it worked. So then you move along. And you say, "How do you get that kind of collective thinking going in putting together the regional power system if there are really these great economies of scale that people are predicting?" And Russ was a great person to say, "You don't do anything unless there's 100% agreement among all the leadership." And so everything that Russ tried to put together, expected that he would play to the lowest common denominator, ~~and~~ <sup>if</sup> you look at Hydrothermal Power Program, that was the play it was. There wasn't real opposition to it. There were a lot of people that didn't understand it, but there wasn't real opposition because <sup>Richard</sup> ~~he~~ would wait them out. He might play a little hardball with some of the people. A recalcitrant ~~of~~ Bob McKinney or someone like that, but Russ believed in getting at least neutral out of everybody before he moved ahead. So when we went for a legislation in 1974, for instance, there was a consensus of the NWPPA and PPC and the IOU's that that legislation was necessary and so it moved through without any difficulty.

Q: January of 1977. Jimmy Carter had been elected President, was inaugurated and came into office. The decision was made that they would not make a change in the Administratorship of the Bonneville Power Administration; Hodel remained. What they did do, however, was move ahead with the notion that maybe some kind of regional power legislation was needed. And I say "they". It was not Bonneville so much as the PNUCC. What was Bonneville's role, one? And was there a relationship between that and the earlier developments related to the Transmission System Act?

A: As soon as we passed the Transmission System Act, it was obvious that it  
was not enough. Partly because the IRS had passed down their ~~former~~  
ruling, <sup>regarding tax exempt bonds</sup> that made Bonneville's sponsorship of projects impossible. If you  
~~were going to try and~~ <sup>intended to</sup> sell tax-exempt bonds to finance the projects, <sup>BPA backing</sup> ~~so~~ <sup>It was not</sup> ~~it~~ <sup>possible</sup>  
was obvious that that was a <sup>real problem</sup> ~~glitch~~ and there was some feeling, early on,  
that Bonneville didn't have to be part of the financial backing, that each  
of the individual utilities could go it alone without Bonneville's  
sponsorship. And the truth was, ~~it was a mess.~~ <sup>almost from the start.</sup> The Hydrothermal Power  
Program, Phase II was a mess. And so, by 1975, Bernie was writing Round  
III and he had the Sysiphean Edition of proposals for new legislation or  
new ways of Bonneville interacting with the utility community. ~~and so,~~ <sup>By</sup>  
1975, it was becoming more and more obvious that something had to give, ~~and~~  
<sup>By</sup> 1975, Hodel had formed his kitchen cabinet, which encompassed the whole  
bunch of people, including a few unwashed staffed people below the  
Assistant Administrator level, to try and look at regional problems. We  
were starting to have some difficulties with WPPSS by that time and there  
was a feeling that, for regional problems, ~~that~~ Bonneville needed to get  
more active again. So, by 1975, we were very active in that process. By  
the summer of 1976 . . . .

Q: Was Goldhammer in that group?

A: Goldhammer was in the group in the beginnings but, by that time, I think  
in, he must have retired about 1975 because he was not in the group when  
we finally decided that something, Bonneville had to take some initiative.  
~~and we~~ had been fumbling around with all of the Goldhammer proposals in  
kind of an informal way. Bernie was headquartered across street at the

Lloyd 700 Building ~~and so~~ There were those of us who liked Bernie and thought Bernie's ideas were great and we'd trek over there. I was one of those people that went over and sat down with Bernie and said, "I've got some difficulties trying to figure out what we're going to do, Bernie. Let's try and psych it out." And we'd go through a few ideas and Bernie'd give me his latest edition of whatever it was and I'd haul it back and then try and think it through. So, by 19<sup>75</sup> I'd finally ~~gotten broken, I guess,~~ broken into the heirarchy of Bonneville, ~~by that time,~~ and gotten into those kitchen cabinet meetings, Partly because Earl Geld~~e~~ had succeeded Hector <sup>Durocher</sup> ~~Rocher~~ as Assistant Power Manager. ~~so~~ I started going to those meetings regularly, ~~and~~ <sup>In the spring of 1976</sup> Ray Faline, who was very concerned that somehow or another everything was going wrong, said, "I've got a paper that I'd like everybody to look at, talking about what Bonneville's role ought to be." And it was ~~absolutely~~ <sup>but stuck in need of</sup> not well articulated. It was a ~~good~~ <sup>Foleen's</sup> attempt at identifying a problem and not finding any kind of rational or logical solution to the problem, ~~so Earl Geld~~e~~ sat down,~~ <sup>and I</sup> I think that was like April of '76 <sup>to do a better job.</sup> ~~Earl and I said and Hodal said and the meeting of the~~ kitchen cabinet had been called together to see whether or not there was something Bonneville ought to be doing more than sitting on its fanny waiting for the world to crash and . . . .

Q: Meaning the Hydrothermal Program to fall apart?

A: Yeah, the Hydrothermal Program, by that time, was gone. We knew it. We'd had the lawsuit. The lawsuit had been successful and the question was,

should Bonneville try and take any action to get things off dead center and moving along toward some kind of regional solution again? And Ray <sup>Alan</sup> Falina, of course, felt . . . .

Q: Let me ask you a question. The Regional Power Act then, at that stage, was directly related to the Hydrothermal Power Program and the problems related to its evolution, particularly the IRS ruling.

A: The IRS ruling and the question of Bonneville Purchase. Bonneville Purchase <sup>was</sup> ~~is~~ very, very important, we felt, to any successful financing program for generation in the region. ~~and the reason was that Bonneville collects most of the revenue from the public agencies and that cash flow and the equity in the Federal system in the Pacific Northwest is the economic basis for any additions to the system. It had to be. If this~~ <sup>The region</sup> ~~was~~ <sup>total system revenues</sup> were an integrated utility, ~~that~~ would become the way that you reached out and did your financing on additional generation. With Federal ownership, ~~the only way you can get to that equity is to get to the revenue side, and that was the whole intent, that's what Net Billing did and that was what we were trying to do in that interim period.~~ <sup>The meeting</sup> ~~So, in '76, we have this major meeting where everybody~~ <sup>(kitchen cabinet)</sup> comes in with their flags unfurled to talk about Ray Falina's proposal to <sup>move</sup> go ahead, ~~and~~ Don Hodel, who I think is one of the best Administrators Bonneville <sup>had</sup> had, in a more reactionary way, ~~but he~~ was very, very good at forcing people to think about issues and come up with constructive solutions. We went to the meeting and Ray Falina puts on his pitch. ~~He had not~~, I think he and Ratcliffe had ~~kind of~~ put it together and it was, at best, a good start, ~~and~~ Earl and I sat there through that meeting and we made some comments and at the end of the meeting, Hodel

says, "There is <sup>not</sup> enough <sup>to convince me to go ahead.</sup> This is over. ~~We're not going to have a kitchen cabinet about this issue anymore. It's just fruitless.~~ I'm not convinced that there is a reason for Bonneville to go ahead and . . . .

Q: Going ahead with what?

A: With any kind of legislative push or any kind of new look at Bonneville's authority, ~~and~~ Earl and I, ~~who~~ were kind of back benchers. <sup>At this point</sup> I particularly stood up and said, "There's a whole lot of issues and a whole lot of things that you're just not articulating in this paper that CAN be set down and CAN demonstrate the need for Bonneville activism." Maybe not that eloquently, but I DID say it in a way that said, "Hodel, you've got to give us a shot," ~~and~~ I pointed at Earl and I said, "Give us a shot to come up with a staff paper to articulate why we need legislation and what Bonneville should be doing on a long term basis to keep in front of the future of the region's energy economy." <sup>He agreed and</sup> ~~So~~ we went back and spent one hard weekend. Earl and I worked all weekend to come up with a staff paper to support a better articulation of why Bonneville should move ahead with some kind of regional program, ~~and~~ <sup>we</sup> put that out on the next Tuesday in front of the same group and we got a lot of "huzzahs" because it was a ~~pretty~~ <sup>(in my opinion)</sup> good staff effort, ~~I thought~~. Earl and I had done a pretty good job of articulating the problems and where people stood, what people thought about the power system and where we ought to go ahead. And we had, at that meeting, ~~we had~~ <sup>Kolben from KuhnLoeb</sup> Jerry Kolben in from New York. He was our financial adviser and ~~Jerry was~~ a major player in those kitchen cabinet meetings, ~~and~~ <sup>he</sup> said, "I think this is a very, very good start and it seems to me that you ought to go ahead with trying to develop that concept,

but it's a long way from being something you'd want to take to anybody."

~~And~~ Hodel agreed and ~~he~~ said, "OK, Hittle and Gelder will be the committee X  
of two to keep working with it, circulating ideas until we get a,  
something that's worth while." He said, "What'll we call it?" And we  
went through a whole lot of stuff and I think we ended up calling it the  
Study Paper. I get it confused with the, we had, there were two of them  
and . . . .

Q: What we've got is that the Study Paper was drafted in the fall of 1976  
addressing some of the region's power problems. By early '77, the Pacific  
Northwest Utilities Committee, composed of all those votes, began drafting  
legislation appropriating <sup>much</sup> money of this Study Paper concept. How do you  
get from A. the paper to B. the PNUCC effort?

A: OK, ok, so now we get into the period where I probably am most help to you ,  
~~because here is where~~

~~THIRD PARTY: Stop.~~

~~Q: I have got to smoke a cigarette and you've got to rest.~~

~~THIRD PARTY: He's doing fine.~~

~~A: I hope that this . . . .~~

Q: The study paper in the fall of '76 and by early '77, the PNUCC begins  
drafting legislation. What happens inbetween?

