Kuehn,Ginny - DM

From: dairyboy42@aol.com
Sent: Thursday, April 28, 2005 10:52 AM
To: BPA Public Involvement
Subject: Comment on Power Function Review

PFR-030
APR 29 2005

Comment on **Power Function Review**
View open comment periods on http://www.bpa.gov/comment

Michael A. Zylstra
Dairy Farmer/ Sustainable Developer
dairyboy42@aol.com
360-892-6443
9604 SE 6th Street
Vancouver WA 98664

Dear Sirs, I would recommend that you raise your rates 40% imediately. The reason for this is twofold. I see the need for fiscal responsibility within the BPA and the need to promote more renewable energy programs. It would seem to me that in doing this we could pay off the debt within the BPA instead of always having to go and increase the debt limits, and with the cost of some of these scientific programs being instituted, we could easily pay for those programs as well with this kind of internal BPA rate. I'd rather pay a higher raw rate as it were compared to a higher retail rate. Michael

PFR-C31
APR 2 9 2[illegible]

Kuehn,Ginny - DM

From: Margie Harris [margie@energytrust.org]
Sent: Thursday, April 28, 2005 5:50 PM
To: BPA Public Involvement
Cc: Ed Sheets; Peter West; Nancy Klass
Subject: Renewable Resources Power Function Review Comments

Greetings,

Attached, please find a memorandum providing Energy Trust comments on the proposed BPA Power Function Review for renewable resources. I would appreciate you providing them to the appropriate parties.

Thank you.

Margie Harris

Margie Harris
Executive Director
Energy Trust of Oregon, Inc.
PLEASE NOTE OUR NEW ADDRESS:
851 SW Sixth Avenue, Suite 1200
Portland, Oregon 97204
Direct telephone: 503.445.7605
General telephone: 503.493.8888
Mobile phone: 503.312.8186
Fax: 503.546.6862
margie@energytrust.org
www.energytrust.org

Energy Trust of Oregon, Inc.
733 SW Oak Street, Suite 200
Portland, Oregon 97205

Telephone 503 493-8888
Facsimile 503 546-6862
www.energytrust.org

EnergyTrust of Oregon, Inc.

MEMO

Date:	April 28, 2005 - via Email; hard copy to follow
To:	Steve Wright, Administrator and CEO Bonneville Power Administration - via email
From:	Margie Harris, Executive Director
Subject:	Power Function Review on Renewable Resource Programs

Dear Mr. Wright:

I am writing to provide comments on Bonneville's Power Function Review process. The Energy Trust is interested in pursuing partnerships with others in the region to promote the development of renewable resources.

Background: the Energy Trust of Oregon, Inc. is a non-profit corporation established by the State of Oregon to implement conservation and renewable resource programs under Oregon's electric restructuring legislation (SB 1149). As a result, the Energy Trust receives a portion (74%) of the three percent public purposes funding from Oregon customers of Portland General Electric and PacifiCorp.

Public purposes revenues generate approximately $10 million per year invested by the Energy Trust to pay the above market costs for renewable resources to benefit PGE and PacifiCorp customers. While this funding is significant, the Energy Trust relies upon leveraged partnerships with others to ultimately achieve our renewable energy goals.

The ambitious strategic plan goal adopted by the Energy Trust is to secure ten percent of Oregon's electric energy supplies from renewable resources by 2012. To meet this goal, Oregon will need 450 average megawatts; about 45 megawatts per year. The Energy Trust is working with others to achieve this goal. Even at today's costs, this target will be difficult to achieve with available funding and we are eager to work with others to reduce the above market costs of renewable resources.

To date, the Energy Trust has participated in the development of renewable projects that equate to 47 average megawatts. Experience has shown us that there are important economies of scale for many renewable resource projects. For example, increasing the number of turbines at a wind project can significantly reduce the unit costs of power.

We understand that the Bonneville Power Administration is planning on approximately $6 million per year for renewable resources under the conservation and renewables discount program and that it may also provide up to $15 million for FY 2007 through FY 2009 to facilitate renewable resource development.

Energy Trust of Oregon Comments

The Northwest Power and Conservation Council Goal: The Northwest Power and Conservation Council set a goal to acquire all cost effective renewable resources and at least 100 average megawatts of wind energy per year in its Fifth Northwest Conservation and Electric Power Plan. Clearly, the region will need to work together to meet this goal. If Oregon is successful in meeting its goal, we would achieve about 45 percent of the annual regional goal. For Oregon and the region to be successful, we need to bring the costs of renewable resources down by increasing economies of scale, opening new resource areas, and reducing the costs of delivering renewable resources that are shaped to meet utility needs. BPA can play a critical role in transmission and integration, promoting promising technologies, resource monitoring and facilitating partnerships for new renewable resource development.

BPA Wind Integration Services: The Energy Trust appreciates Bonneville's innovative program to integrate wind energy into utility systems. We expect this to be an important element in future wind development in the region.

Mutual Fund Concept: The Renewable Resources Focus Group has developed a very promising proposal where Bonneville would facilitate the efforts of its customers to develop new renewable resources and sell the output in the wholesale electricity market. In the future, these resources could be used to serve the load growth of the participating customers. If load growth is placed on Bonneville, these resources could be acquired as a cost-effective way to meet such future bilateral obligations.

This proposal is especially interesting to the Energy Trust because it may provide significant opportunities for partnerships that could increase the size of a wind project and reduce the costs. Such partnerships could benefit Bonneville, your utility customers, and the customers of PGE and PacifiCorp in Oregon.

Transmission upgrades: Strategically targeted upgrades of the BPA transmission system would open up the development of promising wind sites in the Pacific Northwest. This would provide additional opportunities for partnerships on wind projects.

Energy Trust Funding: The Energy Trust can fund the above market costs for renewable resources that benefit PGE and PacifiCorp customers. In our above market methodology, we work to ensure that the developers and utilities also use all of the other funding programs and tax credits available. We want to stretch our limited funds to acquire as many renewable resources as possible. We look forward to working with Bonneville and its utility customers to explore how our efforts could fit with public utility renewable resource development to provide benefits for all of the consumers that we serve.

Distributed Generation: The Energy Trust is interested in exploring opportunities to develop renewable resources as an alternative to future transmission and distribution upgrades. We note that Bonneville's Round Table has done pioneering work on this issue. There may be opportunities for partnerships on these related projects. In particular, we look forward to easing the current BPA barriers to working with your customer utilities to develop community wind and projects.

The Energy Trust appreciates this opportunity to comment on Bonneville's renewable resource programs. We applaud your leadership in promoting renewable resources and would welcome opportunities for partnerships that would provide additional and mutual benefits.

Sincerely,

Margie Harris
Executive Director

PFR-032
MAY 09 2005

Bonneville Power Administration
Power Function Review Regional Meeting
April 19, 2005

Red Lion, Idaho Falls, Idaho
Approximate Attendance: 3

[The handouts for this meeting are available at: www.bpa.gov/power/review.]

Introduction

Paul Norman (BPA) explained that BPA is on the verge of setting rates and is having the Power Function Review (PFR) meetings to help establish the costs that will go into new rates. When we set rates, we also look at loads; credits, which are primarily revenues from surplus sales; and how to manage risks – all of these decisions are made in the formal rate case, he said.

Costs, however, are not decided in the rate case and are historically determined outside that process, Norman said. The question for us in the PFR is, "how low can costs be and still allow us to meet our various responsibilities," he stated. We are asking our customers and ourselves this question in the PFR, Norman said. We want customers and others to understand our costs and to tell us what they think, he said.

Norman went over a 10-year rate history, noting that "rates jumped way up in 2002." They have come down a little, and we don't know yet what they will be for 2006, he said. The focus of the PFR is costs that will go into rates for the 2007-2009 period, Norman explained. We've been having discussions about costs for four months, and on May 2, we will put out a draft closeout letter proposing cost levels for the rate case, he said. We will take comments on the proposal until May 20, and final decisions on costs will be released in mid-June, Norman said. We're discussing costs now, and we will look at credits, risks, and loads later in the year in preparation for the rate case, he said.

In simple terms, we come up with our power rate by taking our costs, minus credits, plus risk, and divide by our loads, Michelle Manary (BPA) said, explaining the formula displayed in the meeting packet. The bar chart (p. 5) is a stack of our costs, she said. In the PFR, we are going through each of these areas of cost, Manary said. On May 2, we will put out our proposal on costs for the rate case; the numbers you see here will change in the proposal – some will decrease and some may increase, she explained. Manary pointed out that the second bar on the chart represents BPA's fixed debt, which is 39 percent of the total expenses.

Assuming we could forecast perfectly, we have calculated that our costs would result in a rate of about $28 per megawatt-hour (MWh), she continued. But we have risk to deal with in setting rates, Manary stated. Our hydro generation can vary by the equivalent of two nuclear plants, she said. We can't ignore this risk, and we are asking in the PFR how we can mitigate it, Manary said.

If we went with a fixed flat rate that incorporated risk, we'd have to be at the top of the range on our graph, about $36 per MWh, she went on. But we know that is unacceptable, and we are looking at ways to get that figure down, Manary stated.

You have done a lot in the past few years to cut your costs, and I wonder "how much wiggle room" you have left, Don Bowden (City of Albion) commented. And on top of that you are having a low water year, he said.

Our projected costs have been coming down in the PFR process – I don't know how much they will come down in our May 2 proposal, but they will come down, Norman said. If customers want to take on some of the risk of the swings in our revenue, the rate could come down a lot, he stated. We are aiming "to cut costs and manage risk smarter," Norman said. We will update hydro conditions and forecasts before we go into the rate case, Manary added.

People have asked us since we will no longer have the system augmentation costs we have in the current rate period, why rates can't come back down closer to where they were in 2001, Manary said. The answer is that we are doing a lot more than we were doing in 2001, she explained. She listed significant increases that have occurred since then, including IOU benefit increases, F&W program costs, larger public utility load, O&M and debt service increases, and the conservation and renewables discount. The latter is small, but it makes a difference, Manary said. These cost increases are partly offset by other things – reduction in aluminum loads and higher market prices for our surplus power – but the increases far outweigh the offsets, she explained.

Manary also said BPA's risk has increased. She noted that the IOU residential exchange settlement has changed and that a long-term surplus sale, which brought in a rate higher than the agency's preference power rate, will be expiring. Even with augmentation going away, costs are going up, Manary stated. A table in the appendix of the meeting packet (p. A-11) shows the difference between our costs now and those projected for the next rate period, she said. Bowden pointed out that BPA pushed some costs forward when it refinanced its debt.

In the PFR, we have been going through out costs "line item by line item" and have compiled a list of changes that have been suggested, Manary said. A number of the items on the list are reductions, and we plan to make many of these, Norman said. The reductions we make won't be trivial compared with the costs we came into this process with, he added.

The question we are asking is, "are we spending the right amount – getting the biggest bang for the buck – and still meeting our mission," Manary said. On May 2, we will put out our proposal, there will be three weeks of comment followed by a closeout in mid-June on the budgets that will go into the rate case, she reiterated.

Linda Milan (City of Idaho Falls) asked about the reduction listed in the renewables program area. Manary explained that it relates to a geothermal project. We are in arbitration with the developer of the project, and we could assume that at the earliest it will come online in 2008 or we could push the expense out of the rate period entirely, she said. Our position in the arbitration is that our purchase contract should be terminated because the developer did not prove out the geothermal source by the date specified in the agreement, Norman clarified.

My worry with cutbacks in extraordinary maintenance is that you reduce the budget number, but that doesn't change the reality about what needs to be done, Milan said. Manary explained that there are some very expensive extraordinary maintenance items at the hydro projects that cannot be capitalized because they are not items that extend the life of the plant. They are expensive repairs, but they are not depreciable like other capital items, Larry King (BPA) pointed out.

My concern is that we have a constrained transmission system all over the region, and if we don't have sufficient generation, we have to go outside for purchases, Bowden said. If you have to buy power outside the region because something on a generator gives out, you have created unpredictability due to transmission and market rates, he indicated. If you push these projects to the point that things start going out of commission, you could set up a bad situation, Bowden cautioned. "It increases the unknowns," he added.

Norman explained that the O&M figures for the Corps of Engineers and Columbia Generating Station (CGS) show big increases. "We are looking hard at these categories," he said. The expenses have gone up a lot, and people are saying there has to be a way to bring them down, Norman stated. Energy Northwest was proposing a $69 million annual increase for CGS O&M in the next rate period, but they are now saying they can bring that number down by $23 million, he said. We are also hoping to gain 300 to 400 MW by increasing generating efficiency in the hydro system, Norman stated. He noted that security costs at the generating plants are going up.

