



Highlights of [GAO-04-694](#), a report to the Subcommittee on Energy and Water Development, Committee on Appropriations, House of Representatives

## Why GAO Did This Study

The Bonneville Power Administration (BPA) has experienced significant financial problems in recent years. BPA's cash reserves at the end of fiscal year 2002 had fallen to \$188 million, and BPA estimated in February 2003 that it had a 74 percent chance of missing its Treasury debt payment that year. While BPA's finances have recently improved, and the agency made its Treasury payment in 2003, BPA's financial condition is still far from robust. In this context, GAO was asked to report on (1) the advantages and disadvantages BPA faces in marketing electric power in a more competitive environment, (2) the major causes of BPA's recent cost increases, and (3) the extent to which BPA is taking actions to control its costs.

## What GAO Recommends

GAO recommends that BPA

- reduce its future risk of being overcommitted by (1) limiting the amount of power that BPA sells at its lowest cost-based rate and (2) charging incremental rates for any power sold beyond this amount that reflect BPA's cost of acquiring that power, and
- identify specific activities, resources, and time frames for implementing its risk management initiatives.

BPA generally agreed with this report's findings and recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-04-694](http://www.gao.gov/cgi-bin/getrpt?GAO-04-694).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jim Wells at (202) 512-3841 or [wellsj@gao.gov](mailto:wellsj@gao.gov).

# BONNEVILLE POWER ADMINISTRATION

## Better Management of BPA's Obligation to Provide Power Is Needed to Control Future Costs

### What GAO Found

BPA has advantages that have typically enabled it to sell electric power to its customers—primarily public utilities—at lower prices than other sellers in the Pacific Northwest. Most importantly, BPA sells power produced by the federal power system, which includes 31 hydroelectric dams that generally have lower costs as compared with other power sources. However, BPA also has disadvantages that potentially increase its costs. Specifically, BPA is required by law to meet the demands of utilities in the region, even if those demands exceed the production capacity of the federal power system. This open-ended requirement has at times required BPA to purchase additional power at relatively high prices. BPA has other costly obligations as well, including providing financial benefits to investor-owned utilities and protecting fish and wildlife that increase its costs relative to competing sources of electricity.

BPA's open-ended obligation to provide power to the region is the major cause of its recent cost increases. This obligation led to cost increases as BPA purchased large amounts of relatively expensive power to meet rising demand. BPA's rate structure also contributed to increased demand and increased costs, because it did not reflect BPA's incremental costs of acquiring additional power and therefore did not give customers adequate incentives to conserve or seek power from alternative sources. In addition, drought and other factors have also increased BPA's costs in recent years.

BPA has not resolved problems associated with its open-ended obligation to be the net provider of wholesale electricity in the region—the major cause of its recent cost increases. BPA officials intend to resolve this problem by seeking agreement with BPA's customers to limit its commitment to provide power. BPA proposes to establish the amount of power each customer is able to buy at its lowest cost-based rate and is considering charging incremental rates for any power it sells beyond this amount. However, BPA has not clearly defined the limits for its commitments or how it would implement incremental rates. Whether this approach ultimately will be adopted is also unclear; BPA had similar plans in the late 1990s but did not implement them because of pressure from customers to serve more demand. In the meantime, BPA has taken positive steps to centralize its risk management process to better control costs. However, BPA's plan outlining its new approach does not contain some key elements to successful implementation, including details on specific activities, resources, and time frames needed to implement the plan.