

STATEMENT OF
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UNITED STATES DEPARTMENT OF ENERGY

BEFORE THE SUBCOMMITTEE ON WATER AND POWER
COMMITTEE ON NATURAL RESOURCES
UNITED STATES HOUSE OF REPRESENTATIVES

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Madam Chairwoman and Members of the Subcommittee, I appreciate the opportunity to testify here today. My name is Steve Wright; I am the Administrator of the Bonneville Power Administration (Bonneville). I am pleased to be here today to discuss the President's Fiscal Year (FY) 2008 Budget as it relates to Bonneville.

In my testimony today, I will share with the Committee Bonneville's significant successes over the past year, the challenges we are facing, and an overview of the FY 2008 budget and its proposals. Also, I would like to give you an update from last year's hearing on our actions implementing the Energy Policy Act of 2005 (EPACT).

BONNEVILLE'S RECENT SUCCESSES

FY 2006 was a great year for Bonneville. After several years of sustained effort, we have now recovered from the financial effects of the 2000-2001 West Coast power crisis that caused us to have losses of more than \$700 million and raise our rates 45 percent. FY 2006 was the first in the past seven years that the Northwest experienced normal water conditions, which fueled our hydro generation and, along with years of cost management efforts, enabled us to rebuild our financial health. We continued to make substantial investments in the region's transmission, generation, energy efficiency, and fish and wildlife restoration.

Bonneville produced modified net revenues of \$445 million in FY 2006, bringing our financial reserves back to healthy levels. We reduced our power rates for the fourth straight year following the huge increase, without drawing down our reserves while achieving our highest Treasury Payment Probability since we established that metric. We continued to pay our debt to the U.S. Treasury in full and on time for the 23rd straight year; and made advance payments of more than \$300 million last year alone through our debt optimization program.

Additionally, Bonneville and Energy Northwest refinanced \$842 million in Energy Northwest nuclear plant bonds in 2006, saving ratepayers about \$53 million in the current rate period. All three major bond rating agencies affirmed their high bond rating for these transactions. Customer, constituent, and tribal satisfaction indices are at their highest levels in 10 years. Organizational efficiency efforts are helping us realize added cost reductions.

KEY CHALLENGES FOR 2007

With Bonneville's current costs under control and financial health restored, we are focused on the future. We are working collaboratively with our customers, Northwest states, tribes and interested citizens to clarify Bonneville's future role in the Northwest power system.

Defining Bonneville's long-term power role is extremely important to the ongoing health of the Pacific Northwest economy and the ability of the region's utilities to provide

adequate power. In 2006, Bonneville released a comprehensive proposal to define its electrical power supply role in the Pacific Northwest after 2011, when its current power sales contracts expire. This will lead to new contracts that would give Northwest parties the certainty they need about their responsibilities for meeting load growth after 2011.

The proposal, referred to as the Regional Dialogue proposal, grew out of five years of discussions with the region's utilities and other stakeholders. The increased certainty from implementing this proposal will reduce risk to Bonneville ratepayers and to taxpayers by reducing Bonneville's need to acquire added generating resources. The proposal includes a substantial change in Bonneville's business model from a single "blended" rate to tiered rates. A higher tier 2 rate tied to the marginal cost of resource acquisition would help meet Bonneville's goal of encouraging infrastructure development in the region. The policy encourages utilities to begin exploring alternative sources of energy they choose not to receive from Bonneville. The concept of tiered rates has received general support among regional parties, but some transition issues are difficult. Completion of the Long-term Regional Dialogue Policy is a key challenge for us this year; we expect to issue the policy this spring.

Bonneville remains committed to funding its share of the region's efforts to recover Columbia River Basin fish and wildlife listed under the Endangered Species Act (ESA). We are working in collaboration with Northwest states, tribes, and other Federal agencies to resolve issues raised under the court-ordered remand of the Federal Columbia River Power System (FCRPS) Biological Opinion (BiOp). While we have reached agreement on 2007 FCRPS operations for fish passage, significant uncertainty remains about long-term hydro operation requirements for fish. The next six months will be key to reaching settlement of the issues. We are working with the states and tribes in the remand collaboration to reach a 10-year agreement on fish measures and FCRPS operations for fish.

The prospect of breaching the four lower Snake River dams has been raised again by certain stakeholders. However, we do not believe that this is a reasonable nor viable alternative for fish recovery efforts. The U.S. Army Corps of Engineers (Corps) spent seven years on a multi-million dollar study concerning Snake River dam removal. The final environmental impact statement (EIS), released in 2002, concluded that fish mitigation efforts should continue with the dams in place.