Bowden asked about the increase in IOU benefits. In 2001, BPA bought back the power benefits that were going to IOU customers and used the power to serve other load, Manary explained. In the new rate period, the benefits will go to the IOUs as dollars, she said. From 1997 to 2001, we paid about $84 million annually for IOU residential exchange benefits, Norman said. But in the next rate period, the benefits are geared to the market price of power and could be as low as $123 million or as high as $323 million, he said. When we set the rates, we will know the IOU benefit amount for 2007, but not for 2008 or 2009, Manary added.

When you have a constrained transmission system, where is there room for competition? Bowden asked. And I don't see how an independent system operator is going to benefit the Northwest – it seems like it will increase costs, he said. The Northwest economy was built on low power rates, Bowden pointed out. We don't know where the priorities will be if we get a new centralized entity operating the system, he said. I'm not sure we will find a good balance, Bowden said. No one is building new transmission, and if a new entity takes over, it will take a while to get that moving, he said. I hope there is a transition plan to make sure this works – we are a small player compared to California, and "we could get stomped," Bowden stated.

There is still activity going on to set up a regional transmission organization called GridWest, Norman responded. But your worry about the transition is noted, he said.

The meeting adjourned at 6:30 p.m.

PFR - 033
MAY 0 9 20..

Bonneville Power Administration
Power Function Review Regional Meeting
April 21, 2005

WinGate Inn, Missoula, Montana
Approximate Attendance: 25

[The handouts for this meeting are available at: www.bpa.gov/power/review.]

Introduction

Paul Norman (BPA) opened the meeting by explaining that BPA is looking toward the process of setting its rates for 2007-2009. We are here to talk about the costs that will go into those rates, he said. Costs are key to rate setting, but we don't address them in the rate case – we establish them ahead of time, Norman said. We want to hear from those for whom these costs make a difference, he said. The question for us in the Power Function Review (PFR) is, how low can we get our costs and still do what we have to do – how do we carry things out "without spending a nickel more than is necessary," Norman stated.

We have been at this since January, and this is the fourth of five regional meetings, he went on. On May 2, we will put out a draft letter proposing what to do with costs for the rate case, and we'll take comments until May 20, Norman said. We'll put out a final letter in mid June, telling people the cost levels we will take into the rate case, he said.

The costs we propose could go down from where we started in the PFR, but I don't know by how much, Norman said. Customer input makes a difference, and it's good for us and for other agencies to hear from you, he added.

Norman went over the 10-year rate history and pointed out that rates jumped from 2001 to 2002, when BPA augmented its resources to serve load. Rates came down a little, but not much, he said. BPA's power rate is cost based, but other things matter too, he said. Credits, particularly secondary revenues, are an important ingredient in rates, and so is risk, Norman pointed out. We determine credits, loads, and risk in the rate case, but risk is such "a big deal" for us now that we have started talking about it in the PFR, he said.

The PFR is looking at all of the costs that go into rates, Michelle Manary (BPA) explained. The bar chart in the meeting packet (p. 5) stacks our costs, which add up to $2.5 billion to $2.7 billion, she said. In the PFR, we are going through each category, and we are asking, is this the least we can spend and still fulfill our mission, Manary said.

We took all of our costs and subtracted a ballpark estimate of secondary revenues and came up with an average cost in the next rate period of $28 per megawatt-hour (MWh), she continued. If our assumptions about costs, credits, and loads were perfect this is where we would be, Manary said.

But there is a range of risk to consider, she said. Hydro production and market price are the biggest variables we face – this is what we have to deal with in risk, Manary stated.

If we deal with the risk by setting a fixed rate, our rate would be up around $36 per MWh, she continued, but "we know that's too high." The way we design the rate can make it possible to vary with the revenues, Manary explained.

As much as we disliked the cost recovery adjustment clauses (CRACs), if that's how we have to take on the risk, I'd rather see that than have BPA build up a big reserve, Ken Sugden (Flathead Electric) said. You are less likely to watch your spending if you have a big fund built up, he said. Any of us would, Sugden added. It's also "an attractive nuisance" to non-customers and other stakeholders looking to BPA for funds, he said.

We are asked why rates aren't going down since we won't have the augmentation costs we've had in this rate period, Manary said. It's because we are doing a lot more for our customers and constituents in 2007-2009, she stated. Manary went over a list of reasons costs are going higher, including IOU benefits, F&W program costs, increased public utility load, O&M and debt service increases, and conservation and renewables discount.

Ric Brown (Ravalli County Electric) asked about BPA's flexibility in terms of serving public load if it does not have enough resources. We are referring here to load we have already contracted to serve, and we will have it for the remainder of the contract period, Norman answered. But what about a new public forming, like PGE? Brown asked. We said in our short-term Regional Dialogue decision that a new public would have to have a contract with us by June 2005 to get service at the current preference (PF) rate, Norman replied. We would have to serve a new public, but we could charge it for resources we have to go acquire, he stated. Through 2009, that would be the case, Norman added.

Why are the IOU benefits so variable? Greg Jergeson (Montana PSC) asked. The benefits in the next rate period will be based on a formula that relates to the market price of power, Manary responded. Every year we look at the market and base the benefits on the difference between the market and the PF rate, she explained. The benefits have a floor of $100 million and are capped at $300 million, Manary said. The market has been so high, we think we will be at the high end of the range, Norman commented.

We are also seeing an increase in hydro O&M for the Corps of Engineers and Bureau of Reclamation and in our debt service expense, Manary said. We are looking to see if we can get those costs down, she said. The conservation and renewables discount is another item increasing our costs – it's small, but we didn't have it in 2001-2006, Manary pointed out. We have some offsets to our expenses, including reduced aluminum load and higher market prices, but the offsets are not nearly as much as the increases, she stated.

Have you made a decision on the DSIs? Ralph Goode (Mission Valley) asked. No, we haven't, but we do have a $40 million "placeholder" in the budget, Manary responded.

We are facing more risk than ever before, she continued. We're seeing high natural gas prices and a wide range of market-price fluctuation, Manary explained. But wouldn't your secondary revenue be higher with high market prices? Mark Stauffer (NWE) asked. Yes, that's true, Manary said. Whatever we choose for the secondary revenue credit can offset costs, and we can choose a high or a conservative number, she said.

I note that you have risk associated with wind, and you said it's about $10 million annually, said Bill Drummond (Western MT G&T). How much average energy does that risk relate to? he asked. It's about 60-70 aMW, Larry Kitchen (BPA) said. "If the wind doesn't blow, we don't pay for the resource," Norman said. But you may have to replace the resource, if it doesn't happen, Drummond pointed out. There is a huge discussion going on about the wind resource in Montana, and I'm trying to understand the risk associated with it, he explained. Our $10 million estimate is a ballpark – we need to get a more firm number for that, Norman said.

Our packet contains a list of things we have heard so far, Manary said. We've listed the suggested changes according to program areas, and if we took them all, it adds up to about $90 million to $100 million in reductions, she said. This is everything people have suggested so far, and we will be considering all of the suggestions we receive and putting out a draft closeout letter May 2, Manary wrapped up.

I'd second the suggestion that you remove the geothermal project from rates, Drummond said. The developer is in breach of contract, there are transmission problems associated with the project, and "it's horribly expensive," he said. Get rid of it, Drummond advised.

Norman explained that BPA is in binding arbitration over the project. We don't think we owe the developer anything further, but the arbitrator will decide, he said.

The Columbia Generating Station is an example of how a process like this works, Norman said. We worked with the Sounding Board, which was a broad group of customers and public interests, to look at costs, he said. The board prepared a report that said Energy Northwest (EN) needed to tighten up on cost management, Norman said. Since then, EN has taken a very aggressive look at costs and come up with a $23 million annual O&M reduction, he reported. That was due in part to this public process, according to Norman. EN had to come before the customers and make a pitch on its budget – it's is the single largest reduction we've seen, and "we'll count it," he said.

I'd like to compliment your staff on taking a very open approach to addressing risk, Drummond said. He asked for an explanation of what is happening with the Treasury payment probability (TPP). Is it increasing or is the figure a product of a three-year versus a five-year rate period? he asked. The standard came from the 95 percent TPP for a two-year period that we set 10 years ago, Norman said. We relaxed the standard in the last rate case, and now we are talking about returning to that historic standard, he said.

Is it the increase in the TPP, up from where we are now, that is making the rate higher? Brown asked. Yes, Norman responded. If we didn't have to worry about risk, we'd have a sizable rate decrease, but the TPP is holding the rate higher, he explained.

Sugden asked why BPA decided to return to the old TPP standard. In the 1990s, we went through a process to set the standard, and we told the bond rating agencies and OMB where we would set it, Norman responded. We backed off this standard in the current rate period to avoid even greater rate increases. But if we don't return to the established TPP standard it will send a signal about BPA's commitment that will hurt our bond rating. It also seems like the wrong time to look like we are relaxing the standard in light of the Administration's view of cost-based rates, Norman pointed out. There are a wide variety of ways to meet the standard that have lower rate impacts and this is what we should focus on, he said.

We went into this process with a $2.7 billion cost estimate, and "we will be whittling that down in a non-trivial way," Norman stated.

Goode asked about One BPA, the exploration of consolidating some PBL and TBL functions. Do you think you will have a solid number by June? he asked. We're now undergoing an internal review to finds ways to bring costs down, Norman said. We might not know much by June, but when rates are set next year, we will have a better handle on what this will bring us in terms of internal cost reductions, he said.

Looking at the range of rate options to incorporate risk, you go from a flat rate with a large risk premium to CRACs, Stauffer said. Slice customers essentially self-insure their risk, he said. How about letting other customers self-insure? Stauffer asked. If you can't pay Treasury, the customer could write a check for its share, he suggested.

We are open to those types of ideas, Norman replied. Adding eight or nine mills for risk onto the rate is "a non-starter," and we have to look at alternatives, he said. But there is a limit to what customers want to risk, Norman added.

The risk premium is a big hurdle for getting to 20-year contracts, Stauffer stated. When customers see that hurdle, it doesn't help with getting to the longer contracts, he said.

Your risk is biggest in the first year, Drummond pointed out. To the degree you can address the problem in that year, it would be best, he said. Yes, we agree – why build costs into the later years if we don't need to, Norman replied.

Doug Grob (Flathead Electric) asked if the risk management options build BPA reserves. We are estimating that we will end 2006 with $180 million in reserves, Manary responded. Our TPP model is really concerned about getting us over the hurdle in 2007, so it tells us what we need in terms of revenue to get to the standard, she explained. According to the model, if we had $1.2 billion in reserves, we would not need to plan any revenue for risk, Manary said. "We are in a different world now in terms of how wide the swings in secondary revenue can be," Norman added.

The meeting adjourned at 6 p.m.

MAY 0 9 2...

Bonneville Power Administration
Power Function Review Regional Meeting
April 26, 2005

Airport Ramada Inn, Spokane, Washington
Approximate Attendance: 15

[The handouts for this meeting are available at: www.bpa.gov/power/review.]

Introduction

Paul Norman (BPA) opened the meeting, explaining that it was the fifth of five regional public meetings for the Power Function Review (PFR). Since January, we have been holding meetings and talking about our costs for purposes of setting BPA's power rates, he said. The question for us in the PFR is, how low can all of the costs that go into rates be, consistent with our mission, Norman explained. We have been working on that question internally, and we want to hear from others with an interest in our costs, he said.

We have already made substantial progress in bringing costs down for the next rate period, and on Monday, May 2, we will put out a draft letter that says, these are the costs we intend to take into the rate case, Norman continued. We will take comment on that draft thru May 20 when the PFR comment period closes, and will then issue a final decision in mid June on what the costs will be, going into the rate case, he said.

Norman went over a 10-year BPA rate history, noting that rates jumped about 50 percent in 2002, and "then came down a little." But generally, they have stayed about the same, he said. Like all of our customers, we would like to see rates going down, according to Norman. The question of costs is not decided in the rate case itself – we make decisions about our costs outside the rate case process, he explained.

Norman described the major elements that go into ratemaking, pointing out that credits and risk are decided in the rate case. We have made the discussion of risk part of the PFR, but we will take it up again in the rate case, he said, where a decision will be made. Loads, which we don't expect to be a big issue this time, will also be part of the rate case, Norman said. The equation on the bottom of the Rates Overview page in the handout is the basic formula for how we set our rate, he summed up.

Michelle Manary (BPA) explained a chart of BPA's basic costs, which are forecast to be $2.5 billion to $2.7 billion in the next rate period. The items in this stack tie directly to the line items on BPA's financial statement, she said.

We have heard from participants in the PFR that it is hard to see only one component of our rates – costs – and not have the whole picture to consider, Manary said. In order to provide a bigger picture, we took the $2.5 billion to $2.7 billion in costs and subtracted an estimate of our secondary sales revenue, she explained. We came up with a PF rate of $28 per megawatt, Manary said. But this is just "a snapshot" of our costs, loads, and revenues – it was a look at "how big is the bread basket" when we talk about our rate, she added.

