



## Department of Energy

Bonneville Power Administration  
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EXECUTIVE OFFICE

May 2, 2005

In reply refer to: P-6

TO PACIFIC NORTHWEST CITIZENS:

In this package you will be receiving a "draft" of our closeout report for the Power Function Review. We are providing this in direct response to requests from our customers and stakeholders to provide a draft for review before we issue our final report. This has been a very successful process in which substantial cost reductions have been identified that do not threaten accomplishment of our mission. The Power Function Review will proceed another six weeks into mid-June.

Power Business Line Senior Vice President Paul Norman has provided a summary of the draft closeout in this package. I am adding my own letter because I believe there are some important broad issues for you to consider.

Certainly BPA rates went up substantially following the West Coast energy crisis. I join our customers in wanting BPA power rates for FY 2007-2009 to be below what they are today. We are striving to make that happen. It is important to understand, though, that there are many substantial factors that for good reasons are driving our rates upward from the pre-2002 period.

Our costs are up, in large part due to providing substantially more benefits to the region than in pre-2002. These benefits are for all customer and constituent groups. The following are some of the reasons why our post-2006 power costs will be higher than pre-2002, despite a reduction in direct-service industry load and the fact that BPA is projecting to keep its internal operations costs at the FY 2001 level for the FY 2007-2009 period.

- A public power load increase of approximately 3,000 average megawatts.
- Benefits to investor-owned utility residential and small farm customers that are likely to be over \$300 million a year, compared to \$70 million pre-2002.
- Increases in fish and wildlife program costs, not counting operations costs, of \$120 million a year.
- Conservation program expense that has risen by about \$50 million annually.
- Increased operations, maintenance and debt service costs for the hydro and nuclear plant generating system are up about \$225 million annually, not including fish and wildlife-related expense.
- Some costs that were pushed into the future to keep FY 2002-2006 power rates lower are now coming due. These include the IOU benefits deferral, bond reserve fund free-ups that pulled cash forward into the FY 2002-2006 period reducing income in later years, and borrowing to pay Columbia Generating Station capital costs.

Against the backdrop of increased costs, we also have other key factors to consider. We face significantly greater risks now than we have previously. Our reserves are projected to be at the lowest level ever for entering a rate case. And, we continue to face tremendous market volatility. We have depleted the \$325 million Fish Cost Contingency Fund, so that it no longer exists as a backstop in low-water years. These risks must be accounted for in our rates if we are to ensure stability and reliability for the region. There are a variety of ways to manage these risks with a wide range of impacts on rates. These options will be discussed in the coming months.

As we complete the Power Function Review and move into the rate case, we will have some very important decisions to make there and in other forums, and I urge your active involvement. There are a number of public policy choices and trade offs to make that will have a significant impact on our region both in the near and long term.

I hope you will participate in these discussions, and I ask you to come to them with open minds, realistic expectations and, I sincerely hope, creative ideas and guidance. We do not know what the final power rate for the FY 2007-2009 period will be at this time. I can assure you there is no predetermination. The rate decision will be informed by the discussions to come. But do know that we at BPA are committed to managing our costs stringently and to keeping rates as low as possible, consistent with sound business principles and fulfilling all the parts of our mission.

Finally, I want to thank all of you who have participated in the Power Function Review. Your effort has truly informed and enhanced our decision-making process. I also want to say that we have sincerely appreciated the recommendations we've gotten in managing our power costs and becoming more efficient. I believe we have made very tangible and significant strides in this area.

Sincerely,

/s/ Stephen J. Wright

Stephen J. Wright  
Administrator & Chief Executive Officer

Enclosures:

[Paul Norman May 2, 2005 Letter](#)

[Draft Closeout Report: BPA's Proposed Changes to PFR Base Costs](#)