The independent peer-reviewed Corps study evaluated four alternatives to help Snake River fall chinook get through the dams. It found that by itself dam breaching would not recover the fish, would take the longest time to benefit ESA-listed fish species, and would be the most uncertain to implement. The Corp's EIS estimated costs of \$271 million annually to replace the lost hydroelectric power. With today's high power costs, the range is more likely \$400 million to \$500 million every year. Additionally, only four of the 13 ESA-listed fish species in the Columbia River Basin pass through the Snake River.

We believe we can achieve salmon recovery without dam breaching and are working to achieve agreement among the states, tribes, and Federal agencies working on the FCRPS BiOP remand collaboration.

With respect to internal operations, Bonneville is continuing efforts to improve internal systems and processes as part of a multi-year, agency-wide efficiency program. This efficiency program already has led to consolidation and centralization of several key agency functions and streamlined business processes. We are working to complete the nine key projects in our efficiency program.

BONNEVILLE'S BUDGET INITIATIVES

The FY 2008 budget includes a provision for Bonneville, beginning in FY 2008, to pre-pay its bond debt to the U.S. Treasury if and to the extent that Bonneville's annual net secondary revenues exceed \$500 million. This action will help to provide Bonneville with needed financial flexibility to meet its future energy investment needs, including critical transmission capacity.

Unlike the Administration's FY 2007 Budget, this year's budget does not assume immediate implementation of the net secondary revenues proposal. Instead, the budget explicitly encourages a dialogue in the Pacific Northwest to address how the proposal could be structured to improve Bonneville's ability to meet its long-term capital investments needs with minimal rate impact. These discussions, some of which have occurred, will address a desire to balance the basic goal of the net secondary proposal to increase Bonneville's access to capital, with the ability of Bonneville to use its borrowing authority should its financial fortunes wane, such as in bad water years, and also mechanisms for assuring durability of any agreements around the implementation of this proposal, if and when such agreements are reached.

Net secondary revenues (net of transmission and short-term power purchase costs) are derived from the sale of surplus power both inside and outside the Pacific Northwest. This is power generation from the FCRPS that, under critical water assumptions, is over and above that needed for sales under long-term firm power sales contracts. Net secondary revenues can be significant, but are highly variable depending on water current availability and market prices.

By prepaying a portion of its U.S. Treasury debt, Bonneville would delay the date by which it would reach its U.S. Treasury borrowing authority limit of \$4.45 billion outstanding at any one time, thus helping Bonneville fund needed power and transmission infrastructure investment. If this proposal is not implemented, the budget projects Bonneville will reach its U.S. Treasury borrowing cap in 2012. However, if the proposal is implemented and combined with other debt management tools, Bonneville likely would not reach its borrowing authority cap until 2016.

Unlike the FY 2007 Budget, the Administration FY 2008 Budget no longer proposes a Financial Transparency and Accountability Act for Bonneville. This legislation would have counted Bonneville's use of third-party financing (and certain other transactions) against Bonneville's existing cap on U.S. Treasury borrowing. As discussed in this year's budget, Bonneville will move forward promptly with third-party financing opportunities in 2007. The use of third-party financing alternatives reduces Bonneville's use of statutorily limited borrowing from the U.S. Treasury and further defers the expected date on which Bonneville will reach its U.S. Treasury borrowing authority cap. Third-party financing will be used primarily for transmission system investments.

FY 2008 BUDGET OVERVIEW

Bonneville is in sound financial condition and is well positioned for the future. Bonneville's FY 2008 budget proposes Bonneville accrued expenditures of \$2,608 million for operating expenses, \$77 million for Projects Funded in Advance, and \$538 million for capital investments.

Bonneville's commitment to fish and wildlife mitigation and enhancement is exemplified in its substantial direct program budget of \$179 million, capital and expense.

Bonneville's Full Time Equivalent (FTE) staffing projection included in this budget is 3,000 for FY 2008. Bonneville's cost management initiatives have brought FTE levels down from prior levels, which had increased as we ramped up our infrastructure expansion program. Our combined Bonneville FTE and contractor staff have declined nine percent since 2002.

Bonneville's budget reflects that the Spectrum Relocation Fund (SRF), established in the U.S. Treasury to facilitate the relocation of federal radio communication systems, will provide Bonneville with full budget authority and cash to cover the cost of relocating Bonneville's 1710-1755 megahertz radio communication systems. The funds are expected to be provided through a non-expenditure transfer from the SRF. The estimated Bonneville cost of this relocation is \$48.6 million. When the funds are transferred to Bonneville, Bonneville will begin working on the relocation activities. Bonneville expects that this work will be completed in FY 2013.