If we consider just a traditional flat rate, we would have to add about $530 million to our costs in order to cover risk, Manary continued. That would put us at a rate of about $36 per MW, she said. But so much depends on the rate structure – we can bring that number down considerably by having cost adjustment mechanisms in our rate, Manary explained. There will be a lot more discussion in the rate case about how to bring the rate figure down, she said, adding that the forecasts of costs, loads, and revenues will be updated as part of the rate case.

Another question we hear is, since BPA will no longer have the augmentation costs it now has, why aren't rates coming down in the next rate period to their 1997-2001 level, she said. "The landscape has changed a lot since then," and we are doing a lot more for our customers than we were before, Manary said. She listed IOU benefits, fish and wildlife (F&W) spending, more public utility load, increased O&M and debt service, and the conservation and renewables discount as items that are keeping costs higher. We had a decrease in aluminum load and there is a higher market price for our secondary sales, but these offsets are far less than the increase in costs, Manary said.

Could you expand on the $120 million increase in F&W costs, Joe Peone (Colville Tribes) requested. The F&W costs cover things like the facilities at the dams for fish passage, and we are repaying the Congressional appropriations that financed them, Manary said. In addition, the Direct (Integrated) F&W Program costs have risen $40 million per year, she said. The debt service obligations have also risen – as we borrow and add debt, the layers of costs keep stacking up, Manary explained.

Our overall costs are coming down, but not by as much as the augmentation costs that we will no longer have, she continued. The increase in IOU residential exchange benefits, higher public utility load, higher O&M and debt costs, and the expiration of a long-term surplus sale, which brought in more revenue that an equivalent PF sale, account for the greatest share of the cost increases, Manary indicated. Our total costs are going down, but not to 1997-2001 levels, she said.

A key thing for our rates in the next rate period is risk, Manary said. We are facing volatile risk, and that will be a big topic in the rate case, she said.

We listed the things we have heard so far in the PFR about our costs – we've had comments about all areas of the program, Manary said. We have also kept a scorecard going through the PFR that documents the ideas we've hard and the dollar impacts they would have, she explained. One example of those comments is in the area of renewables, Manary pointed out. The start date on the Fourmile Hill geothermal project is slipping, so we decided to assume that cost would be pushed out into the future beyond 2007, she said. We are in arbitration over the plant, so its future is uncertain, Manary added.

We will probably know the outcome of the arbitration before final rates are set, but not before we make our initial rate proposal, Norman elaborated.

We also heard through various cost-control forums that the Columbia Generation Station (CGS) costs were increasing too much, Manary said. As a result, the plant's owner, Energy Northwest, undertook a benchmarking exercise and determined that it could bring its costs down, she said. That number isn't final yet, but it's good enough that we will factor it into our rate case estimates, Manary explained.

Charlie Weber (Energy Industries) asked for an explanation of the suggestion about crediting the conservation that utilities do "on their own nickel." BPA has a conservation target to meet in the next rate period, and this suggestion is that if our utility customers spend money and achieve conservation, BPA should get credit toward meeting its target, Manary explained. The estimate of what that would save BPA is $14 million, but the number is tentative since information about this has not been tracked well, she added.

We have not decided to do all of the things on the list, but they were suggested, Norman said. What we put out in our draft letter on Monday will be like the items in this list – they will be cost reductions we think we should incorporate when we set rates, he said.

Why is there so much increase in risk? W. Ron Baker (NCCAC) asked. The higher the market price of electricity, the bigger swings we see in our revenues, Manary explained. When you sell a huge amount of power, like BPA does, the swings in inventory and price cause a wide variation in revenues, and that increases our risk, she said. Also, going into the next rate period, we forecast that we will have very little money in the bank, which means "very little risk cushion," Manary said. The computer model we use says we have to have more money in rates to cover risk, she said.

Will BPA absorb increases in its F&W overhead? Stacy Horton (NPCC) asked. We have heard that suggestion, and it is still under discussion, Norman responded. We are looking at it, he said.

Could you explain the costs associated with the Snake River fall chinook transportation study? Fred Rettenmund (Inland Power) asked. The Biological Opinion calls for testing the effects of barging the fish versus using spill at the collector projects to help them migrate in-river, Manary responded. We saw that this test was not included in our original cost runs, so we added it in, she said.

Studies are now showing that some fish aren't migrating out of the reservoirs in the first year – they are going out as older fish, Peone pointed out. Does this impact the study? he asked. It does complicate the study and makes it harder to determine the actual effects, Norman responded.

What are the suggestions on the Integrated F&W Program level? Peone asked. We are hearing a wide variety of comments, some suggesting more and some less money, Manary said.

Baker asked about the Spokane settlement. The government made a settlement with the Colville Tribes for the impact of Grand Coulee, and the Spokane Tribe filed a similar lawsuit, Norman responded. Since we don't have a settlement yet, it was suggested we remove from costs any estimate of the associated payment, he said. Since we don't know what will happen and so far have no obligation, some think we should leave this figure out, Norman explained.

Stephen Boorman (City of Bonners Ferry) asked about the operations costs for F&W, and Manary pointed to p. A-37 in the handout and the numbers on the chart.

Is BPA buying wind power? Baker asked. Yes, Manary said, and referred to p. A-22 in the handout, which details BPA's renewables purchases.

Public Comments

Randy Gregg, Benton County PUD, complimented BPA on its management of the PFR. He told BPA that a 27-mill rate is crucial for the economy – BPA rates are a big part of the economy here, he said. I would encourage you to use "conditional budgeting," in which you would have a basic budget and a list of things you could do if revenues are better than expected, Gregg said.

He urged BPA to allow utility-sponsored and naturally occurring conservation to count against the BPA target. I'm skeptical of the Council targets for conservation – they are too high, Gregg added. BPA should proceed with terminating Fourmile Hill, he said.

Gregg called the overhead expense on the corporate side of BPA "staggering." Major reductions are needed in areas under the corporate function, including IT, where at least $10 million could be cut, he said. Corporate costs have taken a huge jump from 2001 levels and have gone too high, Gregg stated. He recommended that costs of BPA's industry restructuring effort should be reallocated, with 10 percent going to PBL and the rest to TBL, which receives the primary value. Greg suggested cutting back on the Technology Confirmation/Information budget and increasing funds if revenues improve.

BPA should amortize ConAug measures and Integrated F&W Program measures over their useful life, Gregg said, and should debt finance Energy Northwest capital and fuel costs. I'm encouraged by the reductions in CGS O&M and support the effort to seek a new operating license for the plant, he stated. The Corps of Engineers and Bureau of Reclamation costs are "tough ones," Gregg said. These costs cover maintaining the hydro system, but it seems there could be more efficiency, he said. We'll depend on you to look for ways to improve efficiency there, Gregg added.

The $1.6 billion in Columbia River Fish Mitigation (CRFM) costs is "a shocker," and I've got to believe there are efficiencies that could be found, he continued. With regard to the Lower Snake River Compensation Plan hatcheries, we'd recommend budgeting at the O&M-only level, as well as going with the low case budget for the Integrated F&W

Program, Gregg said. Put additional expense in the conditional category, he advised. Gregg recommended BPA work to delay or terminate the fall chinook transportation versus spill study. There has to be a smarter way to view this, he said.

As for risk, we're very concerned about the amount it could add to rates, Gregg stated. The reductions I've outlined would get you below 27 mills, he said. I'd urge you to look at the program cost risk separate from the hydro risk – "set a program budget and live with it," Gregg advised. He suggested minimal planned net revenue for risk to cover the hydro market price risk. If we want to get to the 27-mill rate, we have to share the risk, Gregg acknowledged. Benton PUD would favor some type of cost recovery adjustment clause (CRAC), he said. Gregg recommended the CRAC be based on "the way things turn out" – actuals rather than forecasts.

He also advised BPA to delay increasing its liquidity reserve; to use the agency's total reserves, not just PBL, in its modeling; and to keep the Treasury payment probability at 80 percent for the first year of the next rate period. And go out and get a line of credit, Gregg said. The goal is 27 mills, he wrapped up.

Fred Rettenmund, Inland Power, said the PFR has been a high-quality effort by BPA. PFR could be part of the cost-control package for customers, he added. About 90 percent of Inland's customers are residential, with some commercial and irrigation customers. Rettenmund said. The utility signed a presubscription contract and currently has a power rate of about 22 mills – there is a real sensitivity here about where rates will go, he said. The economy over here is fragile, and the impact of a rate increase would be very real, Rettenmund said. Fifty percent of the utility's costs are BPA power purchases, and that percent could go higher if rates increase by much, he pointed out.

With regard to conservation, Rettenmund said Inland likes the broad program structure with the rate credit and bilateral contracts, and "you have done the right thing" by lowering the costs to acquire conservation and aiming to get the megawatts for less. We are concerned about the measures that will be acceptable and whether they will be appropriate for our largely residential utility, he said. Conservation can put upward pressure on rates, and you could have customers seeing the increase without an opportunity to participate in programs, Rettenmund pointed out. That could be a problem, and it's a sensitivity we have, he added.

With regard to decrementing, we did not see the quality assessment that was needed, Rettenmund continued. "We saw lots of emotion," but not enough analysis – only BPA has the capability to do the analysis that is needed, and we would encourage you to do that, he said. Renewables are going in the right direction with the facilitation role, Rettenmund said, adding that Inland also questions continuing the Fourmile Hill project.

As for F&W costs, we are fully supportive of increasing fish returns, but we want the money spent in the best way possible, he went on. We have costs of $692 million annually, and there must be a way to get more for what we are spending, Rettenmund said. He said the appointment of Greg Delwiche to head up F&W was a good move and brings the right discipline to the area. The F&W expenditures represent "a complex, multiagency effort," but since BPA pays the bills, there has to be more sense of ownership in what is going on, Rettenmund said. He advised BPA management to be more visible in decisions about F&W spending.

The $1.6 billion CRFM project has been "a sleeper," and it came as a surprise to many that $300 million in studies was yet to be booked to BPA, Rettenmund said. You need more involvement with whoever is making the spending decisions so there won't be surprises, he said. Rettenmund cited an April 2004 report from the Independent Scientific Review Panel, which faulted the CRFM for its lack of clear decision points at which the scientific value of its proposals could be evaluated. Since there is a significant amount of money – $700 million to $800 million – yet to be spent, there is an opportunity for some action to allow greater scientific review, he said.

Rettenmund praised the effort to shift F&W funds from research, monitoring, and evaluation to on-the-ground work, and he urged a fresh look at hatchery functions. He said BPA should revisit its depreciation and amortization schedules – Corps and Reclamation hatcheries are amortized over 50 years, while hatcheries funded through the Integrated F&W Program are amortized over 15 years. We'd ask you to take a fresh look at that, Rettenmund stated. He urged BPA to save money by diverting funds away from the "unnecessary" study of Snake River fall chinook transportation versus in-river migration.

For risk, we don't favor the option of setting a really high rate, and we don't favor BPA having no reserves, Rettenmund said. We are leaning toward some revenue for risk with a tightly crafted adjustment clause for the variation in hydro conditions and market prices, he wrapped up.

Joe Peone, Colville Tribes, described the Colville reservation and noted there are four utilities that serve power to the area. Three of those utilities rely on BPA, so your rate has a lot of impact on communities within the reservation, he stated. We have to make sound decisions on F&W spending, but we also have to oversee the resources wisely, Peone said. We understand about the need for efficiency in projects and having them pass scientific scrutiny – we do a lot of planning to make sure that is the case, he indicated, adding that implementation of subbasin plans is on the tribes' mind.

People seemed to think that the CRACs in the last rate case were the result of increases in F&W spending, Peone said. That was not the case, and we urge you to be more transparent about where those costs are coming from if there are CRACs in the next rate case, he wrapped up.

There is a shortage of focus on the customers, **Stephen Boorman, City of Bonners Ferry,** said. Your rates have a big impact on our city – if BPA increases rates 10 percent, it means a 5 percent increase for our customers, he pointed out. Don't forget about the end-use customers – we are working on their behalf, Boorman said.

We will be taking all of your comments and everything else we have heard in the PFR and putting together a proposal for our costs, Norman summarized. The proposal will be posted on our website Monday, May 2nd, he said.

The meeting adjourned at 6 p.m.