A: OK. What happens is that, first of all, we get the commission from Hodel to work up the paper and start going after it. Earl and my idea, and it's probably more my idea than Earl's was (but we were both kind of liberal pink-cheeked guys from the standpoint of how the system should work) was that we should start with ideas that generate interest in the problems. *we knew* <sup>^</sup> that there <sup>were</sup> ~~are~~ a lot of problems out there that were ~~kind of~~ related to each other but not articulated very well, ~~and it was time for Bonneville to take, to~~ we believed it it was time for Bonneville to take, to go to its customers and to the communities that seemed to be most negative toward Bonneville and tell them what we thought was going on, what we thought the problems were, what we thought were solutions to the problems and go out and sell on that. So, by July, we had a paper which had been staffed well enough internally that Hodel felt that it was safe to let Earl and I go on the road and take it to the utilities and to the states and to the environmental community and push on it. So, we did that and the first edition, draft, edition of the Study Paper was taken to various entities. We talked to the State DOE's in Washington and Oregon. We talked to, we went down and met with Roger Beers, who, at that time, was NRDC's <sup>'s west coast attorney to the utilities.</sup> and we went all around ~~and we said~~ ~~and we~~ posed the Paper as staff/objective look at the power situation in the Northwest, ~~and~~ how there might be some kind of solution to <sup>obtain</sup> ~~try and get~~ better planning and ~~better~~ <sup>how to</sup> coordination of the efforts of the utilities, and get more favorable response out of the environmental community and out of the states (who were pretty resistive of utilities going ahead with any generation) ~~and then throw in the environmental lawsuit that Bonneville was facing.~~ There had to be some kind of better solution to regional planning. So, we did that and, frankly, it was a big winner. We won <sup>support</sup> <sub>^</sub> in every group that we went to. The people said, "Gee, this is good work. We think that it's a

good staff job and it ought to result in something and we think it's good to have the process open." And that ~~was even, that~~ even came ~~SOMEWHAT~~ from the utility community ~~although that wasn't the dark ages, it was~~ <sup>even though</sup> ~~certainly the middle ages~~ in the development of public involvement, <sup>was in its infancy</sup> from the utilities standpoint. So, we went ahead with that process and by September, we had essentially covered all of those groups, gone back with a couple of additions and basically, it was close to <sup>a final product.</sup> ~~an end.~~ And then, Earl and I tried to work up a staff strategy that said that Bonneville ought to take the lead, much as it had in the Transmission Act, in getting some legislation drafted. <sup>reflected the effort indicating</sup> ~~And Hodel said, essentially, "I'm afraid that it's not going to work well if we do it that way. I'm afraid that this is a time when Bonneville should take the back seat because its organizational ability is limited and~~ <sup>give the ball to and PNUCC.</sup> ~~let the utilities have it. And, so what we should do is pass the ball to the region and Bonneville should be a participant in the process but we've done our job. We've gotten the yeast into the dough and we're going to start letting it rise.~~

Q: OK. What were the principal elements of that paper? What was the backdrop? What was the problem or set of problems and what were the solutions?

A: Well, the paper, itself, was a survey of all of the issue concerning the power system. OK, the question of regional planning. The question of state involvement. The questions of Bonneville backing versus Bonneville non-backing. Bonneville, the paper articulated that Bonneville was an integral part of the system and couldn't be ignored as a financial participant, one way or another. It had to be, if <sup>BPA</sup> ~~it~~ wasn't <sup>an integral part</sup> ~~in or~~ any

regional plan, the possibility of the plan succeeding was zero, ~~because~~  
Bonneville was so necessary to getting power ~~enough~~ <sup>in useful form</sup> to all the various  
users. The question of follow-on contracts for the DSI's was in there.  
The question of new public agencies was in there as a question saying,  
"How do you deal with the application of a new potential public agency to  
a limited pie?" Bonneville's existing power supply. How do you deal with  
power plant siting the siting issues? We had a very major issue about the perception of the  
utilities that they were getting more and more red tape and less and less  
ability to plan in a legitimate way to meet the siting problems of locating  
generating those plants, ~~is~~. So, what you had at that point, you had a whole bunch of  
things you could articulate that were connected to each other and, of  
course, the . . . issues. Bonneville was in the midst of that major  
lawsuit and its participation in hydrothermal had been stopped. How do  
you deal with those? The issues raised in that lawsuit. How do you get  
around them or make them work in terms of regional planning? All those  
issues were included in that paper plus an initial cut at what we thought  
was an economic solution in a legislative sense.

Q: Going back to . . . .

END OF TAPE

(WP-SWHW-0206Q)

Larry Hittle - Tape 2

A: . . . ~~to the utility purchasers in the Northwest,~~ There was an important element lacking in hydrothermal phase 2 in that phase 2 did not use the economic power of the Bonneville system in revenue to back up the financing of projects, ~~and~~ By the time we got to the legislative approach, everybody assumed that it was very important to have that kind of <sup>BPA backing</sup> ~~power,~~ ~~economic power,~~ behind the hydrothermal power program. Hence, the legislation had that process in, but the second and equally important part of that was utility control of what they called the caged lion. Everyone was afraid of Bonneville as a large Federal agency dominating the Region's power supply planning and <sup>The utilities</sup> they did not, in any way, want that. Whether you were a public agency or a private utility, there was an equal fear that Bonneville would take over and run things.

Q: So what did they do?

A: They put together a means of control through Bonneville's Board of Directors which in the PNUCC Bill was a utility board. It was essentially formed out of utility representatives. The utility representatives would pass or not pass particular plants that would be added to Bonneville's power supply and by doing that, they would have control over what Bonneville's activities were.

Q: Did the framers of that draft really have a notion that something that was basically that kind of an industry oriented proposal would pass?

Q: The Utility Bill by request on the part of Senator Jackson and by Congressman Meads and were hearings held?

A: You helped me refresh my memory. Yes, there was a single hearing at which time Gordy Culp went back for the PNUCC and testified and gave very lengthy testimony regarding the need and as I remember I think Bill H<sup>U</sup>lbert went back and others. Bonneville, of course, did not testify. It was not an Administration Bill and Bonneville was not prepared to support or not support the Bill. So, I think that the hearings were purely Regional type hearings *more informational than action oriented* A I doubt that Congressman Weaver testified. *B* But my memory is that at that time there was enough statements from the utilities from the Region that something had to be done, that that at least created a focus for the Senator and it certainly was a point of departure in the process.

Q: This was still 1976 and there was still a Republican Administration.

A: *No* ~~Yes~~, it was early in '77. Well, in Spring, I can't exactly remember when the Bill was introduced but it was February or March.

Q: Well the statement I recall was near the end of the Republican's tenure, Hodel is Administrator saying something to the effect that the Bill had been sidetracked and wasn't going anyplace. The Administration changes and you have a period of delay until the new Congress and the new Administration is in place. Hodel remains Administrator of the Bonneville Power Administration. What happens then in terms of those central ideas in the Bill?

A: Central ideas stay pretty much the same as far as the utility community is concerned. The truth of the matter is that we have not yet moved to the point where there is any unanimity with any other part of the Northwest but you have to remember that during the process of the <sup>drafting of ion</sup> ~~legislation~~ that there was no real participation by the state and local entities who thought they had a real interest in the legislation.

Q: What interest did those state and local entities have and what were they?

A: State of Oregon had a direct interest in how their rate payers gained or lost in the legislative process, ~~and~~ <sup>they</sup> wanted to make sure that their planning processes were involved and consistent with whatever happened <sup>in</sup> ~~to~~ the Bill and hopefully <sup>their processors</sup> ~~dominated~~. The State of Oregon <sup>wanted</sup> ~~would like~~ to make sure their siting laws were not overturned, ~~so they were very concerned about that sort of thing.~~ The State of Washington was concerned with similar things to a lesser degree, certainly a concern that for one reason or another Oregon or Idaho or the rest of the Region might reduce the benefits of the Federal Power System in the State of Washington. The aluminum industry was, of course, concerned about their rates and their power supply.

Q: Let me try to go back to a long history of tension between the Federal Government localities relative to the Bonneville Power Administration. There was a CVA Act in '40, '41 another one in '44, '45 another one in the late '40s and perhaps one in the '50s and I'm not sure, I doubt it. Anyway, at least three tries at CVA. The principal fight or one of the principal fights in all of these Bills was whether the existing system

with BPA under the Department of Interior controlled by the Administrative Branch, Executive Branch as opposed to local entities out here who basically the public utilities, the states wanting more control through some sort of representative body, more like the TVA. Was this new effort simply a replay of that old fight in a lot of ways?

A: It was kind of a similar song on the same theme but <sup>yet</sup> a different song.

Mainly because by this time, the possibility of having absolute Bonneville dominance of the Region in terms of resource development was ~~happening too~~ <sup>no longer</sup> ~~probable~~ <sup>late.</sup> ~~That~~ the Mid-Columbia projects had been developed as non-Federal projects. The existing hydro that was still developable was being slowly but surely taken out of the option category by environmental concerns or by costs, ~~and~~ <sup>so</sup> what happened was that some of the worries about Federal dominance through a CVA ~~was over.~~ <sup>were diminished.</sup> The question of dominance in planning was there and that, of course, was a question that was ~~maybe~~ <sup>not</sup> as well addressed in the early days as it was when we got into the question of Bonneville purchase in the '70s. Because all of a sudden we had a different process. During the '30s and the '40s and the '50s, the Federal Government made it very evident that the economic value of hydrosites was immense and so therefore, the States wanted to control that wealth. In the '70s it was becoming very evident that the economic obligations represented by thermal plants could be burdens and could be weights on the economy if they were not done correctly, and secondly the question of environmental damage and that sort of thing were much more apparent in that period, <sup>interests shifted to</sup> ~~so the shift of the States was to looking at, on a planning basis.~~ What is it that we're giving up to let Bonneville come in and basically force siting of plants in our area? The State of Montana was

worried about Bonneville taking the energy away and leaving no jobs and no economic benefit. That was true in Washington or Oregon ~~maybe~~ more from the standpoint of environmental concerns, <sup>but the overall concerns</sup> but the questions were there, <sup>and concern particularly in Montana</sup> and then there was ~~kind of~~ a concurrent ~~run of the balance~~ as far as property taxes and that sort of thing goes. So, you had a little different emphasis on the same kind of theme. The States believe <sup>d</sup> that they were the ones that should determine those kinds of issues and make sure that they extracted whatever they thought was economic compensation for the detriment they took from a regional planning process.

Q: So the task remained to convince then Senator Jackson that something needed to be done. At that stage it seems to me that you and Gjelde and perhaps Monroe went back to, I guess to a Bonneville version of legislation. How did that change from a PNUCC Bill? What was done to satisfy those problems that had arisen as a result of the PNUCC Bill?

A: Well, first of all I should tell you, Gene, that the PNUCC process did not result in a Bill that was necessarily what BPA staff <sup>thought</sup> was the epitome of good legislation from the standpoint of the way Bonneville would work with the Region. It was a utility dominated process, and the insistence <sup>by</sup> the utilities that they work out all the contractual terms during that process, the insistence of the utilities that there not be public representation was not necessarily a Bonneville position. It was a <sup>result of</sup> ~~position that because it was~~ a utility <sup>controlled</sup> process. Bonneville was basically forced to go along with <sup>that process.</sup> So, I don't think the PNUCC Bill represented ~~any~~ Bonneville position per se. In fact, Hodel, while he was willing to be very active in the process, <sup>d</sup> as long as there was some semblance of public

participation, ~~Hutch~~ was not willing to say that the Administration would endorse the legislation. So we had a situation where we had a whole bunch of little pieces that we, Bonneville staff, Earl and I particularly, but Ray Folens<sup>een</sup> or Don Hodel or Bob Radcliff<sup>and</sup> of a number of ~~people~~<sup>others</sup> felt were missing from the PNUCC process that had to be addressed. Conservation was one area.