The following table provides budget data based on current services for FYs 2006 through 2008:

	(accrued expenditures in thousands of dollars)					
	FY	2006	FY	2007	FY	2008
Capital Investments						
Power Services		176,033		201,000		213,000
Transmission Services		138,474		226,821		278,059
Capital Equipment & Bond Premium		17,671		32,785		47,421
Total, Capital Investments		332,178		460,606		538,480
Accrued expenditures will require budget obligations of		332,178		460,606		538,480
Operating Expenses		2,523,739		2,779,011		2,608,506
Projects Funded in Advance		47,917		138,883		77,494
Capital Transfers (cash)		696,919		386,541		686,068
BPA Net Outlays		(917,000)		(9,000)		(93,000)
BPA Staffing (FTE)		2,923		3,000		3,000

The accompanying notes are an integral part of this table.

Budget estimates included in this budget are subject to change due to rapidly changing economic and institutional conditions in the evolving competitive electric utility industry.

Bonneville’s program is treated as mandatory and nondiscretionary. As such, Bonneville is “self-financed” by the ratepayers of the Pacific Northwest and is not annually appropriated by Congress. Thus, the part-year and full-year FY 2007 continuing resolution do not impact program funding during the year except where new requested bill language was not provided. Under the Transmission System Act, Bonneville funds the expense portion of its budget and repays the Federal investment with revenues from electric power and transmission rates.

Proposed FY 2008 appropriation language providing for approval for construction of new fishery facilities as authorized by the Pacific Northwest Electric Power Planning Act for new fish and wildlife facilities of \$1 million and an economic life greater than 15 years (PL 96-501, Sec.4(H)(10)(B)), includes those projects proposed for approval in FY 2007 and other projects proposed for approval in FY 2008.

Net Outlay estimates are based on current cost savings to date and anticipated cash management goals. They are expected to follow anticipated management decisions throughout the rate period that, along with actual market conditions will impact revenues and expenses. Actual Net Outlays are volatile and are reported in SF-133. Estimated Net Outlay estimates could change due to changing market conditions, streamflow variability, and continuing restructuring of the electric industry.

Revenues, included in the Net Outlay formulation, are calculated consistent with cash management goals and assume a combination of adjustments. Assumed adjustments include the use of a combination of tools, including upcoming rate adjustment mechanisms, a net revenue risk adjustment, debt service refinancing

strategies and/or short-term financial tools to manage net revenues and cash. Some of these potential tools will reduce costs rather than generate revenue, causing the same Net Outlay result. Adjustments for depreciation and 4(h)(10)(C) are also assumed.

Amortization/Capital Transfer estimates in this budget, based on existing rate case plans and estimated amortization for future rate case periods, are adjusted to reflect, beginning in FY 2008, advance amortization payments dependent on an equivalent amount of anticipated debt optimization refinancing of Energy Northwest obligations in FY 2008 and assumed net secondary revenues over \$500 million consistent with the President's budget. These Amortization/Capital Transfer estimates may change due to revised capital investment plans, actual U.S. Treasury borrowing, and other variables that may affect the opportunity for advanced amortization payments. Amounts of such estimated payments to the U.S. Treasury vary from associated net secondary revenues and debt optimization amounts due to timing of U.S. Treasury payments and other factors. Actual net secondary revenues and debt optimization effects would vary due to volatility of secondary power markets, streamflow variability, volatility of financial markets affecting Energy Northwest debt optimization, and other uncertainties. The cumulative amount of actual advance amortization payments as of the end of FY 2006 is \$1,802 million.

FTE outyear data are estimates and may change.

ENERGY POLICY ACT OF 2005 IMPLEMENTATION

Bonneville is implementing key aspects of EPACT 2005, particularly regarding Section 1211, which deals with transmission reliability. Bonneville is also actively involved in the broader issues of implementing the reliability provisions of the EPACT within the Western Interconnection and nationally. Bonneville has been working with its utility customers and the Western Electricity Coordinating Council to help develop a comprehensive and consistent approach to registering Northwest utility functions with the North American Electric Reliability Corporation. This is an extremely complex undertaking and managing this transition remains a high priority.

We are also pleased with the progress made last year in realizing the long-held goal of improved, regionally-coordinated transmission planning. In 2006, Northwest utilities, including Bonneville, launched a Northwest transmission organization, ColumbiaGrid, to improve the operational efficiency, reliability, and planned expansion of the Northwest transmission grid.

CONCLUSION

In conclusion, I am pleased to say that after several years of sustained effort, we have now recovered from the financial effects of the 2000-2001 West Coast power crisis. Bonneville is well positioned as it looks forward.

Thank you. I would be pleased to answer any questions that you may have.