DFR-035

MAY 1 1 2005

Asgharian,Maryam A - T

From: Burbank,Nita M - PL

Sent: Wednesday, May 11, 2005 12:41 PM

To: Asgharian,Maryam A - T

Subject: FW: Power Function Review

From: Carol Visker [mailto:cdclerk@couleedam.org]
Sent: Tuesday, May 10, 2005 2:46 PM
To: Crisman,Iris F - PSE
Subject: BPA Rates

Iris,

I am sending this message on behalf of the customers of Coulee Dam Light Dept. I think everyone knows that inflation costs continually rise and some rate increases are necessary to maintain the infrastructure of the system. But we need to insure that rates are in proportion to operations, building reserves, and maintaining capital costs without padding for programs or unessential expenses.

As public entities it's a balance to keep costs low and maintain the quality of service to our customers. We ask that BPA look at its programs and services to ensure that they are needed and if not get rid of them, in order to ensure that rates are kept as low as possible.

Sincerely
Carol Visker.

Carol Visker
Clerk/Treasurer
300 Lincoln Ave
Coulee Dam WA 99116
509-633-0320 Ext 12
Fax 509-633-3252
email cdclerk@couleedam.org

PFR-036
MAY 11 2005

Bonneville Power Administration
Power Function Review Management Level Discussion
April 18, 2005

Rates Hearing Room, BPA Headquarters, Portland, Oregon
Approximate Attendance: 55

Fish and Wildlife Program Expenses; Risk Mitigation

[The handouts for this meeting are available at: www.bpa.gov/power/review.]

I. Welcome

Paul Norman (BPA) opened the meeting, saying fish and wildlife (F&W) program expenses and risk management are the two remaining issues for BPA to discuss with managers. Our next step in the PFR will be to put out a draft closeout letter May 2 that says, "this is what we heard and plan to go forward with," he explained. We'll have a technical meeting and a managers' discussion on the draft in May, we'll take comment until May 20, and then put out a final letter the week of June 13, according to Norman. With regard to risk, we won't be concluding how to treat it in the PFR, but will signal where we are leaning in the closeout letter, he said. Risk will be a big topic in the rate case, and we will make the decision about how to address it then, Norman said. We are very open to any additional input you have ahead of May 2, he concluded.

II. F&W Program Expense

Greg Delwiche (BPA) went over F&W costs that factor into power rates. Altogether, the six expense categories and repayment obligations for current and past F&W investments is about $691.6 million annually in the next rate period, he said. The repayment obligations include the Columbia River Fish Mitigation (CRFM) project, and there is a decision to make about how to handle the $300 million backlog, Delwiche noted.

He listed several key decisions that BPA needs to make relative to 2007-2009 F&W costs. These include: schedule and operating requirements for removable spillway weirs (RSWs); assumptions about a proposed summer transportation test; funding levels for Lower Snake River hatcheries (three alternatives have been proposed); Integrated Program funding level; and plant-in-service assumptions for CRFM.

Hydro Operations Effects: When we talk about economic effects associated with operations conducted at dams "in the name of fish and wildlife recovery," people ask us "compared to what?," Delwiche said. We have developed a "power base case" that optimizes the hydro system for power production only, and we compare the energy production under the base case with the production under the Biological Opinion (BiOp) operating requirements, he explained. We end up with a table of differences in deficits and surpluses between the two scenarios, and we run that through the Aurora model to get the associated economic effect in dollars, Delwiche said. We have pegged the difference at about $366 million annually, he stated. The power base case takes into account the authorized uses of the projects, like irrigation and flood control, Delwiche clarified. Asked about the irrigation impact on generation, Suzanne Cooper (BPA) said it is about $110 million annually.

Ralph Cavanagh (NRDC) expressed skepticism about the irrigation impact figure. In an analysis I saw, there was a 40 percent correction for the impact of restricted generation and the rising market price, he indicated. Cooper said BPA's analysis captured the price variability. I'd like to go through those numbers, Cavanagh responded.

But does BPA set the market rate? Steve Eldrige (Umatilla) asked. We are part of the West Coast market, and we do influence it, but the market is tens of thousands of megawatts – we don't set the price, Delwiche answered. Aren't you energy short, so you purchase too? Eldrige asked. Yes, we have to purchase in the market, Delwiche stated.

Scott Levy (Bluefish.org) asked for the MW associated with the $366 million figure. It's about 1,050 MW, Cooper responded.

Delwiche outlined the "significant assumptions" that will be made about deployment schedules for RSWs and other bypass improvements at the dams. The assumptions about the schedule are important because the installations affect generation, he explained. The RSWs and other bypass improvements are operated in a test mode for two years, a period during which they do not provide as much energy benefit as expected in the long run, Delwiche said. He explained how "paired tests" are conducted on the installations.

The assumptions we will go forward with are based on our commitment to the BiOp and what we think is possible in terms of the fabrication schedule for the RSWs, Delwiche said. The fabrication is complex, and the Corps is providing us the most accurate schedule they can, he said. The table on page 13 of the meeting packet is our best estimate of the expected generation change that will occur in 2007-2009 with the installations made, Delwiche explained.

Rick Lovely (Grays Harbor) pointed out that new evidence indicates spill is not effective in causing smolts to migrate out of reservoirs and may be having a detrimental effect by sending the wrong temperature signal. Why not try a year without spill and see what happens? he suggested. We're spending $110 million a year on spill, Lovely said.

The new information refers to fall chinook that migrate in the summer, Cooper responded. We want more information about the effect of spill ahead of conducting the transportation test for Snake River fall chinook that is scheduled to begin in 2007 or 2008, she said. The test calls for spill at collector projects, Cooper indicated. Delwiche noted that spill does not affect temperature in the river. There may be some local effects, but there is not a significant effect overall, he said. The purpose of spill is to increase survival "over the concrete," Delwiche clarified.

Levy asked for an estimate of the cost of the RSWs. It's about $20 million, according to Paul Ocker (Corps). That is about $13 million for the RSW plus studies, he clarified.

Are we better off from an economic point of view if we stay with your schedule or are we better off if we push it forward? John Saven (NRU) asked. It is better to get the RSWs installed now since they save energy production, Delwiche answered. Fish advocates seem to agree that the RSWs are an improvement, so the customers would be better off moving this forward – we should move them along, Saven said.

The RSW benefits are smaller on the Lower Snake, Levy pointed out. "The jury is out" on their effectiveness on the Lower Snake, particularly at Little Goose, he said. When the decision was made to proceed with RSWs, the survival and economic effects penciled out to be positive at all dams where they are to be installed, Delwiche replied. We have not decided to deploy RSWs anywhere the biological and economic benefit is not positive, he said, adding that at this time there is no decision to install an RSW at Little Goose.

The transport study is scheduled to start in 2008, Delwiche said. We estimate increasing spill for the study would reduce generation significantly, by 473 aMW in July and 448 aMW in August, he reported. It's a two-year study, and we don't have an assumption about what would happen beyond the 2007-2009 rate period, Delwiche wrapped up.

These are the assumptions we are making for purposes of setting rates, Norman reiterated. This is the time to let us know if you have input on what would be the appropriate forecasts and assumptions, he said.

What is BPA's position on covering fish costs? Eldrige asked. Are you planning to cover any and all obligations up to dam breaching? he asked. We are looking for the most realistic assumption we can find for fish costs in the rate case, Norman responded. We have issues related to fish costs that we have to treat as part of our risk, he added.

It's important to know what ground we are standing on, Eldrige said. If we cover costs that are unrelated to the power system, "which we have done," it sets up liabilities we should not be responsible to meet, he indicated. We should make an effort to re-examine what BPA is responsible for, Eldrige stated. "It's so easy to extract money from BPA," that we are paying for things we should not pay for – maybe someone should pay for them, but not BPA, he said.

Are you taking into account climate change? Nancy Hirsh (NWEC) asked. Is the 50-year water record still appropriate or should you look at having less water in the system? she asked. Our hydrologists and streamflow forecasters are seeing great volatility with water conditions, Delwiche acknowledged. But we are not ready to conclude we should set rates according to a drier part of the historical record, he stated. It's definitely something we think about, Delwiche added.

Asked about the transport study, he said it was an action called for in both the current and previous BiOps. The economic consequence of the study is estimated to be between $17 million and $23 million in lost generation annually in 2008 and 2009, Cooper said, adding that she would find out if that is included in the $366 million in operating effects.

It's seems reasonable for BPA to pay only for the effects of the hydro system, but "that's too easy" – it's difficult to internalize environmental costs, according to Jason Eisdorfer (CUB). BPA should take "its best crack" at identifying the costs, but you either pay now or pay later, he said. The question is how to identify "the fair share," Delwiche replied. For the Federal Columbia River Power System (FCRPS), it's an interesting question to consider, he said: should the FCRPS mitigate for the existence of the city of Portland, Interstate 84, diking, and railroads on both sides of the Columbia? "It's a stretch" to say the hydro system should pay for all of these human effects, Delwiche stated.

"The people who pay have a greater interest in cost control than the people who spend," Eldrige responded. We have about 9,000 customers in Umatilla and Morrow counties, and what we sent BPA last year included $6 million for F&W mitigation, he said. We have a great interest in seeing that those who cause the impact pay for the mitigation, Eldrige stated. Everyone needs "to ante up," so we can collectively make better decisions than those made "when one group spends and another pays," he said.

"Carbon emissions ramp up when the hydro system is throttled back," Lovely said. I agree with Steve – we can't mitigate for everything and put the burden on those who pay for the hydro system, he said.

But in this program, we are talking about direct costs of things related to the FCRPS, Hirsh responded. Let's make sure that is the case, Eldrige said. There is habitat restoration going on that has nothing to do with the hydro system, Lovely added. We do have offsite mitigation responsibilities, but we need to assure our partners share the costs, Delwiche responded.

These comments suggest F&W advocates are better represented in BPA's ratemaking process than customers, Cavanagh commented. I don't agree that's the case, he said.

Whatever obligation there is, Congress has said it should be done at least cost, Steve Marshall (Snohomish) said. Have you done studies to see that is the case? he asked. I'm not aware of a comprehensive study, but pieces have been done, Delwiche said. As for a study that cuts across the Hs, "No", he said.

We recently offered comments on harvest to the Pacific Marine Fisheries Commission, Marshall stated. We would like to see BPA take a leadership role to stop the predation and harvest, he said. We are ignoring those impacts, which lead to more losses than the hydro system, Marshall contended. We do not have jurisdiction over harvest, but we encourage you to continue to make your point to the appropriate agencies, Delwiche said.

Virgil Lewis Sr. (Yakama Nation) said the tribes are very regulated in the catch they are allowed. We watch our fishermen and see that they stay within their limits, he said. Lewis said he had been telling NOAA-Fisheries about the sea lions at Bonneville Dam for a number of years, and now there are 30 sea lions there. They will have a big impact on the population, since they seem to target females to get at their eggs, he said.

Let's take the $23 million annually for the transport study out of the budget, Saven recommended. I don't know that there's a compelling scientific reason to do it, he said.

I'd like to echo what John said, Jean Ryckman (Franklin) stated. We need to make sure money spent is based on sound science, and this study does not fit that criterion, she said. The court has rendered a no-jeopardy opinion based, among other things, on our taking this action in the Updated Proposed Action (UPA), Delwiche responded. We would have a weak argument about carrying out the UPA if our rates are based on removing that test, he said.

If you have risk in the next rate period related to what the judge decides on the BiOp, one response is not to do anything now, Marshall said. Avoid a commitment you may not have to make, depending on how the judge rules, he said. Retain the flexibility and don't make this decision a year ahead, Marshall advised.

We have to have something in our PFR closeout, but we'll adjust our estimates before we put a rate case proposal out, Norman responded. Customers have said costs that are not locked in should be part of our risk management, and we will pursue that option, he said.

The court schedule calls for Summary Judgment this month – we could have a decision by next month, Delwiche said. Before the next rate period, we should have information about where the litigation will take us, he added.

Why not wait until you implement the planned surface bypass improvements at the dams before you conduct the transportation study? Shane Scott (PPC) asked. If the study spans years both before and after RSWs are installed, the configuration on the system will be different over the research period – there would be too much difference to get a clear result, he said. Something this basic should be discussed and modified – it doesn't pass scientific muster, he added.

Lower Snake River Compensation Program Hatchery Funding: Delwiche went on to describe funding alternatives for the Lower Snake River Compensation Program (LSRCP) hatcheries: baseline O&M, baseline O&M plus, and baseline O&M plus, plus. These hatcheries are 40 years old, and there is no capital agreement for rehabilitation, he said. There are also two hatchery reform processes under way in the region, according to

Delwiche. These efforts may suggest reprogramming the region's hatcheries, so there is a cost uncertainty and risk factor here, he explained.

Why wouldn't there be appropriations to fund capital investments for these hatcheries? Lovely asked. Bob Austin (BPA) pointed out that "the route through Congress" would require reports and take time. Do we have control for the money we spend? Eldrige asked. We should have management control if we fund, he added. We are in partnership with U.S. Fish and Wildlife Service (USFWS) on these hatcheries, Delwiche replied.