Q: It seems to me that there were a series of rate pools that were established the purpose of which was to address the rate disparity problem as seen by the investor-owned utilities and that that rate pool process was seen as a great negative by the public agencies who in turn had a great deal of influence with Senator Jackson.

A: Yes. Our fundamental change was to try and get rid of that kind of an argument that somehow or another the publics were detrimented by a Bonneville purchase process, that included buying for the requirements of private utilities, by trying to make up any revenue that was lost through some kind of contribution by our other customers, DSIs extra-regional sales, that sort of thing.

Q: Where does that idea come from? That ultimately was the foundation for the Bill that passed. That remained in from, I think, the first . . . .

A: That was the economic compromise that sold.

Q: Where did that idea come from? Was that in the PNUCC Bill in some fashion or was it from the dispute over the PNUCC?

A: It was kind of in the PNUCC Bill but it was not exactly in, ~~and~~ <sup>0</sup> One of the reasons it wasn't in the PNUCC Bill was that there was no visualization of what Oregon <sup>DURPA</sup> ~~Durpa~~ would mean in terms of revenue, <sup>and costs</sup> in the public side. ~~It never did occur really.~~ The publics never admitted they believed the <sup>DURPA</sup> threat. They might have believed it but they never admitted it. They always said <sup>DURPA</sup> ~~Durpa~~ was a fraud <sup>and was not entitled to BPA preference,</sup> ~~and a lot of other things.~~ We didn't think it was a fraud. We thought, now I'm narrowing down to limited BPA staff, but I don't think that Radcliff or myself or Earl or Hodel, during that period believed that <sup>DURPA</sup> ~~Durpa~~ was just an <sup>idle</sup> ~~idea~~ threat, because <sup>W</sup> We had heard from the <sup>State of</sup> Oregon representatives and the private utilities that if need be they would go the <sup>DURPA</sup> ~~Durpa~~ route, <sup>and</sup> ~~if they had to,~~ to preserve Oregon's equity <sup>right to BPA power.</sup> ~~and while we knew that <sup>DURPA</sup> ~~Durpa~~ was an ~~anathema~~ <sup>mathema</sup> to the private utilities if <sup>There was a way to</sup> ~~they could avoid it.~~ They didn't want it because once you start some public ownership, where ~~does it~~ <sup>will it</sup> stop, and the obvious question <sup>was</sup> ~~is~~ do they buy their wholesale power from Pacific Power & Light Company and Portland General or do they buy it from their own projects, ~~and~~ <sup>All</sup> of a sudden <sup>The IOUs</sup> they have a new monster to worry about besides BPA. But, the answer was ~~in my view~~ <sup>stated it</sup> that Oregon would do whatever was necessary politically to comport with the preference requirements of the law, ~~and~~ <sup>Since</sup> the preference requirements of the law had been read in many, many different ways in different regions of the country it was pretty easy for us to understand that it could be done. For instance, <sup>WAPA</sup> ~~WAMPA~~ or its predecessors were serving the State Buildings in several State capitals in the Midwest <sup>Through the facilities of IOUs.</sup> ~~and that was a retail customer of a private utility.~~ They basically entered into transmission agreements with a private utility and wheeled <sup>WAPA</sup> ~~their~~ power to those State capitals. It was a political decision but the preference law had been <sup>interpreted</sup> ~~read~~ that way.~~

Q: Where does the initial idea that one might have the DSIs in order to get contracts with Bonneville which were then expiring subsidized by the investor-owned utilities in residential and rural customers as an exchange to get rid of the rate disparity problem? Where does that idea come from? Whose idea was it?

A: Mine and Earl's. Maybe mine first. Remember we had a synthetic kind of subsidy in the PNUCC Bill. The DSIs would not buy at the same rate as the publics. What they would buy is a rate B which is a combination of all the BPA resources left, <sup>after serving existing preference loads</sup> over, plus the resources added by the privates to meet the domestic and rural loads. So there was already a subsidy of sorts, that pool of BPA or Federal power was being made . . .

Q: theoretical subsidy, it was in the proposed PNUCC Bill.

A: That's right. So what you ended up with, Gene, was a situation where there was already a transfer of some dollars from the DSIs to the privates. The question was how <sup>much change was necessary so</sup> did you couch it so that you could say something like that the publics would be no worse off under the legislation than they would have been had the DSI loads gone over to the public agencies that were served <sup>by BPA.</sup> and I suspect that <sup>was</sup> the major idea that I was able to kind of mutate into that process, ~~was~~ I went through and looked at all of the DSI loads geographically in the Region and I said that each of those DSI loads, if they cease to be a BPA load, will become a preference load or a private utility load, and then we went through an analysis saying if in fact you were a DSI looking at service in the BPA Region, where would you go for your power if you had a choice between a

private utility and a public agency who was buying some power from Bonneville. And the answer was you'd come to Bonneville. ~~That~~ <sup>Then</sup> I said, OK if we make that assumption, then that means that every one of the utilities that are public agencies would be serving that load <sup>with or adjacent to</sup> in their own area if in fact, BPA ~~ran out of power to serve~~ <sup>stopped</sup> the DSIs. If ~~Durpa~~ <sup>PURPA</sup> came in, there would be a reduction in the amount of power available for ~~that~~ <sup>DSE and other industrial</sup> kind of load ~~and it would come out of that the power that was being sold to DSIs~~ but would DSIs be treated as a lesser entity, <sup>than other industry</sup> in a local area. My hypothesis was no. I said that, for instance, in Cowlitz PUDs area, that if Cowlitz PUD was serving Weyerhaeuser ~~and~~ <sup>as industrial loads</sup> International Paper and Longview Fiber ~~and~~ <sup>the</sup> Reynolds Metal Company came in to them and ~~said, we~~ <sup>asked</sup> can't get a power supply from anybody but you, the Cowlitz County PUD would go in and fight like a mad dog to get them a power supply. Why? Because, politically if they let ~~it get away~~ <sup>Reynolds fold</sup> they were in deep trouble economically in Cowlitz County. ~~It was~~ <sup>Reynolds was</sup> a major economic factor. That was true in almost every service area <sup>where DSIs were located such as</sup> ~~or~~ <sup>In other cases like up in</sup> Spokane ~~where~~ Inland Power and Light Company was adjacent to Washington Water <sup>both could save Kaisers Mead reduction plant.</sup> Power Service area ~~and you looked at Mead, the major Kaiser smelter up~~ <sup>Here</sup> there, it was obvious that Inland would give their eye teeth to get a load as big as Kaiser if they didn't have any financial risk. And, Kaiser would get very favorable rate treatment from ~~them~~ <sup>Inland</sup> because the overheads would be very low. <sup>My theory was Kaiser would contract with Inland.</sup> When we got down to looking at how these things would occur, <sup>I felt strongly my theory was much more plausible</sup> I suppose that the light bulb that went on in my mind was first of ~~them~~ <sup>that</sup> the public's theory espoused by ~~Hulbert~~ <sup>Hulbert</sup> all the world as the public are painting them, the Bill Hoberg ~~was~~ <sup>would cease operating when their BPA contract terminated</sup> that which assumed that the DSIs ~~just went away~~ <sup>DSI</sup> was just BS. There just wasn't going to be that happening. That ~~those~~ <sup>DSI</sup> loads would be transferred to the utilities which were closest to service them <sup>and</sup> <sup>continue to exist and</sup> <sup>was a more realistic assumption.</sup> in most cases, if there

as to an IOU or a preference customer, preference <sup>This was</sup>  
was a choice <sup>^</sup> that the DSI could pick the local public agency, because his  
power cost tied to BPA <sup>supply</sup> were lower in prospect than <sup>+ that of an IOU</sup> their local utility  
<sup>Swice</sup> because the DSI load represented such a major block <sup>of power</sup> that everyone of <sup>the</sup> those  
<sup>IOUs</sup> utilities would have to go out and buy thermal to cover that load. So the  
answer was, <sup>DSI's</sup> they were always going to be served somewhat by Bonneville,  
~~without new legislation.~~ as to DSI  
Power ~~and then the question came, well, their interruptibility and what value~~  
~~have you could you translate that into Bonneville rates, and we went~~  
through a lot of agony to try and figure that out as a kind of a  
hypothetical case. <sup>to demonstrate the legislation's economics.</sup>  
<sup>Our premise was the preference agencies would be no worse</sup>  
<sup>of w/o legislation than with legislation.</sup>

Q: Well, when you start translating, everybody translates into dollars.

Certainly the DSIs must have been doing a calculation as to what this arrangement was going to cost them and certainly the investor-owned utilities were doing some sort of calculation of what that benefit would be. How did it balance out and then how was it adjusted?

A: Well, first of all there was no question that the DSIs as the price of getting this legislation would pay a higher rate than they were paying under the then current BPA contracts. There was just no question that there would be some rate increase. ~~What we ended up doing,~~ BPA staff was not ready to try and estimate what the capital and operating costs were the private utility thermal plants that were then coming on line. What we did was <sup>ask</sup> ~~we went back to~~ the private utilities ~~and asked them~~ to do an analysis of what their costs were going to be under a situation where Bonneville would be buying back power from them at some average system cost. <sup>proposed</sup> Now remember the PNUCC Bill had <sup>for Rate pool "B" at</sup> buying resources from the private utilities <sup>The Average System Cost</sup> that average system cost. ~~That~~ idea was a carry-over from that PNUCC

proposal  
process. The only <sup>d. f. ference</sup> question was that when BPA bought <sup>LOU</sup> resources at average system cost ~~to meet the domestic and rural loads that was merged in~~ <sup>and merged that power</sup> with a block of BPA power, <sup>The merged block was</sup> and then resold to the DSIs and to the private utilities for the domestic and rural loads <sup>at the same rate.</sup> ~~OK that was there.~~ So what happened was that a lot of ~~these~~ <sup>BPA's original</sup> assumptions <sup>as to costs</sup> had come ~~to some degree out~~ <sup>from statistics developed</sup> of the PNUCC Bill and the privates had done ~~some of~~ <sup>most of</sup> those calculations. ~~We continued to use LOU furnished statistics for our analysis~~ <sup>we continued to use LOU furnished statistics for our analysis</sup> ~~They extended that, Ralph Vignas was the focal point over~~ <sup>Deeson</sup> ~~at~~ <sup>at</sup> PP&L (now deceased) ~~but~~ <sup>our statistical guru</sup> Ralph became ~~kind of a holder of number~~ <sup>kind of a holder of number</sup> and he crunched the numbers and gave us both peak and energy rates for the exchange power, ~~and then we~~ <sup>LOU's domestic and rural</sup> were able to merge that in to the hypothetical of moving the ~~loads from~~ <sup>loads from</sup> ~~the DSIs to the privates,~~ <sup>to BPA</sup> ~~then~~ <sup>then</sup> looking at the economics of merging that private power into some mix of BPA power and seeing what the DSI rates, ~~and that~~ <sup>analysis</sup> ended up being a table which was, ~~I think, well I know it's part of the~~ <sup>was developed</sup> Senate Report, ~~but~~ <sup>The bones of that table</sup> started at the time we were trying to look at the economic impacts <sup>on the DSIs</sup> of ~~doing away with any impact of~~ <sup>assuming the</sup> the public agencies, ~~from~~ <sup>They would not be financially impacted by</sup> the legislation as far as rates were concerned, ~~at least in the near term.~~ On the long term, if you assume that the public agency loads were going to grow, the new resources that came in would be billed to them at their costs.

