

March 7, 2003

PNGC-EWEB-PRM SUGGESTIONS
FOR ADDRESSING BPA'S FINANCIAL SITUATION

PNGC Power and its fifteen Members, Eugene Water & Electric Board, Public Utility District #1 of Franklin County, Public Utility District #1 of Benton County, and Public Utility District #1 of Grays Harbor County are working with the other BPA customers on ways to reduce all BPA rates including the need for BPA to implement an SN CRAC. To that end we have developed a set of principles that outline our views on the direction BPA should take. We wish to emphasize that we agree with many of the talking points in the customer-sponsored paper transmitted to BPA on March 5, 2003. However, we depart from those talking points as set forth below.

We believe that BPA should adhere to the following principles:

- BPA should not invoke the SN CRAC; to do so will have significant detrimental effects on the Northwest economy.
- The need for and scale of any SN CRAC must be reviewed and a §7(i) process conducted on a yearly basis. There should be no multi-year triggers if an SN CRAC is necessary.
- BPA must work to reduce all of its rates, including the currently applicable LB, FB CRACs and the Slice true-up.
- BPA must invoke substantial additional cost cuts and endeavor to go below FY 2001 actual cost levels.
- BPA should adhere to the principles and intended uses of the LB, FB, and SN CRACs in the existing GRSPs and must not shift or commingle costs and benefits among the LB, FB, SN CRACs or Slice True-up.
- There should be no cost shifts among customers.
- Limit the use of Energy Northwest (ENW) funds to a special reserve approach.

1. We believe that BPA's goal in the impending SN CRAC proceeding should be to conclude that ***no rate increase is necessary*** on October 1, 2003. However, if this goal cannot be achieved, every possible effort consistent with responsible fiscal management and the existing GRSPs must be made to minimize the increase.

2. We strongly oppose the approach suggested in the March 5 paper for treating the savings that result from the deferral or elimination of the "litigation penalty" since that approach would shift costs and benefits between the LB CRAC and SN CRAC in direct conflict with the GRSPs. We recognize that current discussions aimed at resolving the pending litigation regarding IOU benefits will aid in a resolution of issues such that BPA's obligation to pay certain investor-owned utilities \$200 million during the remainder of this rate period will be eliminated. Assuming an overall settlement of this issue is achieved, this will reduce BPA's costs by a commensurate amount and lower rates to all BPA customers through a reduction of the LB CRAC. Although this is not an issue in the current SN CRAC proceeding, we strongly

encourage BPA and the other parties to resolve the outstanding issues that will make these savings possible.

3. In addition to the cost reductions identified in the March 5 discussion paper, BPA should immediately take aggressive steps to reduce its costs to below 2001 levels. No areas should exempt from this cost cutting effort but BPA should make special efforts during this period of financial crisis to obtain greater efficiencies in the following areas: conservation, fish and wildlife (both direct program expenditures and reduction of spill), and additional reductions in Corps, Bureau and Energy Northwest expenses.