BPA is looked at "as an easy source of money," Lovely stated. Agencies realize they don't have to go through Congress, and the expense is just added to BPA's costs, he said. BPA needs to look at who should be responsible for these costs – another federal or state agency, or should it be the ratepayers, Lovely said.

"We do have an obligation to mitigate," Delwiche responded. "However, I understand your feedback to us is to be extremely careful about putting BPA in the position to do capital improvements at these hatcheries because it is not our responsibility," he clarified. One of the questions is whether to spend more money "to get $75 fish" from the LSRCP hatcheries, Levy stated.

I'd say go with the budget for O&M only, and tell USFWS if BPA has a good year, come back and talk to us about the additional items, Randy Gregg (Benton) stated.

Integrated Program: Delwiche moved on to the Integrated Program, the obligation for which comes from the ESA and the Northwest Power Act. This rate period, the level of annual expenditures was $139 million, and previous to that it was $100 million, he said. Delwiche described efforts to come up with a funding level for the next rate period, explaining a table of program spending categories, recent average spending, committed contract amounts, and budget drivers up and down. BPA worked with the Northwest Power and Conservation Council (NPCC) staff and Columbia Basin Fish and Wildlife Authority (CBFWA) to come up with the numbers, and we are pretty well in agreement on them, he said.

Delwiche went over additional graphics about direct program spending and pointed out that BPA is promoting a guideline of committing 70 percent of the funds to on-the-ground projects, 25 percent to research, monitoring, and evaluation (RME), and 5 percent to coordination and administration. This means more dollars would flow to on-the-ground work, with less spent in the two other areas, he said.

Delwiche explained three alternatives for the funding level, low ($126 million), medium ($144 million), and high ($174 million), and what each includes. Lovely asked about partnerships to share costs. We don't have a rigorous cost-share protocol, Delwiche stated. There are cost-share projects going on, so non-BPA dollars are being spent, he said. We could put cost-share guidelines in place for the next round of project selection, Delwiche added.

I would gravitate toward the low end of the spending, Eldrige stated. People will spend money more wisely if there is less to go around, and it would also be good if people are aware there are priorities, and BPA will fund projects based on stringent criteria, he said. Revenues will be a problem this year, Eldrige said. He suggested in good years, BPA could authorize an amount 10 percent above the budget to fund a high-quality project, "if one is out there." If not, bank the 10 percent for a future project, Eldrige proposed. Also, there needs to be a transparent, verifiable outcome for these projects, he stated.

Eldrige cited the example of the Conforth Ranch, which was purchased for mitigation with BPA dollars and turned over to the tribes for management. The ranch has since been changed in a way that the benefits it was purchased for are gone, he said. If a sponsor does not deliver on a project, there ought to be a penalty, Eldrige said. And if a project is multi-year but doesn't meet its goals, the funding should stop, he stated.

Delwiche recapped the suggestions he had heard: constrain the budget; set aside additional dollars based on BPA's financial health; base projects on clear biological outcomes; and conduct rigorous annual project review with consequences.

Doug Marker (NPCC) pointed out that an independent scientific review is conducted on proposed F&W projects, so "the scientific rigor is there." There is a substantial amount of partnership activity with habitat, and the subbasin plans provide a good basis for pursuing more partnerships, he said.

Marshall asked if there is an estimate of returning adults that would be achieved with the low, medium, and high funding levels. Delwiche said there is not. Determining the smolt-to-adult return ratio (SARs) is an inexact science, and quantifying benefits to adult return from habitat enhancements is even more difficult, he added. Subbasin plans adopted into the Council's F&W program are based on a rigorous biological analysis, and they set out ways "to close the gap" for species mitigation and recovery, Delwiche said.

The low case is a 20 percent reduction and the medium case is a 10 percent reduction in actual F&W dollars, Cavanagh pointed out. By imposing a limit on RME, we will create additional dollars for work on the ground, Delwiche responded. Customers view RME as administrative, but if this program is to be science based, "that's where the science is," Cavanagh said.

Saven said spending 36 percent on RME and 11 percent on coordination is difficult to comprehend. So few of the things I hear in the BiOp litigation are based on anything we've learned for all of this money we've spent over the years, he said. I'd suggest we look at the medium range of $144 million and take another $10 million out of RME and $2 million out of BPA overhead and dedicate that $12 million to direct, on-the-ground projects, Saven recommended.

Lewis read a statement in support of funding F&W "adequately" in the next rate case. He said the tribes had repeatedly been asked to cut back on harvest to restore species, and he said they had spent considerable effort and money trying to get BPA to provide adequate funding for F&W. Lewis urged BPA to incorporate CBFWA's estimate of what it will take to implement subbasin plans into the budget for the rate case. We are asking BPA to start at $186 million in the next rate period and ramp up to $240 million by 2009, he said. Lewis said if BPA goes with the low case alternative for F&W spending, it would take 100 years to implement subbasin plans and result in more species loss. This is unacceptable, he stated. The bottom line is that BPA should incorporate the CBFWA cost estimates into its rate case and recognize events that could impact F&W funding, particularly the litigation on the FCRPS BiOp, Lewis said. Recovery under the ESA could go well beyond the subbasin plans, he pointed out. The Yakama Nation wants to work with others in the region on F&W funding, but if BPA goes forward without an adequate budget, "we have no choice but to nationalize" this issue, Lewis concluded. [Lewis' complete statement will be posted on the web site.]

We are working on a response to the CBFWA proposal, Delwiche said. The costs CBFWA came up with are estimates of implementing all of the activities in the subbasins plans, without a recognition of what BPA is responsible for funding, he said. It's an overestimate of what we see as the ratepayers' responsibility, Delwiche stated.

Rod Sando (CBFWA) said it is important to note that CBFWA did not say it is entirely BPA's responsibility to fund the subbasin plans. We need to see how to partition off the responsibility, he said. We do start at $186 million for the rate period, which is what the number was at the start of the last rate period, Sando added. BPA spent $15 million on the subbasin plans, he pointed out. We spend so much on planning, but then have to struggle to implement the plans, Sando commented.

When the 2000 BiOp came out, the region adopted an aggressive non-breach strategy, he continued. "It put you in the habitat business" to take pressure off of operations, Sando said. Habitat restoration isn't easy, especially when you have to do it on private land, he said. As you struggle with the budget, you have to look at what you want to achieve – the F&W managers have not been able to fully implement their programs, Sando said.

F&W O&M: Representatives from the Corps of Engineers and the Bureau of Reclamation explained the funding for their F&W related O&M activities, the projected total for which is $41.2 million annually in the 2007-2009 rate period. Paul Ocker (Corps) went over his agency's process for prioritizing projects and how the expense budget is divided among anadromous fish, wildlife and resident fish, and water quality projects. A budget history shows a ramp up from 2001 to 2002 and 2003, which reflects activities done to meet the BiOp, he explained. In 2007, the budget levels off, Ocker said. The budget is flat out to 2011, but the Willamette BiOp could change that when it comes out, he noted.

Ocker described things that have affected the budget in the past and those that could affect it in the future, and he pointed out that cost and biological effectiveness are considered on a case-by-case basis. We don't operate in a vacuum, he stated, describing the role of the Regional Forum on the Corps' spending decisions.

Dave Lyngholm (Reclamation) went over the background and goals for the Leavenworth Fish Hatchery Complex, which mitigates for Grand Coulee Dam. He explained the budget allocations among various facilities and a history of expenses.

Delwiche gave an overview of the history of the CRFM, noting that annual appropriations for CRFM have been about $70 million in recent years and that BPA ratepayers cover about 80 percent of the costs. CRFM will cost about $1.5 billion to $1.6 billion when it is complete in 2014, he said. Delwiche said there have been recent discussions about CRFM transfers to plant-in-service. These have to be done in accordance with standard accounting practices and they must pass muster with the Inspector General, he said.

John Kranda (Corps) explained that the Corps has been holding CRFM mitigation analysis costs as construction-work-in-progress since 1991. This was done according to guidance from Congress, but Congress probably didn't anticipate the scope of the studies once the BiOps came along, he said. The Department of Defense auditors have been looking at the amount that is being held and said the policy needs to be revisited, Kranda said. If a determination is made that holding these longer is not appropriate, they will have to be transferred to plant-in-service and go onto BPA's books, he said.

Kranda said two scenarios for transfer are laid out in the packet (p. 49) – they represent "bookends" for what could happen. One certainty is that we have to go up the chain of command at the Corps and discuss the policy, he said.

Can the studies be paid for over 50 years? Saven asked. Yes, Val Lefler (BPA) responded. The guidance at the time from Congress was to capitalize the studies, Kranda agreed. Lefler explained the impacts of the scenarios to BPA's interest and depreciation budget, which were presented in the packet (p. 63).

The $300 million in study costs seem to have taken people by surprise, Kris Mikkelsen (Inland Power) said. I can't imagine that going on at our utility – that we would be responsible for something of that magnitude that takes us by surprise, she said. There is "a missing link" with how BPA is relating to the Corps and Reclamation on projects that BPA is responsible to fund, Mikkelsen said. "The system is broken," she added.

With respect to the plant-in-service issue, the guidance from Congress has been followed, but the outcome may not be consistent with the intent of Congress, Delwiche responded. There has been a lot of discussion about this in the PFR workshops, he said, adding that the actual cost and rate impacts are not as big as might have been expected.

Conclusion:
Norman went over a list of items he captured from the discussion in terms of what BPA ought to do to increase or decrease F&W budgets. "The elephant in the living room is the outcome of the BiOp litigation," he said before summarizing what he had heard.

I support the Yakama statement, Hirsh said. "Planning is good, doing is better," she said. If we are not implementing, we're not achieving the goals in the subbasin plans, Hirsh said. I support a high level of funding for the direct program, she stated.

The burden is falling disproportionately on ratepayers in depressed communities, Lovely stated. If there are sufficient additional revenues to fund above the base level, do it, he said. But I support Eldrige's suggestion, Lovely added.

I support that as well, Gregg said. I also support the lower level of funding for the LSRCP hatcheries, he added. And I'd support moving funding from RME in the Integrated Program to on-the-ground projects, Gregg said.

You have heard from the F&W managers that they don't have enough money to put the F&W program into full effect, Cavanagh pointed out. One thing that's encouraging is no one has said to just let the resource go entirely, he added. There is a minimal level at which the program is effective – listen to the F&W managers, Cavanagh urged.

Fish spend a limited amount of time in proximity to the hydro system and most of their time elsewhere, Marshall pointed out. We have to get a handle on the losses from predation and harvest, he said. With regard to the three levels of Integrated Program funding, we can't say what we'll get with any of them, Marshall said. We have to get at a measurement of what we will get, he said. The idea seems to be, if we spend more money we will get more, but we have no idea if that is true, Marshall stated. We need better studies about what we are getting with expenses of this magnitude, he said.

With regard to the $300 million in CRFM studies, it is only fair that we understand "the rules of the road" about how these decisions are made and our opportunities to participate, Saven stated. The process would be enriched by the participation of our customers, Delwiche responded. A broad spectrum of opinion leads to better decisions, and I would advocate for stronger, regular customer involvement, he said. We need information about when the decisions will be made in this process so our participation counts, Saven said.

III. <u>Risk Mitigation</u>

Risk management will be a huge issue in the rate case – it's such a big issue that we wanted to get the discussion going in the PFR, Norman said. He listed four major categories of risk: hydro variability; market price variability, IOU benefits, and other, including unexpected expenses and the BiOp. He also explained why risk is a bigger challenge in the next rate period: low starting reserves, reduced credits to mitigate low water; returning to a traditional 92.6 percent Treasury payment probability (TPP) standard; greater reliance on volatile secondary revenues; increase in power liquidity reserves; and new uncertainties, including IOU benefits, wind, and transmission expense.

Why don't you consider BPA as one fund [as opposed to each business line] for purposes of reserves? Gregg asked. We don't want to double-count reserves, for both the TBL and PBL, and power rates need to recover power costs, Norman responded. Are you stacking all of these risks on top of each other? Ryckman asked. All are factored into the size of the risk, Norman said. It seems you are being overly conservation since not all of these things will happen, Ryckman pointed out. What we're looking at is whether we have a 92.6 percent chance of paying Treasury given the probability of each of these factors, Norman explained. We are trying to come up with the appropriate probability, he said.

I agree that transmission should not subsidize power, Lyn Williams (PGE) said. But that seems inconsistent since other things, like debt optimization, transfer across the line, she pointed out. At the end of the day, you need to get the Treasury paid, Williams stated. Our principle for the agency TPP not to get higher than the 95 percent two-year standard, Norman said.