Q: Was there a total figure estimated at that time for the DSIs what the cost would be to them under one assumption and a total figure under the other assumption so they knew what in ballpark terms what that was going to . . . ?

A: Yes, they knew what it was going to be.

Q: Do you recall the numbers?

A: No, I can't give you those. I think the best source for that is that I think that the Senate Report really did reflect what people believed could happen under legislation. Everybody was not so naive to believe that somehow or another costs were going to be different but the ballpark numbers <sup>developed were those</sup> ~~people thought that they were getting numbers that~~ were reasonable.

Q: What I was leading up to was this, at that point where there was an arrangement worked out that seemed like acceptable to the DSIs, acceptable to the investor-owned utilities, questionable as to whether it was acceptable to all of the publics. There's still a lot of concern about it and Senator Jackson had a problem with it because at that stage, as I understand it, it appeared to him as if it were a benefit that were going to the investor-owned utilities, their stockholders and so forth and that he was concerned both about the reality and the appearance of that and there was then by someone, introduced the idea that that would be an acceptable way to go, that kind of an exchange agreement if the benefit were all to go to the domestic and rural customers of the investor-owned utilities rather than to the utilities themselves.

A: No, Gene, it goes the other way. First of all, the idea of <sup>DJRPA</sup> ~~Durpa~~ was already a very current idea, whether you believed it was viable or not. <sup>It</sup> was a current idea and so <sup>it</sup> ~~therefore, that~~ <sup>reflected</sup> was in the PNUCC Bill and it followed into the Regional Act. Now that's my recollection. I have to go back and look at the PNUCC Bill, but it seems to me that we already had factored in the <sup>DJRPA</sup> ~~Durpa~~ concept. Where Jackson was worried was that somehow

DURPA

or another a private utility could use the ~~Durpa~~ kind of idea as a sham to either butter the stockholders benefits or ~~they could~~ use it as a way of transferring some benefits back to industrial customers. ~~And~~ He was very worried about ~~that~~ and so <sup>diversion of benefits</sup> ~~therefore~~ we put in, I think there's a clause in the Act that says that all of the benefits have to be passed on to the ratepayers whose loads the benefit is based on, the domestic and rural loads.

Q: There was no opposition to that notion from the investor-owned utilities?

A: Yes, there was opposition or there was a lot of reconciliation. Actually from the investor-owned utilities, I think, the political side of it was very apparent, ~~and~~ <sup>and</sup> they were very eager to get the domestic and rural ~~rate~~ relief because that's where the voters are, ~~and so~~ <sup>Therefore,</sup> their supposition was that if they got ~~those~~ <sup>domestic and rural</sup> rates down, ~~that even though the~~ <sup>they could survive</sup> ~~the~~ <sup>The</sup> ~~industrial~~ <sup>Threat</sup> ~~s were still paying a higher rate than their brethren in public~~ <sup>while IOU</sup> ~~agency areas,~~ <sup>the IOUs assumed they</sup> ~~that they could survive their dissatisfaction,~~ ~~and that those~~ ~~things would work out economically~~ <sup>But</sup> from the standpoint of the voters if there was a three or four to one rate disparity, ~~that~~ <sup>for domestic and rural customers</sup> there was real concern that public agencies would form out of ~~their~~ <sup>IOU</sup> bones or the ~~Durpa~~ <sup>DURPA</sup> idea would flourish. . . .

Q: Is this accurate that they were more concerned with the rate disparity with which their customers were greatly concerned and getting a benefit to them than they were to a principal that power would be sold by them at cost?

A: Absolutely.

Q: That must be something very new and different for an investor-owned utility, is it not to sell power at cost?

A: Not when they're buying power from Bonneville, they sell <sup>BPA power</sup> ~~it~~ at cost essentially. <sup>IOJ's</sup> They can't get a rate of return on something where they don't have an investment, ~~and so therefore,~~ <sup>The</sup> the difference was that the privates were admitting for the first time that they needed some way to finance their major generating projects because they are running into deep trouble in trying to get financing for those projects. <sup>as their own</sup> All these utilities in the Northwest excepting maybe PP&L, but, truly all of them are under capitalized. They had not had major investments in generation. Portland General Electric Company, when they went into Trojan, even though it only cost what \$450,000,000 in the end, that <sup>investment</sup> was two times their original capitalization as a utility, a major change in their capitalization. Bonneville and the Federal System had essentially provided all the capital facilities for generation in the '40s and early '50s and then in the early '50s when we had Partnership ~~or mid 50s when we had Partnership~~ going on, remember <sup>The regular IOJ's</sup> they didn't finance one dollar out of stockholder's equity or out of bonds. They essentially were doing that through tax exempt bonds, <sup>of the PUV's</sup> ~~so~~ They were under-capitalized so therefore they lacked the equity to swing major generation <sup>The IOJ's</sup> and they needed a way to do that and they concluded that using BPA's revenue stream wasn't all that bad. So, a lot of their . . . .

Q: Explain to me how that works? How does an investor utility increase its capitalization by using Bonneville?

A: What happens is that putting together the kind of financing package that we have in the legislation, a utility <sup>or group of utilities</sup> could form a non-equity corporation <sup>or</sup> a very low equity corporation to finance major generation. OK? And then the way the investment would be secured would be a contract from Bonneville to the utility for the purchase of the capability of that plant. A take or pay contract which would obligate Bonneville to pay for the cost of that plant and merge those costs into its rates and charge rates to both the private utility who was then getting the output of that plant mixed in with other BPA power to meet its load growth, and ~~the~~ <sup>the</sup> idea would be that you put BPA in the middle with a guarantee of the contract, that makes a much more <sup>financeable</sup> package and it gets the utility away from some of the restrictions that they face in terms of financing.

Q: Well, Larry, if that in itself is something of a benefit, the ability to capitalize to a greater extent than they could otherwise, a benefit for the investor-owned utilities, it would also raise concerns, I would think, about the planning process, whether those investor-owned utilities are simply going to purchase those resources that they think they need which might be greater than others think they need or whether some sort of planning process was taking place that was a public process that would assure that Regional needs would be met. What was the discussion along those lines?

A: Well, the utilities obviously wanted to control the process and started out there and ~~were~~ basically played that way through the PNUCC process, ~~that~~ the idea of having State or local government involvement in the planning process ~~was~~ did not run very well with the ordinary utility parties. There was a very great concern that they <sup>utilities (public and private)</sup> would loose control of the process in a way that would be detrimental to their own interest. So they didn't want <sup>that involvement.</sup> ~~it~~. So as we evolved in that process what happened was that first of all the States protested mightly that they weren't being included in the development of the legislation that PNUCC was doing. They <sup>states</sup> ~~were~~ finally included as kind of second rate partners in the process, not very satisfactory to them but at least it got them into the process to understand what was going on. When Earl and I did the study paper, as I indicated earlier, we had gone around to the States and maybe started some <sup>wheels turning</sup> ~~trouble~~, but we had gone around talking about how do we open up the planning process so that each side is more confident about the decisions of the other, <sup>until then</sup> ~~because~~ the States and the utilities kind of entered into their negotiations about siting plans and planning plants as kind of ~~not~~ <sup>not</sup> knowing partners, ~~and~~ the idea that the other side didn't understand what you were after was good. Earl and I stressed that we thought that that was leading to a lot of delays in plant siting and not necessarily beneficial decisions coming out of the States, <sup>so</sup> that had really been broached before the PNUCC Bill was introduced. Once the PNUCC Bill went through its process and the utilities had proposed the kind of board that they did, Utility Control Board, the States basically said, "Well that kind of process isn't acceptable to us but we're willing to work the legislative process to get something right." Now we go back and we say, "OK, how does State involvement come into a BPA proposed bill." Earl and

I and Sterling recognized there had to be some kind of State involvement in the planning process and there had to be some way of making that process come to some reasonable result. So, in the initial bill that was proposed by Senator Jackson, there was a board, there was a Board of Directors, ~~and~~ <sup>T</sup> that Board of Directors as we had initially proposed it was, I think, four members from the four States plus the Administrator, ~~and~~ <sup>S</sup> the Administrator was sitting in a position to be a vetoer <sup>P</sup> of any action by the States that he believed was inconsistent with the Federal Statutory ~~Mandate that he had.~~ That proposal did not wash well with the States. They didn't want the Bonneville Administrator to become the energy czar of the Region and they were very offended by that kind of Federal control, <sup>S</sup> so they went back to work trying to come up with their own kind of local control proposals, ~~and~~ <sup>W</sup> we went through a major evolution in trying to get some kind of proposal from the four States that would be a unified approach that would also wash from a Federal standpoint, ~~and~~ <sup>T</sup> the end result was that that process dragged on longer than probably any of the others, <sup>areas of concern</sup> in getting some kind of final agreement as to what kind of representation each State would have on the Board. There was, of course, the argument by the State of Washington that they being the most populous State would have the right to have more members, ~~and~~ <sup>T</sup> then there was the fear by the smaller States that somehow or another that ~~that~~ <sup>their</sup> representation, a minority representation was worth nothing to them if Washington was larger, ~~and~~ <sup>We</sup> you evolved into the eight member council where essential you have a way of getting around an obstinate single State in terms of planning but you don't have a way of having a forced resolution of problems through a majority vote.

Q: How did that kind of a change come about? Who was the prime pusher? Was the State of Oregon or just how did it happen?

A: Well the major player and the most interested player in that process was the State of Oregon. They became the focal point. They took it upon themselves to work to reach some reasonable compromise with the States of Washington and Oregon and Montana and Idaho. ~~So~~ they took the lead. Roy Hemmingway was kind of the ambassador of both Bob Staub when he was Governor and then once Vic Atiyeh came on board, he represented Vic Atiyeh in that negotiation process and deserves much credit in terms of trying to keep those interests focused on a single direction.

Q: Sterling said that he favored a stronger Regional Council than ultimately occurred. He wanted a group that would direct at Bonneville to do certain things and what they ended up with was a Regional Council which he said in which Bonneville and the Council checked and balanced one another. Was that done by intent or simply as a result of the arrangement that was made?

