



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

POWER BUSINESS LINE

August 25, 2006

In reply refer to: PFR-6

To Customers, Stakeholders, and Other Interested Parties:

This letter is the preliminary notice regarding a possible Cost Recovery Adjustment Clause (CRAC) or a Dividend Distribution Clause (DDC) adjustment to power rates for fiscal year (FY) 2007. This notice is required by sections D.3.(a)(2) and F.2.(a)(2) of the General Rate Schedule Provisions (GRSPs) recently filed by with the Federal Energy Regulatory Commission (FERC) by the Bonneville Power Administration (BPA).

BPA posted its Third Quarter Review on its external web site on August 2, 2006, and you can review it on BPA's web site at www.bpa.gov/corporate/Finance/q_review/. The forecast of FY 2006 Accumulated Modified Net Revenue (AMNR) for the Power Business Line (PBL) contained in this Third Quarter Review is the basis for any CRAC or DDC for FY 2007. At the time of the Third Quarter Review, the PBL AMNR for FY 2006 was forecast to be -\$6 million. Since BPA appears to still be tracking the Third Quarter Review forecast, the determination for calculating the DDC and CRAC will be the Third Quarter Results.

A comparison of this forecast to the CRAC threshold of -\$151 million and a DDC threshold of \$149 million means that there will not be either a CRAC or a DDC in FY 2007, barring significant unforeseen circumstances between now and the date of the final announcement at the end of September. In addition, even when these thresholds are adjusted to account for actual participation in the Flexible PF Rate program, the CRAC or DDC is highly unlikely to trigger for FY 2007. We expect the final rates, as published in the WP-07 Rate Schedules, to be in place for the entire FY 2007, barring unforeseen circumstances that could trigger the Emergency NFB Surcharge.

BPA will hold a workshop to review these calculations on September 13, 2006, at 9 a.m. in the Rates Hearing Room located at 911 N.E. 11th Avenue in Portland, Oregon. Please check the power rates web site at www.bpa.gov/power/rates for any handout materials. Call Dolena Fernandez at (503) 230-4297 if you would like to participate by phone.

The GRSPs also include a mechanism for the CRAC and DDC thresholds to be adjusted to account for the final level of participation in the Flexible PF Rate Program. Therefore, the agenda will also include an update on participation in the Flexible PF Rate Program, an explanation of how the translation was made between participation in the Flexible PF Rate Program and the associated reduction in the liquidity reserve level, and any adjustments to the CRAC and DDC thresholds required by actual participation in this program.

Lastly, it has been suggested that parties may have some ideas to share regarding the recently concluded rate case. We plan to save some time at the end of the workshop for you to share any thoughts you have on this recent rate case proceeding regarding things that went well and should be incorporated into future rate cases and things that could be improved. Please bring your ideas to this discussion. We are not prepared to tackle the formal rate case procedures at this time.

Finally, we expect to be announcing soon a Regional Dialogue workshop on Tiered Rates Methodology issues following the workshop cited above, so these two workshops should fill most of the day.

Sincerely,

/s/

Raymond D. Bliven
Power Rates Manager