When we were discussing the SN CRAC, we were talking about a 50 percent probability, Lovely pointed out. We have had four and are going on five "horrible years," but we're doing okay, he said. You are actually doing okay now, but "you see this grave risk on the horizon," Lovely said. What you are proposing is to take money from depressed communities to put it in your coffers, even though we still bear the risk, he said. Leave the money in our communities, understanding that you will raise rates if you need to Lovely urged. You are ruining our credit rating to keep your rating high, he said.

To the extent you want to keep the money in your communities and live with the variability, we are open to it, Norman said.

With regard to "the traditional" TPP of 92.6 percent, that came from your 10-year financial plan that is now over 10 years old, Saven said. We didn't know the answers to these risk factors then either, he said. I don't think you should take a 10-year-old plan and say, that's where we need to be, Saven said.

This is a number we can debate in the rate case, but it's a standard we've talked to OMB and DOE about, Norman responded. It signals BPA's commitment to meeting its responsibilities to pay its debts, he added.

I see downside risk on your list, but no upside risk, Kevin Clarke (Seattle) pointed out. The problem is counting on secondary revenues and not having them materialize, he said. You sold off 20 percent of the risk to your customers in the form of Slice, Clarke said.

Costs are also a way to meet risk, Marshall said, adding that BPA should start looking today at where it can cut costs. You have time to do this before the next rate period, he said. “We’re tapped out,” Marshall stated. If we have to go back and raise rates, there will be new managers at some utilities, he predicted.

We are trying to do that in every way, Norman stated. We are trying to manage costs aggressively, he said. Call me or e-mail if you see things we can cut, Norman said.

Your load serving obligations are clearer now than they were in the last rate case, Saven pointed out. I’d say we have a huge amount more certainty than we had in the last rate period, he said.

Norman explained the range of possible PF rate outcomes. We came up with a 28-mill cost without any risk factored in, he said. To set the rate, you have to deal with risk, and the range of responses is, at the high end, you have a fixed rate, and at the low end, you have customers take the risk of variability, Norman explained. The “risk adder” ranges from relatively small to large, he added.

Norman went on to describe several rate options that incorporate risk in different ways and offered a table of where the rates would go with each option. These are “really rough numbers,” but we are trying to illustrate the effect of the mechanisms, he said.

Your table assumes the costs will be the same regardless of the rates, Kevin O’Meara (PPC) stated.

What about the effect of rates on your credit ratings? Cavanagh asked. As long as we are meeting the TPP, we don’t see that as a problem, Norman said. The ratings analysts will look at how we are handling things overall, Eric Larsen (BPA) agreed.

If there’s $600 million in risk to cover, can BPA commit to cover a portion on the expense side? Dick Helgeson (EWEB) asked. If you have an adverse year, could BPA carry a portion of the risk, with $200 million in CRACs, and $200 million covered by reserves? he asked. I don’t see cuts figured in here, Helgeson added. We need to look at our options, Norman responded, adding that he didn’t know which parts of the cost structure could be used for cuts of that magnitude.

I have no interest in a mechanism with rebates, Saven stated. If you have a mechanism that you can adjust only for certain things, like a fuel-adjustment clause, it’s easier to explain, he said. The load-based CRAC had high credibility, Clarke agreed.

I circled the word “trust,” Paul Elias (McMinnville) stated. He referred to “the mischief” BPA created with the Slice product, saying I see words like “possible” and “forecast,” which give BPA a lot of leeway. When you negotiate with “an 800-pound gorilla,” you know which way it is going to go, Elias added.

What about a line of credit from the Treasury to use for the variability, Marshall suggested. You could make a good case given that the Treasury would lose tax revenues from the region if the Northwest economy takes a hit, he said. We have explored extensively having the government act more aggressively as our banker, and I'm not real sanguine about getting that to happen, Norman responded. Having a third-party take on the hydro risk doesn't look promising either, he said.

Lovely said utilities have taken hits to their credit ratings. It's detrimental to us now in our ratings to be a customer of BPA, he said. That is not the way it used to be, and "you should be worried about that," Lovely stated. You're proposing an increase, and to do option B in my utility would mean a 20 percent rate increase, he said. "That's a lot to ask so BPA can have a bucket of money," Lovely stated.

"It would be comforting to have one number on your table that begins with a 2," Gregg commented.

The year between when you adopt rates and when they take effect can be very problematic, Clarke said. It's something we need to keep an eye on, he added.

Aren't there ways BPA could create a more stable revenue stream, for example, provide preferential access to secondary energy? Cavanagh asked. On price risk management, there are a lot of tools, but we're assuming we're doing a good job with forward contracts, Larsen responded.

We've appreciated the transparency you've offered, Hirsh said. It would be a loss if the first thing that comes forward in risk management is cutting programs that are within budget, she said. Specifically, I'm talking about conservation and renewables, energy efficiency, and F&W, Hirsh stated.

We've been seeing BPA do okay even with bad water years, Lovely said. I'm struggling to understand what you perceive is so much riskier in the three-year rate period than in the last five-year rate period, he said. Why is it so imperative to go to this level of risk mitigation? Lovely asked. We have tried to lay out as clearly and openly as we can what we see as the risks, and we have great interest in working with customers and others to find a solution, Norman replied.

The Yakamas and CRITFC have not taken a position on risk, Ed Sheets (Yakama) said. There are still significant uncertainties with your F&W costs and disagreement about the base costs, he said. In the past, F&W have borne the risk in your mitigation strategy, Sheets stated.

If you raise rates 20 percent, we will lose load, Eldrige said. There is a point at which you won't have as much revenue coming in as you project, he stated. That is not going to happen with this range of rates, Cavanagh commented. The choice is to face the most volatile energy market in history, and people will have to balance all of that with making BPA purchases, he said.

We are involved in the litigation over the BiOp, and the potential changes could have a drastic effect on the economy, Saven said. We need to consider if the business would be there to support it, he said.

You made the cost reductions recommended by the Sounding Board, Cavanagh said. You've exercised cost restraint, and I'm skeptical you can find much more, he said. You can always minimize rates in the short term, but the financial markets could react if they see customers potentially facing the volatility of the market – the principal victim wouldn't be BPA, it would be credit ratings, he stated.

But in this case, higher market prices help BPA, O'Meara pointed out. High prices unrelated to hydro conditions are not necessarily a good deal, Norman responded. This year, high prices are not hurting us, he added.

Ultimately, BPA customers take all of the risk, so it's a question of timing, Williams said: when do we take the risk.

The last couple of years have increased our trust – we aren't through, but we've made progress, he said. The more variable the rate, the more problem it gives retail utilities, Clark stated. We don't have "piles of cash" either so we have to find ways to move money around among us, he said.

Norman cautioned customers not to walk out of the room with the idea that BPA is proposing a 36-mill rate. He noted that BPA views that high a rate as unacceptable, and the task is to work together to find the best way of dealing with the risks. The risk discussions will go on for the next year, he said.

We're open for input on the PFR topics until May 20, Norman reiterated.

The meeting adjourned at 3 p.m.

COLUMBIA RESEARCH CORPORATION

P.O. Box 99249 • Seattle, Washington 98139 • Phone (206) 493-2320 • email: seligman48@seanet.com

PFR-037
MAY 16 2005

May 16, 2005

Mr. Paul Norman, Senior Vice President
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

SUBJECT: Power Function Review

Mr. Norman:

My client, Canby Utility, has reviewed the draft closeout report for the Power Function Review and offers the following comments:

1. BPA should more clearly define *how* the listed risk variables affect power prices. The yellow bar on the chart – in the April 18 presentation – shows a risk premium of approximately $7 per MWH. What are the specific variables that will make the $7 figure go up or down? E.g., if the Columbia Generating Station goes out of service in winter, what is the likely effect on power rates? E.g., if gas prices go up or down by a certain amount, what effect does this change have on BPA's market price variability? We're looking for details.

2. BPA should make the subject of risk a priority in the upcoming rate case workshops and provide information about the types of hedges that BPA can buy to reduce the risk premium. Is BPA prepared to offer a cap on the yellow bar, and if so, at what cost?

3. BPA should allow individual utilities to purchase their own financial instruments (e.g., hedges) by offering a three-year "base" rate that is stripped of certain risk factors. The customers would then build up their own cash reserves or purchase a financial instrument from a private party to hedge against the need of BPA to collect more revenue. BPA's rate proposal should preserve this option and not foreclose utilities from submitting testimony on the subject.

In conclusion, Canby believes it is a benefit to BPA *and* its public power customers to allow individual utilities to design their own risk premium portfolio that will provide cash flow certainty to the utility, and at the same time, guarantee that BPA receives the revenue it needs.

We look forward to work with your staff in the coming months.

Sincerely,

Dan Seligman

Dan Seligman
Attorney at Law

cc: Mr. Dirk Borges, General Manager, Canby Utility

PFR-038
MAY 19 2005

Asgharian,Maryam A - T

From: Dottie Bell [dottie.bell@earthlink.net]

Sent: Thursday, May 19, 2005 2:22 PM

To: BPA Public Involvement

Subject: Comments on BPA Power Function Review

Attached are my comments on BPA's Power Function Review for the 2007-2009 rate period.

Dottie Bell

Comments on Bonneville Power Administration's Power Function Review for the 2007-2009 rate period

Energy Efficiency ("Conservation")

Bonneville's target and proposed budget are too low. BPA is legally responsible for meeting its customers' entire increase in electricity needs. To meet your customers' load growth with the least expensive available resource, BPA needs to acquire 70-72 average megawatts of conservation per year – not the 52 aMWs proposed.

Some utilities and the Power Council dispute your cost analysis and suggest a higher budget based on analysis of past conservation acquisitions. They suggest it will cost $99 million a year to acquire 52 aMWs and $133 million to acquire 70 aMWs. BPA needs to increase the budget.

BPA's energy efficiency investments also generate revenue for the agency. BPA takes back most of the unneeded electricity consumers save by installing efficiency measures and sells it on the market (for more than its utilities pay). Therefore, a portion of the cost of the efficiency investments is offset by income from the resale of unused power.

Increasing BPA's proposed annual energy efficiency investments to the more reasonable level would increase overall agency spending about 1 percent. The upfront costs of the conservation measures can raise rates in the short run, ***but so will acquiring any other new power source.*** Unlike some other measures, the installed efficiency measures yield a long-lasting revenue stream with no further spending.

Energy efficiency is cheaper than all other sources. The Power Council says NOT achieving the regional conservation goal could costs Northwest customers $2 billion to $2.5 billion over the next 20 years. New efficiency measures reduce consumers' ***bills*** immediately, regardless of the short-term pressure for slight increases in *rates*.

Northwest Energy Efficiency Alliance (NEEA)

BPA is proposing to maintain its commitment to funding market transformation programs through NEEA. This is the right decision for BPA and its customers. The energy efficiency from NEEA's market transformation efforts is one of the least expensive resources available.

Renewable Energy

BPA should continue to be a leader on renewable energy in the region.

BPA should continue to facilitate new renewable energy activities in the region on both the power and transmission side, and it should follow-through on existing commitments.

BPA should define programs for different customer groups providing incentives for new renewable energy acquisition and help customer utilities overcome unique barriers.

BPA should provide new funding for this program rather than only using funds leftover from the previous rate period. A minimum of $15 million for the new rate period plus the continuation of the $6 million from the rate discount funds should be made available.

BPA should identify good acquisition opportunities in partnership with its customer utilities or on its own. Such modest acquisition will keep BPA current with barriers and opportunities provided by these resources and will keep BPA consistent with its statutory responsibilities.

Risk Management

I share the desire for lower power rates, but not at the expense of all of BPA's statutory and stewardship obligations. During the last rate period, BPA set rates; then, adopted a rate adjustment provision to allow for rates to go up in an emergency. BPA is debating its risk management approach for this new rate period. Customers want low rates and tight constraints on any rate adjustment provision. BPA must maintain some sort of safety net rate adjustment provision that protects fish and wildlife, efficiency, and renewables funding.

Fish and Wildlife

BPA Fish & Wildlife funding must keep pace with the needs of salmon and salmon-dependent communities.

The Power Function Review will set BPA's fish and wildlife costs through 2009. Therefore, it is essential funding be adequate to cover the agencies' fish and wildlife responsibilities under the Endangered Species Act and Northwest Power Act.

The existing federal Salmon Plan is insufficient to meet the needs of salmon and salmon-dependent businesses and will likely push salmon closer to extinction. BPA must plan for the stronger actions likely to be needed in the near future. The "pray for rain" approach of the past is simply bad business.