A: No, it was done as a satisfaction of a whole bunch of constraints that the Federal Constitution puts on State <sup>controlled for Federal entities</sup> Boards. A Federal Agency can't be governed by a State appointed body. It has to be governed by a Federally appointed body. So the first proposal that we made was that each of the member would be appointed by the Secretary of Energy, ~~and~~ The Secretary of Energy would <sup>have made</sup> ~~make~~ those appointments from a list provided him by the Governors of the relevant States. That was not acceptable to Oregon, particularly. They were worried that if there was a Democrat President and a Republican Governor that all the Republican Governor would get would

be qualified Democrats. They were worried that <sup>sort of board</sup> that would inhibit close cooperation between the State and the body, ~~and~~ then there was the TVA experience which is essentially a Federal appointed body, ~~and~~ they usually try and appoint people who reside in the Tennessee Valley to the Board but there isn't a requirement of that, ~~and~~ there was a great deal of fear that a similar kind of board would evolve that listens to no one except their own interest so they were worried.

Q: Don't you characterize the present arrangement as a check and balance arrangement?

A: Yes. I don't think there was the intention that it be a check and balance arrangement as far as the States were concerned but I don't think that the Federal Law would let them have anything better.

Q: Well, in the press there's been a great deal of, as it finally worked out, a great deal of discussion as to what the relationship is between the, and even among the Council Members, as to what the relationship is between Bonneville. I think the initial Chairman was of the view that the Council was the Board of Directors for the Bonneville Power Administration, directing them although the authorities contained in the Act certainly didn't allow for other interpretations. How did you view the way it evolved so far?

A: Well, first of all that argument isn't over yet. The Council believes that if ~~there~~ a more direct link with Bonneville as far as <sup>obligatory action</sup> ~~based~~ or the ability to tell Bonneville what's going to happen, is essential to their

mission. The way the Council had to evolve because of the Constitutional limitations <sup>we ran into</sup> was that it could only be a check and balance ~~and~~ <sup>It</sup> would have immense political clout but little direct authority to tell the Administrator what to do. The Administrator has to, in accordance with Federal Law, has to have the ability to act in spite of a negative Council, i.e. he has the obligation to carry on the Federal Government's interests in the Region and the Council's rights are pretty limited. If the Administrator can get the Congress's agreement that his actions are appropriate <sup>he can proceed under the Act,</sup> ~~But~~ no Administrator in his right mind would want to go back to Congress until he had exhausted every chance of trying to get a compromise acceptable to Council. <sup>That is</sup> ~~if~~ if you were trying to site a plant and the plant was not acceptable to the Council as a whole, going back to the Congress and asking Congress to validate the Administrator's decision is a pretty chancey political <sup>situation,</sup> ~~issue~~. I just don't think that it would work but the Council is not satisfied with that kind of limitation. They would much prefer to have the Administrator do what they ask him to do.

Q: Well isn't the authority of the Council confined to two areas? One, a clause in the Regional Act that says they have the authority to plan new generation and secondly, authority to carry out a fish program. Isn't that in itself something of a limitation?

A: Even the authority to carry out a fish program is an over-statement. They have a right to propose plans for both power acquisitions for the system including major emphasis on conservation and then the second area is they have a specific obligation to produce a fisheries plan which is very persuasive to the Federal Agencies acting in that area. Bonneville, the

Corps, the Bureau, but also FERC and other parties regarding restoration of fish runs on the Columbia, particularly. Wildlife and resident fish, of course, are part of that plan but the major emphasis was try to figure out a way to stop the decline in fisheries on the Columbia.

Q: But in the plan they proposed to the Bonneville Power Administration, the Administrator has the right to reject that plan if he can stand the political heat of the rejection. Isn't that true?

A: The Administrator has the obligation to implement that plan to the extent that it is consistent with his other obligations. He has an obligation to provide an adequate power supply at costs which are reasonable as far as the loads are concerned, ~~and~~ <sup>he</sup> has an obligation to provide a Federal budget to the Congress through the Administration which is inclusive of his whole program, ~~and~~ <sup>and</sup> Fisheries for the first time is part of that program and because it's very specifically carried out in Section 4H of the Act, <sup>the</sup> obligations of the Administrator are very specific rather than general in terms of carrying that plan out. But you can say that the Regional Power Plan, with a little bit different kind of statutory emphasis is a similar obligation ~~for~~ <sup>to that of</sup> the Administrator as far as the Corps of Engineers and the Bureau and FERC ~~is~~ <sup>are</sup> concerned. <sup>The</sup> Regional Power Plan has a little different kind of emphasis but I'd remind you that the question of whether a resource is acceptable for Regional use or acquisition by Bonneville is something that FERC would have to look at in siting a hydro resource for utility expecting to sell ~~it~~ <sup>The hydro project's capability</sup> to Bonneville.

Q: Let me go back to a chronological approach for a moment. In the first try, this was the Bill that allegedly was drafted on Senator Jackson's kitchen table although that I'm told that coffee was had on the kitchen table and the Bill was actually drafted in the den. Just for the historical record. What of those elements are included or covered in the 12 principals that were the forerunner of the introduction of the Bill and then which of these elements were in the Bill itself?

A: OK, the question is which came first, the principals or the Bill?  
Actually, Gene, the . . . .

Q: The principals were based on the Bill.

A: The principals were present in the drafting of the Bill in a more esoteric way. Factually, most of those principals had been honed out through the PNUCC negotiations and the discussions that we'd had in the Region, and to some extent had been articulated one way or another when we were presenting what we thought the legislation had to encompass in the Region. ~~i.e. when~~ Earl and I were out talking to the various interest groups, talking about what we thought legislation ought to include after Sterling came here, trying to sell the ideas and what we thought was wrong in the PNUCC instance and why it didn't sell and trying to convince say, Bill ~~Holberg~~ <sup>Holbert</sup> that we were on the right track. ~~We~~ <sup>drafting the legislation</sup> articulated many of those principals in that process. OK. So, those principals weren't new but we didn't have those principals in written form until we drafted the legislation, ~~as it was drafted.~~ OK. So ~~that~~ was number one. Then, as we went through the legislative process and the emphasis changed, I don't

think any of those, I'd have to go back and look at each of those principals but I doubt that any of those were violated per se. I think that in things like the Regional Council ~~that~~ the <sup>change in</sup> emphasis from a Federally appointed body to a State controlled body evolved through that legislative process. ~~The changes that were necessary to accomplish what the States wanted,~~ We spent a lot of time spinning wheels about the way the Council would be formed. I spent some time trying to get together with some political scientists including one of the present members from Washington.

Q: Well the point Larry was simply this, the principal change from the PNUCC Bill to the first Bill introduced by Senator Jackson that some described as the BPA Bill, was the addition of a Regional Council.

A: That's correct and a heavier emphasis on conservation. We really put conservation up . . . .

Q: Was the Conservation Renewables Clause in that first Bill?

A: In a different way, yes. We tuned it up some in the process but the idea of making conservation the first alternative was in the first . . . .

Q: OK, that Bill I don't think made it through the Senate before the term closed nor did it get anywhere in the House.

A: That's correct. We had one hearing in the House, we had no Senate hearings.

Q: OK, then you come back in the next session of the Congress with some concern that Congressman Meads would be gone because he was not planning to seek re-election and so there was a second bill. How did that second Bill differ or come to differ in the legislative process from the previous BPA Bill or Jackson Bill?

A: Well, one of the big issues that had to be settled was the question of whether or not our allegation that the Bill cost the public nothing was really a promise in the Bill, and there was a lot of discussion about how you would assure the public that the costs of the Bill would be no more than if there were no legislation, <sup>East and I</sup> ~~we~~ were given that task, i.e. to go back to the public agencies and try and negotiate some kind of a cap, a rate lid which would be acceptable to the public, <sup>The cap</sup> ~~which~~ would assure them that what we had said in principal was in fact part of the legislation and a mandate to Bonneville. And so, we went through that process in the winter between sessions of the Congress.

Q: How in the world did you devise a means by which you thought you could test something that did not exist?

A: Well, first of all you have to understand that what I had suggested to the public agencies was that we should put some general statement in the legislation saying that the rates that the public agencies would pay would be no higher than would have existed had there not been legislation. That kind of a general promise was not acceptable to the public agencies and so what we did was, we said, "Well, what is it that you really want?" They'd accepted the idea that the DST loads were going to be located <sup>in preference areas</sup> ~~85% of them~~ <sup>service areas,</sup>

We had slow,

~~were~~ would be located within or next to existing public agencies and would be fairly, ~~and~~ <sup>that</sup> it was a compromise that everybody accepted or at least, the leaders of the public agencies accepted that theory. They said those would be their loads if in fact we didn't have legislation. So, they'd accepted that. So we said then, "What is it that would give you more confidence that Bonneville wasn't throwing in factors that you hadn't considered?" For instance, one of the things they were worried about was that if the rates got close that Bonneville would hypothetically say that ~~DURPA~~ <sup>DURPA</sup> would have been formed had there not been a legislative act, ~~and~~ <sup>and</sup> that was, of course, something they weren't willing to admit, ~~so~~ <sup>so</sup> ~~they~~ <sup>the republics</sup> wanted to make sure that whatever the list included, it didn't include ~~DURPA~~ <sup>VEPA</sup> as one of the hypothetical loads that would be a load that would have existed, ~~and~~ so we ended up going through this. Larry Cable from the Schwab<sup>e</sup>

Williamson law firm was adamant that he had to have a list which was a specific list. And so we ended up with the list that's in Section 7.B.2 as a compromise worked out first of all with people like Larry Cable but finally with the Public Power Council.

Q: You're familiar with the difficulties that have gone into Bonneville's effort to apply the rate test and devise a formula for applying the rate test. Was that all contemplated?

A: First of all, my choice would have been not to mention it; secondly, it would have been the more general test and lastly, accepting an articulated list was something that we didn't necessarily relish because we knew that even the best list would be debatable in the future. We knew that. We wanted to keep as much discretion in the Administrator as we could in that

list and we did as much as we could but the list is really pretty well tied down. The application of <sup>the cap</sup> ~~it~~ and the way that Bonneville administratively proceeded may be debatable but I think that the law is probably as tight as it can be without destroying the economics of the Act.

Q: How about the last and the fourth, the successful try? I think the principal element of that in that Bill would have been A) the adjustments in the Regional Council and second, the Fisheries Amendments depended on the House side. What were the principal arguments there?

