

RECEIVED BY BPA ADMINISTRATOR'S OFC-LOG #: 05.0085
RECEIPT DATE: 6.3.05
DUE DATE: 6.17.05



Washington
Public
Utility
Districts
Association

May 27, 2005

Mr. Stephen J. Wright
Administrator and Chief Executive Officer
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

ASSIGN: John Lebens-PSW-6
cc: FO3, DC/Wash, P-6, PS-6, PF-6, PT-5, PL-6

Re: Status of Long-Term Allocation and Cost Control

Dear Steve,

On March 19, 2004, the Washington Public Utility Districts Association (WPUDA) adopted a position paper supporting a long-term allocation of the capability of the federal base system (FBS) to preference customers. This position paper clearly indicated that preference customers would not support such a long-term allocation – and it could not be successfully implemented – in the absence of:

- **Cost control** that provides customers with an effective and meaningful role;
- **Governance reform** that provides BPA with institutional incentives to control costs; and
- **Contract enforceability** through binding dispute resolution before an objective third party.

Progress has been made on the implementation details of a long-term allocation of the FBS, and potential resolutions to the contract enforceability issue have emerged. However, there has not been comparable progress made on providing customers with an effective and meaningful role in BPA cost decisions, or in providing Bonneville with institutional incentives to control costs. The importance of resolving these issues cannot be overstated.

Under the proposed long-term, take-or-pay allocation contracts, preference customers will provide BPA a guaranteed revenue stream for 20 years. They will also relieve Bonneville of its statutory obligation to acquire new resources, and the political controversy that comes with such activities. Given these long-term commitments the preference customers will be making to Bonneville, BPA needs to provide these customers with a meaningful role in the decisions that will determine the costs they will pay.

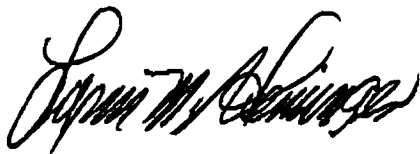
To date, BPA has not offered its preference customers a meaningful role in its cost decisions commensurate with the payment commitment being made by these customers. While Bonneville has offered to provide more financial information and transparency regarding its cost decisions, this is not significantly different from the Power Function Review process BPA is currently conducting. Under this approach, Bonneville's preference customers are just one of many "constituents and stakeholders" offering advice to Bonneville. This does not constitute a meaningful and effective role in Bonneville's cost decisions for those paying the bills.

To provide preference customers with a meaningful and effective role in Bonneville's cost decision, the following is required:

- Establishing a group that is broadly representative of customer interests, that will remain active during the contract term, and that will have ongoing access to Bonneville financial information;
- Providing the group with access to the Administrator and senior Bonneville managers, and charging the group and Bonneville with the task of reaching consensus (under a facilitator's direction) on major policy decisions that will impact costs;
- Charging the group and Bonneville with the task of reaching consensus (under a facilitator's direction) on program levels to be used in Bonneville power rate cases; and
- Imposing a nonjudicial consequence for failure to reach consensus on program levels, such as making program levels a contested matter in the power rate case.

These are matters that can and should be successfully resolved. The benefits of long-term allocation are great and should not be jeopardized by failure to resolve the cost-control and contract-enforcement issues. Representatives of the WPUDA are ready to meet with you at your convenience to discuss and resolve these issues.

Yours truly,



Lynn Heminger, president



Steve Johnson, executive director

cc. Congressional delegation