Submitted by:
Dottie Bell
15615 E 4th Avenue
Apt 78
Spokane Valley, WA 99037

PFR-039
MAY 19 2005

Asgharian,Maryam A - T

From: Carolee Sharp [CaroleeS@ep.cted.wa.gov]

Sent: Thursday, May 19, 2005 7:50 AM

To: BPA Public Involvement

Cc: tonyu@ep.cted.wa.gov; Custer,Cindy J - DR; tkarier@ewu.edu; JuliW@CTED.WA.GOV; matt.steuerwalt@ofm.wa.gov; dbyers@wutc.wa.gov; Schwartz, Howard (CTED)

Subject: PFR Comment: P-6 Comments from CTED Energy Policy

<<P-6 BPA PFR comments 05 05.pdf>>

Attached you will find our comments on P-6, BPA's Draft Closeout Report of the Power Function Review (PFR).

Sincerely,

Carolee Sharp
Executive Assistant
CTED Energy Policy Office
MS: 43173
Phone 360.956.2096
Fax 360.956.2180
carolees@ep.cted.wa.gov

STATE OF WASHINGTON
DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT
ENERGY POLICY DIVISION
925 Plum Street SE, Bldg. 4 • PO Box 43173 • Olympia, Washington 98504-3173 • (360) 956-2096

May 19, 2005

Stephen J. Wright
Department of Energy
Bonneville Power Administration
PO Box 3621
Portland OR 97208-3621

Re: P-6

Dear Mr. Wright,

Thank you for the opportunity to comment on the *Draft Closeout Report of the Power Function Review (PFR).* Our staff has attended almost every meeting of the PFR and has found it be a valuable experience. We commend BPA for spending so much time and effort in providing essential budgetary information about its activities. Overall, the process has increased stakeholder understanding of what BPA spends its money on and what budgetary choices it actually has. At times, too much information was provided, making it hard to separate the high level summaries from the overwhelming detail, but too much information is better than too little.

At the last PFR meeting, Steve Wright asked for comments on whether BPA's draft final report correctly balances long and short term benefits in the way it proposes to spend money during the next rate period. In our view, if we adopt that criterion, the final report is mixed. In some cases, such as funding for the Corps and Bureau or the Debt Optimization program, the agency and its customers will benefit from the proposed actions. In the case of conservation and renewables, on the other hand, BPA is being shortsighted by under-funding these areas now and leaving its customers with fewer resources in the future.

In maintaining funding for the highest priority projects of the Corps and Bureau, BPA is making a commitment to maintain the reliability of the hydro system and to make investments that will enhance the future power output of the system. These are exactly the kind of prudent investments BPA ratepayers ought to make in order to be good stewards of the hydropower resource.

We find a similar situation with the debt optimization program. By working with Energy Northwest, BPA is able to modestly lower its cost of borrowing and thus keep rates lower than they otherwise would be while at the same time increasing the borrowing authority available under its debt ceiling. It is BPA's borrowing authority that enables it to make investments for the future adequacy and reliability of the northwest electricity system.

Given BPA's willingness to spend large amounts of money on the Corps and Bureau projects and withstand considerable political pressure over the debt optimization program, it is puzzling that BPA has been unwilling to maintain proportionate budget levels for conservation and renewables, even though those levels are quite modest. We applaud BPA's willingness to commit to an increase in the amount of conservation it proposes to acquire, but we are puzzled by its reluctance to commit the commensurate funds needed to achieve those higher targets. The Northwest Power and Conservation Council has already commented extensively about the shortcomings of the conservation budget and the premises on which it is based. We agree with the Council analysis and urge you to first, restore the $5,000,000 cut made in the course of the PFR process, second, add additional funds to increase the probability of achieving your share of the Council targets, and third, include a contingency plan or funding mechanism in case BPA and its utility customers fall short of the conservation targets.

The treatment of renewables in the draft final report raises the same kind of puzzling questions as we discussed regarding conservation. If BPA was willing to spend $21 million dollars a year in support of renewable energy at the beginning of the PFR process why is it unwilling to do so at the end? Have renewables become a less valuable resource for the future? Has it become less cost-effective to stretch the hydro system by integrating more wind? Has helping its utility customers with their own wind projects become less prudent? Quite, the contrary, it is likely that renewable resources will become a more valuable component of a regional/BPA least cost/least risk portfolio.

CTED supports BPA's continued leadership in expanding the Northwest's renewable power resources. Bonneville has successfully stimulated a wholesale market for renewable resources through its existing Conservation and Renewables Rate Discount Program and it enables new renewable resource development with its continuing efforts to improve transmission development and pricing mechanisms.

We believe it is an essential role for Bonneville to continue, post-2006, its facilitation of new renewable power resources with a rate period investment of $21 million annually. We support the continuation of the availability of up to $6 million in renewable funds in the rate discount program. We believe an additional $15 million dollars in renewable facilitation funding is prudent. Bonneville's own staff and the renewable energy industry can offer the best recommendations on how to prioritize these funds to enhance renewable power development in the Pacific Northwest. We can support a range of ideas such as:

1) The analysis and identification of key transmission upgrades necessary to ensure access to large wind resources,

2) The analysis and identification of sites where Bonneville can optimize generation and transmission simultaneously by providing incentives to build wind resources in lieu of other costly transmission upgrades.
3) The development of a mutual fund or a co-op aggregation role in which Bonneville collects funds from wholesale utilities and manages bulk purchases of renewable resources and may manage resell of tags or power for the wholesale utilities,
4) The continuation of storage and shaping services and development of similarly useful services that Bonneville may offer in support of renewable resource development,
5) Independent analysis of wind sites and wind resource performance,
6) A limited buy-down of the above market incremental costs of distributed generation renewable resources.

In summary, CTED finds much to applaud regarding the entire Power Function Review. It also finds some areas, especially regarding conservation and renewables funding, where BPA appears to be making shortsighted proposals.

We hope our comments have been useful to you as you decide what will go into the BPA cost structure for the next rate case. CTED looks forward to continuing our long-term working relationship.

Sincerely,

Tony Usibelli

Tony Usibelli
Assistant Director

cc: Cindy Custer
Tom Karier
Howard Schwartz
Juli Wilkerson
Matt Steuerwalt
Dick Byers

PFR-040
MAY 1 9 2005

Asgharian,Maryam A - T

From: Tommi Reynolds [treynolds@wrec.coop]

Sent: Wednesday, May 18, 2005 10:46 AM

To: BPA Public Involvement

Cc: 'John Saven'; 'Donald Angell'

Subject: PFR comments

WELLS RURAL ELEC. CO.

Wells Rural Electric Company

1451 Humboldt Avenue PO Box 365 Wells, Nevada 89835
775-752-3328 Fax: 775-752-3940

May 20, 2005

Bonneville Power Administration
PO Box 14428
Portland, OR 997293-4428

Sent via email to: comment@bpa.gov

Wells Rural Electric Company (WREC) is a member of NRU and fully supports the detailed comments provided by John Saven regarding the Power Function Review on behalf of NRU members. We appreciate the positive and effective working relationship that has developed between BPA and NRU.

We believe that it is reasonable for BPA to continue to work towards a PF rate that is 27 mills per kWh, or below and that NRU's recommendations are a reasonable plan for reaching that goal.

As a presubscription contract holder WREC is especially concerned about the impact a significant BPA rate increase in 2007 would have on our residential, small commercial and irrigation customers.

BPA's approach to risk mitigation is of particular interest and concern to WREC. We have seen proposals for risk mitigation that assume all risk is covered by the customers through the PF rates. This proposal could add as much as 8mils per kWh. Due to its huge potential impact on rates we believe there is need for further discussion on this topic. WREC strongly encourages BPA to consider NRU's proposal for a joint management level review of risk mitigation options.

Thank you for the opportunity to comment and for the efforts that have been made thus far to control BPA's internal costs.

Sincerely,

Clay R Fitch

Clay Fitch, CEO

Cc: John Saven
Don Angell

PFR - 041
MAY 19 2005

Asgharian,Maryam A - T

From: FatimaO [FatimaO@mountaineers.org]
Sent: Thursday, May 19, 2005 3:34 PM
To: BPA Public Involvement
Cc: Ed Henderson (E-mail)
Subject: Power Function Review Comments

May 19, 2005

Bonneville Power Administration
Post Office Box 14428
Portland, Oregon 97293-4428

RE: Power Function Review

To Whom It May Concern:

The Mountaineers with 12,000 members is one of the largest and oldest outdoor recreation and conservation organizations in the nation. Almost all of our members live and work in the Pacific Northwest and are dependent upon BPA provided electric power. We have long been active in public policy issues seeking always to protect the environment and the natural beauty of the northwest. The production, transmission, and use of electric power has a major impact not only on the economy but also the environment.

The Northwest Power and Conservation Act of 1980 legally obligates the BPA to provide for its customers' entire load growth. The act also requires that conservation and energy efficiency are the first practices to be developed to meet future demands. We do not believe that BPA's Power Function Review goal of 55 aMWs is sufficient to meet anticipated demand, nor is a budget of $75 million adequate. The Mountaineers urge the BPA to strive for 70-72 aMWs of conservation annually and to provide a budget of $133 million to realize this goal.

The 1980 Act further directs the BPA to seek renewable energy sources such as wind or solar, as the secondary means of meeting load growth. The BPA and the northwest have an enviable record of leadership in developing renewable energy sources. Unfortunately, the Power Function Review does not continue this support. Both energy efficiency and renewables are the gifts that keep on giving. The Mountaineers believes that the BPA should increase funding for renewable energy resources by $15 million. After the initial expenditure, these sources provide power unaffected by fuel cost swings.

Under the 1980 Act, the BPA has an equal responsibility to protect fish and wildlife from the adverse effects of power production and transmission. Regrettably the BPA has chosen to neglect this duty in favor of power production and maintaining low rates. The Power Function Review does not correct this imbalance. In view of the uncertainties of current drought conditions and obligation from impeding litigation, the BPA must provide ample funding to fund the BPA's responsibilities under the Northwest Power and Conservation Act, and the Endangered Species Act.

Thank you for the opportunity to make these comments, Sincerely,

Ron Eng,
President
THE MOUNTAINEERS
300 Third Ave W.
Seattle, WA 98119
206-284-6310

PFR-042
MAY 20 2005

Asgharian,Maryam A - T

From: ken.sugden@flatheadelectric.com
Sent: Thursday, May 19, 2005 3:43 PM
To: BPA Public Involvement
Subject: Comment on Power Function Review

Comment on **Power Function Review**
View open comment periods on http://www.bpa.gov/comment

Kenneth A. Sugden
Flathead Electric Cooperative
ken.sugden@flatheadelectric.com
406-751-4401
2510 US Hwy 2 East
Kalispell MT 59901

As a customer of BPA, we would like to submit the following comments on BPA's fish and wildlife spending. • BPA's customers are currently paying nearly $700 million per year in fish and wildlife costs. Further increases to BPA's direct fish and wildlife program are unjustified at this time, and would unnecessarily burden ratepayers. The measure of success for BPA's fish and wildlife program should be biological effectiveness, not the amount of money spent. BPA cannot justify increasing its Integrated Program without performance standards, and a clear zero-based budget approach. Any amounts spent above the program's nearly $70 million of contractually obligated funding should be carefully evaluated to ensure it will be used for high priority, cost-effective and biologically sound measures. • Customers support BPA's proposal to re-prioritize the Integrated Program towards "on the ground" projects. This will increase the pace of implementation of projects that directly benefit fish and wildlife, which is the goal of BPA and the Council's program. • Although the subbasin plans provide great value by identifying limiting factors for fish and wildlife, it would be inappropriate for BPA to fund any aspects of the plan that do not relate directly to its mitigation obligations. Simply adopting others' definition of BPA's mitigation responsibilities would be unfair to BPA's customers and the ratepayers of the region. • We don't see justification for moving forward with the study of transportation in the Snake River during the next rate period. The system configuration will be in change for a number of years due to installation and testing of RSWs. Also, the new biological information on the "reservoir" life history for Snake River fall chinook raises significant questions as to the validity of all of the survival data on fall chinook.

Asgharian,Maryam A - T

From: Rachel Shimshak [rachel@rnp.org]
Sent: Thursday, May 19, 2005 4:28 PM
To: BPA Public Involvement
Subject: PFR comments

PFR-043
MAY 20 2005

BPA PFR comments.pdf

Attached please find the comments of the Renewable Northwest Project on the PFR. Please let us know if you cannot open the attached file.

Rachel Shimshak
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Renewable Northwest Project
917 SW Oak, Suite 303
Portland, OR 97205
www.RNP.org

Renewable Northwest Project

917 SW Oak
Suite 303
Portland, OR 97205

Phone
503.223.4544
Fax
503.223.4554
www.RNP.org

Renewable Northwest Project

Comments of the Renewable Northwest Project
On the BPA Power Function Review
May, 2005

The Renewable Northwest Project (RNP) appreciates the opportunity to comment on Bonneville's Power Function Review. RNP is a regional non-profit with members representing consumer and environmental groups and energy companies. We promote solar, wind and geothermal resources in the four Northwest states.