A: Well first of all, we knew we were going to get some fish late in the game. We didn't realize that the Fisheries Agencies were going to make a major press until <sup>Congressman</sup> ~~Dingell~~ came out and spent some time out here talking about fisheries interests and what ought to be accomplished in the Bill, ~~and~~ unbeknownst to us, the State Fisheries interests had been getting together to try and figure out a way to get some kind of <sup>section</sup> addressing of the fisheries problems in the Bill. When that happened, we were hopeful that we could do something similar to what we hoped we could do with the publics. Kind of a general reference that Bonneville was authorized to provide assistance to Fisheries to the extent that the Federal System particularly had caused damage to fish runs, ~~and~~ <sup>and</sup> give Bonneville some latitude that it didn't have under its existing authority to provide help where runs could be enhanced and get the pressure off the operations of the dams. But, as it evolved, the Fisheries interests were much more serious than that and they were probably for the first time in their lives organized together to accomplish something. There was a unity of purpose and we ended up with a very heavy Fisheries negotiation which as the

record will show, almost derailed the Bill once again. We had basically settled the political issues as far as a Council or at least had given the States the latitude to develop the Council to their liking, we had tried to close up the question of rate for the public agencies by adopting the compromises that exist in Section 7 regarding public agency rates and ~~we were pretty much~~ the economic bargain which we had struck right at the beginning had held. The idea of the exchange and what have you was not in trouble, but Fisheries because it was such a problem for the Mid-Columbia PUDs particularly was a very decisive issue, in fact, when we went in to get final passage we still had at least one PUD opposing the Bill on the ground of the Fisheries provisions which ~~was~~ <sup>made enactment a</sup> very difficult process.

Q: Which PUD?

A: That was Douglas PUD. And they took ~~it~~ <sup>the Fisheries issue</sup> to the APPA Convention as a reason for APPA to oppose the legislation, ~~and~~ <sup>The</sup> APPA Legislative Committee, <sup>as a result</sup> had recommended against the legislation, ~~and~~ <sup>W</sup> We had to go through a very harrowing floor fight to keep from having APPA recommend against the legislation and it was all based on Fisheries. Fisheries was such a heavy issue.

Q: But it did pass. Dingel got pretty much what he wanted although there were changes in the House Interior Committee that moderated what he wanted somewhat. But, nevertheless, in the language on final passage, statement by Congressman Dingle interpreting what it was that he had done, he basically said that the purpose of the Fisheries Provision was to restore the runs to a point where they had been prior to the Dams. On the other

hand, when it went to final passage on the Senator side, Senator McClure said, "The purpose of this Bill is not to take us beyond yesterday one iota. The purpose is to enhance the Fishery to the extent that we can here on out." How do you interpret the conflicts in interpretation or have they ever gone to court or how has that resolved itself?

A: Well, first of all, neither one was right. That we tried mightily not to re-invent the wheel and not try and create goals that were impossible to maintain on the river. There isn't any question that the Dams have had some effect on fish runs, <sup>Recent</sup> and the history had shown that ultimately there was going to be a major collision between power and fisheries, <sup>regarding river operations</sup> and it had to be addressed. At least I had accepted that as a premise and was willing to work with the Fisheries Agencies to come up with something that would be positive in terms of getting rid of that conflict. Whether I was naive or not will be tested later on, But, the belief I had was that ultimately there was going to be a head on conflict between fish and dams mainly because the runs on the Columbia River were declining at such a rapid rate. There was just no arguing that something had to be done if those runs were going to be preserved, and I didn't believe that it was politically or probably legally possible for the Government to ignore that collision, so Therefore, the Corps and the Bureau and Bonneville, with very <sup>with or without legislation</sup> restricted abilities, were going to have to deal with that problem. So I felt like addressing that issue in the legislation was correct but, as you went through that process of getting that legislative issue addressed correctly, you had people, particularly the Mid-Columbia utilities who believed that they could work FERC to be their captive and they didn't want FERC . . .

Q: FERC meaning?

A: Federal Energy Regulatory Commission.

Q: What relationship do they have to fish?

A: They grant licenses to projects on the Columbia River and those licenses include provisions for the protection of fish and most of the utilities believe that FERC was not friendly to fish. That they believe that they were in there, that FERC thought its first mission was to provide energy sources and fish was a secondary matter. The laws might have been written one way but the interpretation through time was that the examiners for FERC were not always very willing to listen to the Fisheries interests, ~~and the States and~~ Each of the States, as far as Fisheries interests were concerned, had conflicting views so you had a situation where they were not unified. All of a sudden we had legislation where they came together. They decided what they really wanted out of the legislation and they had a strong proponent in Congressman Dingle and Dave Finigan, his assistant. The result was that when we got out of the Commerce Committee, we got a lot more fish than we should have. John Dingle is a very forceful, able Congressman and he basically forced some things into that legislation that were essentially things that would kill the Bill.

Q: And yet, was it not left in the hands of the Regional Council to A) propose a Fish Plan and secondly, is it not up to the Bonneville Administrator to decide whether the Fish Plan comports with the other requirements of the Bonneville Power Administration? So, is there not a

final check on something that goes too far in the Bonneville Power Administration?

A: Well, you forget that the Fish Plan impacts more than just Bonneville. It impacts FERC. It is a mandate that FERC, in reviewing its licensing process, take into account the Council's Fish Plan so that if there is some addition or change that the Council believes is necessary to a Mid-Columbia project, it proposes it in its plan and FERC, in reviewing an Amendment to the License or a Request for an Amendment, has to take into account that plan. It doesn't have to adopt it because it is still a Federal body who has its right to make its own determinations, but it has to face those issues in a more formal way than it's had to when the State agencies have gone back before FERC and asked for changes in the license.

Q: Well, I understand that but still it's up to the Bonneville Power Administration to provide the money out of the revenues, the sale of power from the Federal System to finance such a Plan.

A: Not all of the financing is done by the Bonneville Power Administration. If it's a project specific kind of funding like if there's a need for a change in the fish ladders at Rocky Reach Dam, owned by Chelam PUD, Chelam PUD is obligated to pay, <sup>It is true</sup> that unless you're trying to address a non-project specific kind of harm, ~~so the answer is no.~~ No, it's much more far reaching than that. Now, FERC is the ultimate arbitrator of the issue of whether Chelam should <sup>make fisheries improvements</sup> do that. In our case, the Bonneville Power Administration is not the ultimate arbitrator <sup>regarding project changes.</sup> It ends up being the Corps of Engineers or the Bureau of Reclamation who has to decide. Bonneville's

obligation may be to provide some funds but generally speaking, that's the obligation of the entity's who own the projects. As far as operating the river, Bonneville's implications are a lot more in that Bonneville has some control over the ability to run the Dams when fish are going by and what have you and planned reserves and that sort of thing. The Corps and the Bureau are also involved in that process.

END OF TAPE

(WP-SWHW-0247Q)

Larry Hittle - Tape 3

Q: Larry, what was the money deal?

A: Well the money deal was, of course, that the DSIs would pay somewhat higher rates to be in the arrangement, and essentially, the dollars that were involved were translatable, I think, into an amount that didn't exceed \$100,000,000 transfer net over the first five years of the Act. Again, you have to go back and look at the Senate Report and you can do the math, but the transfer was livable as far as the DSIs were concerned assuming a good aluminum market. Now, one of the things that's happened has been that the aluminum market has just gone all to hell. The second thing that's happened is the estimated costs by the privates, which were rather moderate have ended up being quite high and the amount of money that was being transferred between the parties under the initial negotiation of that agreement ended up being horrible, and there was no way that you could keep an economic balance on the kinds of economic numbers that were coming out.

Q: Do you think the kinds of rate arrangements that were made over the last year are justified in view of the higher figures of the investor-owned utilities and in view of the fact that the aluminum market's gone to hell.

A: I can't make a specific comment on the justice of the actual changes <sup>to Average System cost methodology</sup> because I didn't follow them that close. Something had to be done.

Something had to reduce the amount of money transferred or we were going  
to kill off the aluminum industry. <sup>in the Northwest</sup> The aluminum industry wasn't going to  
stay. That would end up raising everybody's rate.

Q: Is it truly the goose that laid the golden egg?

A: It once was. I'm afraid that the economics of our time probably are making it less and less the goose that laid the golden egg. I suspect that the Region is going to be fighting very hard to try and keep that industry viable and there's probably more concessions that are going to have to be made if we want to keep it. Now, whether we keep it or not is another matter.

Q: Well, I've been told by one fellow who was a high-ranking official in the Bonneville Power Administration and a public power man that there has never been a thorough Bonneville study of whether or not it is a benefit, at this time, to continue to have the direct service industries in the Region.

A: Well, obviously, he hasn't been reading the load statistics in the Northwest and in the Southwest or he wouldn't make that comment. Certainly, at the time that the Act was passed, the issue of whether it was worthwhile or not was settled with regard to the economic settlement <sup>provided</sup> ~~in~~ <sup>the</sup> Act, that the publics recognize they had to deal with it and the privates recognize they had to deal with it and the industries that accepted some concession as far as costs are concerned. When you go into a period of severe economic depression as we have and the constraints and the issues

kind of turn over on you, there's a difference in the value of the industry. Instead of the industry being something that people would put up with on a planning base and let them live out another 20 years as against whether or not you need them, has absolutely changed. Now, the Northwest power economy is dependent on a surviving aluminum load, at least through the next 10, 12, 13 years. After that it may be debatable whether they are worth keeping or not, but I don't think that's a determination that any of us have a right to make on our own. It, again, becomes a question of economic viability of the Region. <sup>The aluminum</sup> ~~That~~ industry may or may not be valuable to this Region but it would be stupid for anybody to sit down and foreclose it's existence at the end of 10 or 12 years, ~~and~~ <sup>yet</sup> I suspect that some people <sup>want to</sup> make that kind of judgment. I hear that from some of the Council Members, for instance. I think that they are just plain ignorant if they start making those kinds of determinations <sup>this far</sup> ~~in~~ advance. We don't know where this Northwest economy is going and we have no basis for throwing away viable industry right now. This Region needs diversity.

Q: Well, let me ask you that question in reverse. We had a situation where Earl Gjelde announced little over two years ago, little over three years, it's been a long time now, three years ago anyway, that we were going to sign a contract, that we were prepared to sign a contract with Alumax and there was a hew and cry in this Region that resounded all over the place. We were believed to be in deficit at that time. However, in 1982 we began to use different kind of load forecasting methodology and as a result, the load forecasts have dropped. Now we have surpluses forecast for the next 15 years or so and yet it is my understanding that we have, in our

proposed contract with Alumax, prior to the time they decided not to build, thrown every road block possible in the way to them signing such a contract. Does that make sense?

A: Well, I don't know that the expression that we threw every road block in possible is accurate but, I think, that in view of the time that the Alumax negotiations were going on, that we ~~may be~~ were a little bit lacking <sup>in knowing</sup> ~~in the knowledgeable~~ of what the market was doing, ~~and~~ perhaps, if we had it to do over again, if we could have gotten a firm commitment to start construction of that plant, <sup>from Alumax,</sup> it would have been a major asset to the Region to have that kind of economic commitment. ~~However,~~ if you look at what's happened last couple, three years, there aren't very many people now constructing new aluminum plants anywhere, ~~and~~ <sup>the</sup> economics of the best deal that Bonneville could make are probably less than what could be obtained in say Canada or in Brazil. <sup>So</sup> I doubt that in the end that <sup>BPAs</sup> that process stopped a real investment <sup>in the Alumax plant</sup>. On the other hand, reacting on a timely basis to those kinds of economic signs is something that Bonneville's got to do better.

