



Bonneville Power Administration
PO Box 3621
Portland, OR 97208



Northwest Power Planning Council
851 SW 6th Avenue, Suite 1100
Portland, OR 97204-1248

June 19, 2002

Dear Interested Party:

The Northwest Power Planning Council (Council) and the Bonneville Power Administration (BPA) want to engage the region in a discussion of how BPA will market the power and distribute the costs and benefits of the Federal Columbia River Power System (FCRPS) in the Pacific Northwest after 2006. Many important issues need to be part of this discussion, such as long-term access to cost-based Federal power by public and investor-owned utilities (IOUs) and direct-service industries (DSIs) in the region, and BPA's future role in resource development. Your input is important *now* because these regional power customers have asked for clarity about their BPA power supply after 2006 so they can plan more effectively for the future. Accordingly, BPA and the Council are seeking your advice on the development of a creative and sustainable approach to the sale of power from the FCRPS, while ensuring that BPA continues to provide long-term benefits to the Pacific Northwest. At this point, all options are open, from major modifications to how BPA currently sells power, to smaller adjustments to the existing power sales contracts.

A group of utility customers has been working on some of these issues over the past several months, and has developed its preferred approach to these issues. However, BPA and the Council want and need to consider a wider set of perspectives when making decisions or recommendations on such policy questions. Therefore, we are inviting broad public participation in this discussion.

This letter initiates a regional public process to determine the best way to market the power of the FCRPS after 2006. BPA and the Council invite you to submit comments and/or proposals regarding the relevant issues. In addition, BPA and the Council will sponsor public meetings in the region where you will be able to ask questions and offer comments. These meetings will provide opportunities to learn about proposals, express ideas, and suggest issues for BPA to consider as it develops its own draft proposal for the region's consideration. BPA anticipates a more formal public process this winter to discuss its draft proposal, which will be followed with a decision most likely in 2003. The Council will also form its recommendations to the region. We will notify you about the schedule for these meetings as soon as it is available.

If you wish your proposal or comment to be discussed at the public meetings, please send it to BPA at the address below by September 12, 2002. A series of public meetings will follow, with the comment period and meetings concluding on October 18, 2002.

e-mail: comment@bpa.gov
FAX: 503-230-3285

Mail: Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Thank you for taking the time to provide us with your thoughts regarding these important regional issues.

Sincerely,

Stephen J. Wright
Administrator and Chief Executive Officer
Bonneville Power Administration

Frank L. Cassidy, Jr.
Chairman
Northwest Power Planning Council

Enclosure



Fact Sheet on the Regional Dialogue

Why consider these issues now when 2006 is still four years away?

We see four important reasons to initiate these discussions now.

1. The direct-service industries (DSIs) in the region only have a five-year commitment for power from BPA. They have asked for certainty regarding their sources of power after 2006 so that they can make investment decisions regarding their plants. These companies see their access to cost-based federal power as an important economic factor in operating these plants.
2. A proposal for marketing the power from the FCRPS and modifying BPA's role has been developed by a group of the region's public and private utilities to try to settle a lawsuit that challenges the Residential Exchange Settlement Agreement that provides benefits to the residential and small farm customers of the region's investor-owned utilities (IOUs). It is important that any settlement of this nature fits into the region's long-term vision of BPA's role. Note that BPA must decide the relative amounts of power or financial benefits that the IOUs will receive under their existing subscription settlement agreements.
3. Some utilities and independent power producers wish to make decisions soon regarding investments in existing and new power plants, which could require capital funding. This capital is needed to ensure that the region has the necessary power supply to support a healthy economy. However, capital often can be difficult to secure without clear evidence of future customers and the ability to reach them. These entities would like an understanding of what power supply role BPA will play in the wholesale marketplace after 2006.
4. If Bonneville must supply power for loads greater than the capability of the existing

federal system after 2006, it will need to begin making arrangements for augmenting the federal system soon.

What topics should comments and/or proposals address?

The fundamental question that any proposal needs to address is how it preserves and enhances the value of the FCRPS for the Pacific Northwest. This is the first principle of the five principles that BPA has established, which are listed in the next section. While a broad range of ideas and comments will be considered, BPA and the Council invite you to focus on the following questions regarding how BPA should market its power after 2006. Proposals are welcome to address as few or as many of these questions as you see are in need of changes from the current subscription contracts or policies. For more information regarding BPA's subscription contracts, please visit its Web site at <http://www.bpa.gov/Power/Subscription>.

- Should DSIs receive cost-based power from BPA after 2006? If so, how much?
- Should the residential and small farm customers of regional IOUs receive Federal power, or only financial benefits, to satisfy the residential exchange provisions of the Northwest Power Act? If so, at what levels?
- What provisions should be made for service to newly formed public utilities?
- Should steps be taken to minimize the additional loads that BPA would have to serve in order to limit the amount of resources that BPA would need to acquire?
- If BPA does need to acquire new resources, should BPA do so by buying power in the market or by purchasing it directly from developers of new resources?
- Should power from the existing Federal system be sold among BPA's regional

customers, with customers themselves meeting their additional power needs? If so, how should the power be sold?

- If BPA does acquire resources, as it has for the current five-year rate period, how should its power be priced? Should BPA continue to meld all the costs of its power together into one rate? Or, should BPA adopt a “tiered rate” system whereby power produced by the existing federal system would continue to be sold at its cost while additional power purchased in the market or directly from developers would be sold at those market or project-based prices?
- What kinds of power products should BPA offer its customers?
- What flexibility should utilities have regarding the use of the Federal power that they purchase from BPA?

How will these proposals be evaluated?

While it is important to consider your proposal or comments on the value of the FCRPS, it is also important to understand how your proposal meets the five principles that BPA established when approached several months ago by customers on these subjects.

BPA considers the following five principles to be crucial for the successful management of benefits from the FCRPS. Therefore, they will be among the most important factors used in evaluating proposals and comments. The five principles are as follows: 1) preserve or enhance all the long-term and diverse benefits of the FCRPS for the region; 2) policy outcomes must be enduring under a range of political and economic conditions; 3) there should be no additional risks for U.S. taxpayers and the Federal Treasury; 4) approaches or policy options should not require legislative changes and should minimize legal risks; and 5) there should be clarity regarding BPA's load obligations after 2006.

In addition, proposals should be consistent with BPA's organic statutes and legal obligations, including its responsibilities for conservation, renewable resources, and fish and wildlife, BPA's responsibility to make its payments to the

Treasury on time and in full, and BPA's responsibility to maintain the reliability of the PNW power grid.

What are the opportunities for public involvement?

This letter announces the first phase of a public process regarding BPA's future power supply role in the context of preserving and enhancing the benefits of the FCRPS. This first step is a comment period during which you are encouraged to offer a proposal or provide comments regarding the issues presented here.

BPA and the Council will then sponsor meetings in the region where interested parties and individuals can exchange ideas, ask questions, and provide comments regarding the various proposals, as well as on related issues. Proposals and comments received by September 12, 2002 will be shared and discussed at a series of public meetings that will conclude just prior to the close of comment on October 18, 2002. You will receive notice of the dates and locations of these meetings as soon as they are determined. Please send your comments and proposals to BPA at the following address.

e-mail:

comment@bpa.gov

FAX:

503-230-3285

Mail:

Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

After the conclusion of this initial comment period, BPA and the Council will resume their respective and independent responsibilities regarding these issues. BPA will use the proposals and comments to develop a draft policy proposal to be presented to the region for public comment in preparation for a Final Policy and Administrator's Record of Decision. The Council will conduct its own independent analysis and make recommendations to BPA and the region.

Thank you for your interest.