Background

To understand the current budget for the renewable energy program at BPA, one must go back to the Regional Review of 1996. During that process, one goal was to reduce BPA's costs such that customers would stay with BPA as a power provider and not cause a "death spiral." All areas were looked at for cost reductions. The renewable energy community agreed to allow BPA to reduce its renewable budget from $40 million to $15 million so long as BPA acquired at least one geothermal project, and a number of wind projects. The $15 million was to be invested in the above-market costs of new renewable resources.

During the energy crisis of 2000-2001, BPA invested in a number of wind projects and learned a great deal about the challenges and opportunities for wind in the region. BPA signed a contract for a 50 MW geothermal project (after going through four years of siting work), and the C&R Discount was established. BPA began a successful green tag marketing program as well. Through a mini-rate case, BPA eliminated the imbalance penalty for wind projects, and subsequently developed innovative storage and shaping services to assist customer utilities with their own acquisitions. Suffice it to say that BPA has shown great leadership and creativity on renewable resources within a very modest budget.

Looking to the Future

While many of BPA's customers believe that they have enough power to serve their customers for the near-term, now is the appropriate time to begin planning for additional needs. Importantly, BPA is planning to meet its portion of the Council's conservation targets. In addition, BPA and its customers need to plan for additional resources, including peak shaving, and direct application resources. To the extent that future needs can be met with conservation and clean, stable-priced renewables, utilities and their customers will be insulated against volatility in the market. The experience of the energy crisis in 2000-01 shows us that it is prudent to invest in these resources on a continuing basis. BPA and its customers should not miss the opportunity to invest in the best renewable resources in the region and risk those resources being sold to our neighbors to the south.

Providing for BPA customer access to these resources is particularly important for BPA's smaller requirements customers, who will not have the market reach or power to make acquisitions directly on advantageous terms. These customers may feel compelled to join the larger Partial Requirements customers in insisting on lower rates today, while being disproportionately disadvantaged in a future of load growth and scarcity of attractive resource choices. While BPA will be able to make acquisitions on their behalf later under bilateral agreements, the better sites with good transmission access will be progressively less available.

The following points summarize RNP's recommended actions for BPA on renewable energy:

Proposal

1. BPA should continue to be a leader on renewable energy in the region.

2. BPA should provide continuity for its renewable energy program, and continue to "facilitate" new renewable energy activities in the region on both the power and transmission side. BPA should follow-through on existing commitments.

3. BPA should define programs for different customer groups that will provide incentives for new renewable energy acquisition, and help customer utilities overcome unique barriers.

4. BPA should provide new funding for this program rather than only using funds leftover from the previous rate period. A *minimum* of $15 million for the new rate period for the above-market costs of new renewables, plus the continuation of the C&R Discount funds should be made available.

5. BPA should continue to identify good acquisition opportunities in partnership with its customer utilities, or on its own. Such modest acquisition will keep BPA current with barriers and opportunities provided by these resources, and keep BPA consistent with its statutory responsibilities.

<u>Specific Program Recommendations</u>:

Renewable Energy Rate Credit

BPA should continue to offer a rate credit to customers for investments in new renewable energy resources. A minimum of $6 million should be made available to utilities for this purpose, and BPA should reserve the option of increasing that amount if practical opportunities exist for customers that require greater investment. The focus of investment from this program should be on new resources, preferably those placed in service after January 1, 2005. Purchases of EPP should be able to qualify for the rate credit so long as BPA is reinvesting the money from the sale of this product in new renewable resources. The discount should also be available for direct application renewables and green tags.

An innovative approach for investing some of the money in new renewable resources is the "mutual fund" idea. This is described in the 5/10/05 DRAFT Mutual Fund Term sheet distributed at the Renewable Work Group. BPA customers could pool some or all of their rate credit (plus additional funds), commit the funds to a 3rd party Trust, and purchase an equity interest in an incremental piece of a new renewable project. Purchasers could opt to receive the prorated share of the project's output, or the customer could opt to have BPA sell the power for them and receive the revenue instead of the energy.

The benefits of this approach are that it requires only a one-time investment, it keeps customers in the market for renewables, allows customers to learn about the operation of new renewable resources, is simple, and low risk. The Trust set up for this should also be available to receive some of the $15 million "facilitation" budget as well. Pooling resources allows customers to afford a more meaningful piece of a renewable project than acting alone.

Facilitation Budget

RNP recommends that the budget for "facilitation" stay at a minimum of the current $15 Million per year for the next rate period. RNP rejects the proposed placeholders in the PFR document of $5.5 M in 2007, and $11 M in 2008. BPA has used the current funds to invest in 5 wind projects, RD&D, and wind and solar monitoring. The current projects are making money in the market and providing additional rate relief to customers. The total BPA budget for renewables is modest, but productive. BPA's statutory responsibilities to encourage the development of new renewable resources and help meet its customers needs require a long-term, consistent approach. Focusing only on the cost of this program, and not the value of the program, is a mistake.

Net premium revenues from both EPP and Tag sales should be added to the $15mm/year facilitation budget.

Our recommendations for the use of these funds are modest and meant to need only one-time expenditures. While this is not our overall view of the best way to invest in renewables, it does respond to the customers need to want these investments to be predictable. RNP supports this budget being used to reduce the up-front costs of new, small renewable projects such as biomass, small wind, and landfill gas and wastewater treatment gas. Utilities, the state energy offices, and the Energy Trust of Oregon should forward a list of the most promising of these projects to suggest for funding.

In addition, some of this fund should be used to expand the "mutual fund" idea described in the previous section. Finally, some of this money should be reserved for projects that are developed during the rate period for which participation is a no brainer.

BPA should continue to keep the door open for reasonable opportunities to invest in new renewable projects on its own, or in partnership with other utilities. The Transmission Business Line should continue to research, shape and offer new products and services that will help facilitate new renewable investment as well.

<u>Conclusion</u>

BPA has an opportunity to continue a meaningful role in the development of the region's new, renewable resources, and it should take it. Providing a consistent budget, programs, products and services that will assist utilities in investing in small and commercial scale renewable resources is key to moving the region forward toward a clean energy future. Renewable resources help stabilize rates for end-use customers, diversify our energy base, provide local economic development benefits, and help keep protect our quality of life. Our substantial endowment of renewables can also help protect our national security. BPA should continue its renewable energy legacy by helping the region grow and diversify its considerable renewable base.

Sincerely,

Rachel Shimshak

J. Rachel Shimshak
RNP Director

PFR - 044
MAY 2 0 2005

Asgharian,Maryam A - T

From: thusted@columbiarea.com
Sent: Friday, May 20, 2005 8:29 AM
To: BPA Public Involvement
Subject: Comment on Power Function Review

Comment on **Power Function Review**
View open comment periods on http://www.bpa.gov/comment

Thomas Husted
Columbia REA
thusted@columbiarea.com
509-382-2578
115 East Main Street
Dayton WA 99328
BPA fish and wildlife mitigation is funded primarily by utility customers. As a customer of BPA, we would like to provide the following comments on BPA's fish and wildlife spending. • BPA's customers are currently paying nearly $700 million per year in fish and wildlife costs. Further increases to BPA's fish and wildlife mitigation program are unjustified at this time, and would unnecessarily burden ratepayers. • BPA's fish and wildlife mitigation program should be based on biological goals and objectives designed to meet its legal obligations. • The measure of success for BPA's fish and wildlife program should be biological effectiveness, not the amount of money spent. • Customers support BPA's proposal to shift funding from administrative and overhead functions to projects that directly benefit fish and wildlife. • It is inappropriate and contrary to statute to expect BPA's customers to mitigate for all the problems identified in subbasin plans. Customers strongly object to paying for mitigation that is not directly related to impacts of the federal hydrosystem. • BPA has a responsibility to advocate for its customers any time decisions are being made on how the customers' money is being spent.

PFR - 045
MAY 2 0 2005

Asgharian,Maryam A - T

From: rwfcpud@rcabletv.com
Sent: Friday, May 20, 2005 9:05 AM
To: BPA Public Involvement
Subject: Comment on Power Function Review

Comment on **Power Function Review**
View open comment periods on http://www.bpa.gov/comment

Roberta Weller
PUD No. 1 of Ferry County
rwfcpud@rcabletv.com
(509) 775-3325
PO Box 1039
Republic WA 99166
The BPA Fish and Wildlife mitigation is funded primarily by utility customers and as such, we are currently paying nearly $700 million per year in these costs. Our ratepayers cannot absorb any more. This program should be based on biological goals and objectives designed to meet its legal obligation, and no more. The measure of success of the program should be biological effectiveness, not the amount of money spent. Our ratepayers support the BPA proposal to shift funding from administrative and overhead functions to projects that actually benefit fish and wildlife. Ratepayers strongly object to paying for mitigation that is not directly related to impacts of the federal hydrosystem. BPA has the responsibility to advocate for its customers whenever decisions are being made on how the customers' money is being spent. As your customer, we are speaking. No more additional funding for fish and wildlife mitigation!

PFR - 046
MAY 2 0 2005

Asgharian,Maryam A - T

From: jackh@meccoop.com
Sent: Friday, May 20, 2005 9:26 AM
To: BPA Public Involvement
Subject: Comment on Power Function Review

Comment on **Power Function Review**
View open comment periods on http://www.bpa.gov/comment

Jack R. Hunt
Missoula Electric Cooperative
jackh@meccoop.com
406-541-6340
1700 West Broadway
Missoula MT 59808
BPA fish and wildlife mitigation is funded primarily by utility customers. As a customer of BPA, we would like to provide the following comments on BPA's fish and wildlife spending. · BPA's customers are currently paying nearly $700 million per year in fish and wildlife costs. Further increases to BPA's fish and wildlife mitigation program are unjustified at this time, and would unnecessarily burden ratepayers. · BPA's fish and wildlife mitigation program should be based on biological goals and objectives designed to meet its legal obligations. · The measure of success for BPA's fish and wildlife program should be biological effectiveness, not the amount of money spent. · Customers support BPA's proposal to shift funding from administrative and overhead functions to projects that directly benefit fish and wildlife. · It is inappropriate and contrary to statute to expect BPA's customers to mitigate for all the problems identified in subbasin plans. Customers strongly object to paying for mitigation that is not directly related to impacts of the federal hydrosystem. · BPA has a responsibility to advocate for its customers any time decisions are being made on how the customers' money is being spent.

PFR-047
MAY 2 0 2005

Asgharian,Maryam A - T

From: johng@hrec.coop
Sent: Friday, May 20, 2005 9:42 AM
To: BPA Public Involvement
Subject: Comment on Power Function Review

Comment on **Power Function Review**
View open comment periods on http://www.bpa.gov/comment

John Gerstenberger
Hood River Electric Co-op
johng@hrec.coop
(541) 354-1233
PO Box 125
Odell OR 970544-0125
BPA fish and wildlife mitigation is funded primarily by utility customers. As a customer of BPA, we would like to provide the following comments on BPA's fish and wildlife spending. • BPA's customers are currently paying nearly $700 million per year in fish and wildlife costs. Further increases to BPA's fish and wildlife mitigation program are unjustified at this time, and would unnecessarily burden ratepayers. • BPA's fish and wildlife mitigation program should be based on biological goals and objectives designed to meet its legal obligations. • The measure of success for BPA's fish and wildlife program should be biological effectiveness, not the amount of money spent. • Customers support BPA's proposal to shift funding from administrative and overhead functions to projects that directly benefit fish and wildlife. • It is inappropriate and contrary to statute to expect BPA's customers to mitigate for all the problems identified in subbasin plans. Customers strongly object to paying for mitigation that is not directly related to impacts of the federal hydrosystem. • BPA has a responsibility to advocate for its customers any time decisions are being made on how the customers' money is being spent.

PFR- 048

MAY 2 0 2005

Asgharian,Maryam A - T

From: trichardson@cityofcheney.org

Sent: Friday, May 20, 2005 9:45 AM

To: BPA Public Involvement

Subject: Comment on Power Function Review

Comment on **Power Function Review**
View open comment periods on http://www.bpa.gov/comment

Thomas
City of Cheney Light Department
trichardson@cityofcheney.org
509 498-9230
609 2nd Street
Cheney WA 99004
The fish and wildlife programs are still not subject to the kind of fiscal accountability that should be required for the expenditure of public funds. No additional funding should be provided until BPA has a better handle on the effectiveness of each program funded. The $700 million currently being spent on fish and wildlife costs has not been spent well. Further increases to BPA's fish and wildlife mitigation program are unjustified at this time. The measure of success for BPA's fish and wildlife program should be biological effectiveness, not the amount of money spent. The City of Cheney supports BPA's proposal to shift funding from administrative and overhead functions to projects that directly benefit fish and wildlife.