Q: Let me ask you one last question related to the Regional Power Act. In view of the fact that the Regional Act was predicated on the notion that there was a deficit prospective in the Region for an extended period of time and that the provisions of the Bill were drafted in accordance with that thought and in 1982 that changes and there is now a surplus forecast for the foreseeable future, what would you view the half life of the Regional Power Act to be in the event of those things?

A: I'm not exactly sure I understand half life. I think that something to retain Bonneville's viability in the planning process had to be done and therefore, I tend to believe that the legislation was very necessary even in the face of a situation where we very surplus. I think that times are changing and we're going to have to react to them differently <sup>today.</sup> ~~but we did not have a Regional basis for planning in terms of power planning and I think the utility business itself is changing rapidly and you need some kind of Regional consensus or validation or whatever you want to call it for the changing methodologies of planning, and~~ <sup>at that time.</sup> ~~Certainly Bonneville, without some kind of Regional representation, couldn't do that.~~ Bonneville should be the activists in the process however. Bonneville ought to be the proposer and also the disposer, i.e. it should view its role with the Council as a friendly conspirator to try and come up with better ways of meeting Regional Power loads.

Q: Well, how about the other principal elements? Rate disparity was addressed by the average system cost methodology and the exchange agreement, heavy on conservation renewables and then whatever came after, the Bonneville Purchase Authority. Those things aren't really needed in the face of deficits, are they?

A: Well, I would tend to say that, first of all, you don't have to have a very strong conservation program when you're surplus and resources. If you don't have a load to build for you don't build the resources so logically that should be a push, not a major issue. I think that Peter and Bonneville have done a pretty good job of cutting that program back to sustaining levels and I don't think they're spending dollars that don't

result in some sort of return ultimately. Maybe we're paying a little bit early for a benefit later. The Exchange, I think, ~~it~~ was just a way of synthesizing those DSI loads into the Regional load picture as not being orphans. Now, I think the Council wants to make them <sup>power supply</sup> orphans but I think they're wrong. I think they <sup>may be</sup> ~~are~~ just as viable from an industrial standpoint as Weyerhaeuser or any of the other large electrical users in the Region. So, they should be included <sup>in regional plans</sup> in one way or another and <sup>learning</sup> ~~learn~~ <sup>them as a load</sup> Bonneville <sup>load</sup> was the way that they were included. I think <sup>that's</sup> ~~it's~~ appropriate. They could have been included as customers of the public agencies. I think there would be less usefulness in the way that those load work with the Regional Power System.

Q: Let me change horses and go back to something we discussed in the earlier interview. I've been told that the hydrothermal power program was less of a plan; we always presented in our public relations as a plan, but it was more of an umbrella than a plan. It was merely a way to get a lot of things that other people were doing under one roof and treating it as a plan. How about the first of those plans, Centralia?

A: Well, let's think about what the hydrothermal plan was because I think it was a manifestation of a great personality. Bernie Goldhammer was a very optimistic and very positive kind of person in terms of power planning and working with Regional utilities. He was ebullient. He was a person who could convince people to do good and <sup>act</sup> against their instincts sometimes, so Bernie was a PR man's dream. Bernie would characterize things as plans that were purely Bernie's good sense, and ~~he~~ <sup>he had the</sup> confidence that he could convince people into doing the right thing, and <sup>T</sup> it was that kind of

confederation, a well-led confederation that was evolving in the Northwest with or without a plan. <sup>problems to be solved</sup> The ~~question was~~ the Region had to change over to thermal resources. Bernie wanted to create a more sensical way of doing that. If he could do that through all good fellows getting together and enjoying one another, <sup>that was</sup> he would prefer that, because he didn't like to make people believe he was dominating them from a Federal level even though he had enough clout that he could do that in many cases. The Coordination Agreement was kind of one of those things. But looking at it from that standpoint, the question was what did we come together with. Well, I think a lot of us here at Bonneville believed we were coming up with a plan but, when the planning started, it started without Bonneville in many cases. For instance, the Centralia project was done essentially outside of Bonneville's auspices and without Bonneville being involved <sup>initially</sup> originally. But, Bernie, being the kind of resourceful kind of person he was, looked at the Centralia project and the problems he was having in securing a power supply for CVP from Canada or from some other source that was going to be very low cost and said, "If I can convince Pacific Power & Light Company and Washington Water Power Company to take on some additional partners, public agency partners, and get the to accelerate a two unit project to be constructed almost immediately rather than doing it in stages, then that project has a lot of viability and will look like a Regional project. And so, Bernie went to Pacific Power & Light Company and said, <sup>Laid out a proposition for regional participation that</sup> "You've got to take on some public agency customers and help us <sup>make sense</sup> secure a power supply for ten years for CVP to meet <sup>a political</sup> ~~my~~ obligation to CVP and Bonneville <sup>was</sup> ~~will~~ be willing to take on some of the risk in the early part mainly because we're slipping projects. At that time, Lyndon Johnson's guns and butter program was in deep trouble <sup>fiscally</sup> and Bernie was able

to convert the Centralia project into kind of a <sup>solution for</sup> ~~savior~~ of some of his commitments and also make kind of a Regional project out of Centralia.

But, it was not proposed at part of a formal Hydrothermal Power Program.

It was well under way <sup>before Hydro Thermal was announced,</sup> ~~It was proposed as an individual project way ahead~~  
~~of time~~ Bernie co-opted that into a Regional project and the

Hydrothermal Power Program was coming up about the same time. So, that's how it happened.

Q: How about Trojan?

A: Well, again, by this time, Russ Richmond was having regular JPPC meetings, Joint Power Planning Council meetings, at which time the whole idea of hydrothermal was being discussed in great, grand terms and everybody was aware that Portland General had bought a site up on the Columbia River and was looking at building a plant. <sup>B</sup> But the assumption was that they were holding it in cold storage to react to a more Regional kind of process, ~~and~~

<sup>T</sup> The answer was that they came to those meetings and talked in grand terms about the Hydrothermal Power Program with Russ Richmond but when it came time to announce the project they didn't tell Russ Richmond they just went ahead and announced it. So, Russ Richmond was sitting here with his great, grand scheme and Portland General Electric Company, unbeknownst to him, was announcing that they were going flat out ahead on a new project, which obviously had to be part of Russ Richmond's grand scheme. And that was the way planning was working in those days. Each utility was kind of thinking about getting its own name on its own projects. Every utility was building for essentially the same load growth. Those plants were very large and if Puget <sup>Sound</sup> Power and Light Company, ~~Puget Sound~~, was going to

build a plant of the size that these were considered to be, they had to have some partners and yet they were going ahead and putting their name on plants that they didn't have partners for. Hydrothermal Power Program at least put some semblance of order in finding partners and finding ways to make use of the surplus power generated by somebody else's plant . . . .

Q: How was that the case at Trojan?

A: Well, in the case of Trojan, first of all, you should go back and think about what was going on there in terms of the ultimate partners. The City of Eugene, again, in one of those great coordinated approaches, had put on the ballot in Eugene, a proposal to build its own nuclear plant in the valley. Byron Price, who was then General Manager, had the grand scheme of thinking of himself as the power supplier to Bonneville's Oregon customers once Bonneville ran out of power. That was his scheme. And he was going to build that plant and he had successfully put that ballot measure on and got it passed by the City of Eugene so he had \$215 or \$220 million he could spend on a nuke which was about the estimate of what it would cost to build a nuke. So, Byron said, "I'm going to go out and build me that plant." He, as he did every year, took his people back to the Wall Street and went back and said, "I've got a plan. ~~I've got~~ the voters of Eugene have given me the authority issue \$230 million worth of bonds to construct a nuclear plant and I'd like to finance it. How would you recommend I go about doing it?" Well, they said, "Let's look at your balance sheet, Byron and at your equity and look and see how much you could finance." And they went through and, of course, this was at the same time Centralia and Trojan were going on and they said, "Well Byron, I

think we could probably finance about \$20 million of that. <sup>For</sup> The rest of  
~~it, you don't have enough equity to finance that much, and you can't get~~  
~~contracts that are going to convince us~~ You've got to find some way to  
finance it." Well, Byron, ~~with a big, droopy face~~ <sup>of</sup> comes whipping in to  
see Bernie Goldhammer and he says, "Bernie, I want to build a nuclear  
plant, I've got the authority and everything except I just can't finance  
it." And Bernie says, "I've got a deal for you. You go over and work out  
something with Portland General. They need a partner. They can't finance  
that whole plant on their own load and Bonneville will take the power off  
your hands ~~and~~ you can build yours with Portland General Electric  
participation later and we'll ~~put it as~~ <sup>make it</sup> part of the Hydrothermal Program  
~~and~~ it will work out great and Bonneville will provide the <sup>financial</sup> security that  
will enable you to sell the bonds by entering into these net billing  
arrangement." And Byron says, "Oh, that's great." <sup>Then</sup> ~~and~~ he goes over <sup>to PGE</sup> and  
of course Frank Warren is looking around for a partner ~~and~~ They end up  
working out a deal where Byron finances 30% of Trojan in exchange for  
Portland General Electric agreeing to be a 30% participant in the Eugene  
project, ~~and~~ <sup>Of</sup> course, as that evolved, Eugene got into deep trouble and  
couldn't build their <sup>Eugene</sup> plant because their own voters took away their  
authority to participate in nukes later on, ~~and~~ <sup>ultimately the Hydro-thermal program</sup> that evolved into the WPPSS  
1, 2, 3 kind of scheme.

Q: How about the first WPPSS plant was Washington Public Power Supply System  
Plant #2. How does it come about that the #1 plant is called the #2  
plant? That incidentally, #2 was signed by Russ Richmond.

A: Yes and so was, I think, #1 and #3.

Q: No.

A: Hodel signed those. Anyway, all in the same cooker. First of all, we were getting a lot of indications that the nuclear steam supply system for the Hanford Project, the NPR, needed a lot of work before it would be licensable as a stand-alone nuclear project generating energy. <sup>as had been originally contemplated.</sup> We had ~~all~~ the <sup>Hanford Project</sup> generation financed <sup>by</sup> with bonds that Bonneville backed up, ~~that~~ We wanted to keep <sup>that financing in place. So</sup> on ~~the line~~ and Bonneville did an intensive study of alternatives. Actually, it was WPPSS did the <sup>initial</sup> study looking at what the problems were in trying to license the NPR as a ~~stand-alone~~ <sup>power reactor</sup> facility, ~~and~~ <sup>that progressed</sup> as it went on, Bonneville hired a consultant to evaluate the prospects of licensing the NPR as against building a whole new steam plant to replace the NPR to feed steam into the existing generators of the Hanford project, ~~and~~ The conclusion was that it would be cheaper to build a whole new stand-alone generating plant, break into the steam lines and just ~~throw away~~ <sup>strip</sup> the old NPR ~~on a long term basis.~~ Use the <sup>existing Hanford</sup> generators <sup>in conjunction</sup> up there with a new <sup>steam</sup> generating thermal process <sup>project,</sup> and that was sold as ~~what they called,~~ the N<sup>S</sup>SS Project. The idea was that <sup>The new steam supply</sup> that would be financed under the Hydrothermal Power Program as a new generation <sup>project.</sup> ~~and the reason for that was~~ <sup>project</sup> they were ~~going~~ <sup>planned</sup> to add some topping generation, build a conventional nuclear reactor, feed that steam through what was called a topping turbine which would generate about 400 megawatts of power and <sup>The exhaust steam would</sup> then pick up the existing Hanford generation. That was ~~looked at~~ <sup>project proposed</sup> as being ~~a very~~ <sup>the best</sup> economic choice. When they started ~~looking into~~ <sup>designing</sup> that ~~process more closely,~~ <sup>project and its complicated course</sup> it was ~~determined that~~ <sup>as the project</sup> WPPSS #1, which that was going to be called, ~~had to be~~ <sup>would be better</sup> ~~economic sense if it were~~ built as a stand-alone project separate and apart from the Hanford project. <sup>H</sup> Hence, WPPSS #1 which would have been the first WPPSS plant, the

old generating facilities from Hanford and the new steam supply, ended up being a separate plant from WPPSS-Hanford project, ~~so~~ it no longer was #1  
and because of those kind of delays, it was going to come in later rather than earlier than the WPPSS #2 project, which was the first net build WPPSS project.

Q: How about the other plants, Larry. Plants 1 and 3?

A: First of all, I think that, at Bonneville, there was the thought that having more than one power supplier, <sup>to BPA</sup> would be helpful and there was at least some attempt by Russ Richmond or Don Hodel to try and get additional sponsors on the public side to build steam plants. There was some discussion of a joint operating agency up in the Puget Sound; Seattle, Tacoma, Snohomish PUD <sup>talked of forming a JOA</sup> ~~was looked at~~. Cowlitz and Clark County <sup>PUDs</sup> formed a JOA, ~~and~~ all of them were looking at maybe building their own generation in competition with WPPSS. None of them actually got to the point where they could actually plan a project. Washington Public Power Supply System, because it had picked up a whole bunch of very good people from the <sup>Federal</sup> ~~Government's~~ Hanford project, had a planning staff and a sales staff that was in place and ready to go, ~~and so~~ <sup>because they were more ready</sup> they kind of got the job of building all the public generation by default. Owen Hurd <sup>the first manager</sup> was kind of a promoter. <sup>later</sup> they hired Jack Stein from Grays Harbor PUD. <sup>because the organization was formed by PUDs,</sup> ~~they~~ had a lot of currency within the PUD circles. <sup>WPPSS did</sup> ~~Maybe~~ <sup>here</sup> not as much currency with some of the other public agencies and co-operatives in the Region, <sup>as you would like.</sup> ~~but that formation,~~ they ended up getting all five projects by being aggressively eager to ~~do it~~ and no one else coming up with viable kinds of projects. Remember, we looked at a project that was going to be located on an island ~~out~~ in the Puget Sound

under the Hydrothermal Power Program <sup>to be built</sup> ~~built~~ by Seattle and Snohomish PUD at Kitit Island. They bought the island and had the site and, of course, environmentally, there were <sup>more than a</sup> few people that didn't think it was the right thing to do. <sup>B</sup> ~~But that was all going on and a lot of people said that~~ <sup>The mood of the utilities</sup> they wanted to be the people that <sup>put your</sup> ~~had their name~~ <sup>own</sup> on their plants. The trouble was that the only party that could really come up with a plan and show some ability to finance was WPPSS and so, therefore, WPPSS got most of that planning obligation by kind of a default.

Q: Well, those plants were net billed were they not?

A: Yes, and so would have the plants that would have been built on Kitit Island or the plant that would have been built down in Eugene. All of those would have been net billed. That was the only way we could secure the funds that would be needed to be raised . . . .

Q: Explain to me again how that works, that net billing supported the bonds for those plants?

A: OK, well, essentially it was Bonneville's obligation to divert its revenue to pay the power cost from those plants. That revenue stream becomes the basis for the revenue bond sales that get the construction funds for the plants. Bonneville essentially agrees that it will divert its revenue to the Washington Public Supply System through net billing and the Supply System will have that revenue on a take or pay basis, whether the plant operates or not, to pay the cost of the project, including the debt

service on the bonds. Without that promise, which is secured through kind of complex agreements with the BPA customers, you couldn't sell a WPPSS bond.

Q: How did net billing happen to come to an end?

A: Two things. First of all, it was a very hard process. The parties who had to sign the agreements didn't understand them. The public agencies and co-operatives, for one reason or another, tended to believe that somehow or another, they were making major commitments of their own assets to the process <sup>which</sup> ~~and it~~ just wasn't so. Secondly, the BPA rate increases that were necessary to sustain the financing of those bonds kept being difficult to anticipate, ~~and so you couldn't keep,~~ <sup>OT</sup> there were some promises in the net billing agreements and in the bond resolutions that <sup>BPA</sup> ~~we~~ wouldn't net bill more than 85% of the amounts that we expected to be collecting from the customers who were net billing. ~~OK.~~ <sup>margin</sup> That was hard to maintain. And then, ~~thirdly or secondly,~~ <sup>IRS</sup> I guess, the ~~Treasury Department~~ was ~~pondering a regulation,~~ <sup>IRS</sup> IRS was pondering a regulation regarding sale of tax exempt bonds and the characterization of who was an exempt body for the purposes of determining whether a bond was tax exempt. Originally, the Federal Government and State Governments were <sup>defined</sup> exempt bodies in the preliminary regulation that we started out under under Hydrothermal Program. When they adopted the final regulation, they said State bodies and local bodies <sup>(exempt bodies)</sup> were, but the Federal Government, whether it was Bonneville or the Department of Army or some other agency, was not an exempt body, ~~and~~ therefore, if Bonneville or any other Federal agency

bought more than 25% of the capability and agreed to pay the cost of the bonds through the agreements on a take or pay basis, that those bonds were not exempt bonds and so that was a block.

Q: That ruling affected future . . . but not plants 1 and 3?

A: Initially, it affected 1 through 3. The regulation did not take into account where Hydrothermal Program was. We'd signed the agreements and all of a sudden we had a new regulation that basically excluded use of tax exempt funding for WPPSS 1, 2, and 3 and Trojan and So through Wendell Wyatt and others, we were able to convince IRS that that ruling caught our program right in the middle and the final regulation was re-issued to exempt the Hydrothermal Power Program phase 1. So, those were kept <sup>exempt,</sup> ~~in~~ but <sup>for</sup> any future project Bonneville essentially became the security for the bonds; ~~they~~ couldn't be tax exempt without running some specific kind of test on the regulation, ~~and~~ There was a possibility that you could figure out a way around the regulation.

Q: How did the Supply System go ahead and finance 4 and 5 then without the guarantee of Bonneville Power Administration?

A: Well, first of all they had a track record on WPPSS 1, 2 and 3. They were a viable entity. They were an issuer and they were perceived to be experienced from a market sense. They were successful. It looked like their program was going like gangbusters, <sup>So</sup> initially, the financial community who would have been reticent had Supply System come in initially

with their own project, <sup>as a</sup> big nuke, were now starting to believe the program was working and everything was going well and therefore, they were willing to fund those kinds of projects.

Q: Where was the revenue flow that would support the bond?

A: It was the commitment of the public agencies to buy the capabilities of those projects whether or not <sup>They operated</sup> ~~the~~ ~~ADA~~ participants and <sup>comm. trust</sup> while that was viewed as a lower quality commitment than Bonneville's <sup>commitment</sup>, it still secured them a reasonable bond rating. They got an A or an A+ rating and that was similar to the ratings that the Mid-Columbia <sup>PDPs</sup> ~~projects~~ had gotten for hydro projects.

Q: Well, you're both an engineer and a lawyer and have been familiar with this thing for a long time. If you could tell me why it is that the Washington State Supreme Court could rule the four or five contracts invalid that they had no right to enter into those and the prospects that such a ruling might be forthcoming in the case of 1, 2 and 3 relative to the net billing agreements, why did our Legal Department not know that there was at least a question about those kinds of contracts?

A: Well, first of all, I don't think there's anything certain in the law, Gene, that you may have 90% opinions, you may have 10% opinions but within a realm of certainty you have to accept the fact that different people and different times require different readings of the law. That's number 1. Secondly, you can't discount the fact that the Supreme Court of Washington, <sup>is</sup> ~~is~~ an elected body, and they are asked to kind of second guess

some decisions that were made earlier that they didn't participate in, ~~so~~  
~~so~~, when you start looking at the law and you look <sup>As to</sup> at the <sup>r</sup> interpretation, I  
would say that the Supreme Court was wrong, first of all. I don't think  
that they interpreted their law or took into account the circumstances in  
a way that it was relevant <sup>to the facts.</sup> ~~but I think they are also politically elected~~  
~~and~~ I think judges are not any different than you and I that they look at  
the times. So, ~~the question~~ of whether or not there was a question <sup>here at BPA</sup>  
regarding authority, <sup>is probably not relevant</sup> First of all, Bonneville doesn't hire municipal  
lawyers. It hires lawyers who are going to look at <sup>Bonneville's</sup> ~~governmental~~ authority  
from the standpoint <sup>Federal law.</sup> of Bonneville. Bonneville's amplification of the law  
is different than a municipal lawyer would be. So, I don't expect that we  
would necessarily get down to those kinds of details.

Q: Pretty important details.

A: I agree with <sup>that,</sup> ~~it~~. I agree that it's an important detail. The question was  
whether <sup>The project</sup> ~~it~~ was financible, ~~and~~ <sup>A</sup> after all, the bankers hire lawyers who's  
specialty is municipal law and they make sure that in their own mind they  
are convinced that there is legal authority. They were convinced.  
Certainly, the Council for the Supply System was convinced and Bonneville <sup>lawyers</sup>  
from a reading of the law and listening to those kinds of advise, would  
~~not try and substitute their judgment for lawyers specializing in~~ <sup>municipal</sup>  
say, ~~"What is our opinion comparatively speaking."~~ <sup>law</sup> But, I think we agreed <sup>for the</sup>  
with them. I don't think we disagreed. <sup>state</sup>  
<sup>again</sup>