



February 24, 2005
Via Electronic and U.S. Mail

Paul Norman
Senior Vice-President, Power Business Line
Bonneville Power Administration
P.O. Box 14428
Portland, OR 97293-4428

Re: Clarification of Power Function Review Process

Dear Paul,

BPA has laid out an extensive and intensive work plan for the Power Function Review (PFR). Conducting the PFR in the manner BPA describes will require large commitments of time and personnel by everyone.

Based on the initial PFR meetings, the customers are apprehensive about two areas of the PFR process. First, we are unclear how the PFR will relate to the processes that follow it, such as the PBL rate case, and how the PFR work products will be used in these follow-on processes. Second, the PFR process now consists of compartmentalized discussions of specific program budgets, with no overall focus or objective. These matters need to be addressed promptly so that the PFR participants can accomplish as much as possible through the PFR process.

The Joint Customers believe it vital that the relationships between the PFR and these follow-on processes be clarified in writing before time and personnel are committed to the PFR process. Specifically, the Joint Customers suggest that the following matters be clarified:

- 1) Identify the PFR topic areas that will be subject to further discussion and final decision making in the rate case workshops and the PBL rate case.

- 2) Identify the PFR topic areas that will be decided in the PFR, and will *not* be subject to further discussion in the rate case workshops or the PBL rate case.
- 3) Identify the PFR topic areas that will be decided in the PFR that will serve as the basis for the initial proposal in the PBL rate case.
- 4) Describe how participants in the PFR process will be given an opportunity to comment on BPA's draft decision on topics that fall into categories 2 and 3 above.
- 5) Describe how BPA's final decisions made in the PFR process that fall into categories 2 and 3 above will be memorialized.
- 6) Identify the PFR topics that will be decided in any other BPA processes, such as conservation programs, and how customer input will be sought and used.
- 7) Describe how BPA will provide sufficient information on alternate programmatic choices to allow informed input by PFR participants.

Reaching mutually satisfactory answers to the above items need not alter the current PFR schedule, as these topics can be discussed and resolved in parallel with the PFR process. The PFR process will have more focus, and the efforts of all participants will be more productive, if there is a clear understanding of what is being decided, what the programmatic choices are, how those decisions will be memorialized, and how they will be used.

Our second concern about the existing PFR process is that the process consists of viewing each program budget in isolation from other spending commitments, with no apparent consideration being given to the cumulative impacts of these discrete budget decisions on the overall rate level that BPA's customers will face. The customers fear that when these discrete budget decisions are added together, they will result in an unacceptably high BPA power rate.

While we recognize that the budget for each program must be viewed individually and on its merits, the review will have more focus and rigor if it is performed with an overall rate target in mind. The Joint Customers recommend that BPA adopt as its target for the PFR process an average BPA rate of no greater than \$27/MWh (inclusive of revenues for risk) for the next rate period, which suggests an annual program spending level of about \$1.8 billion (in nominal dollars). According to the BPA materials from the first PFR session, this is the annual average of BPA spending both in the 1997-2001 and 2002-06 rate periods.

This is an aggressive but achievable goal. The Joint Customers believe that holding the line on spending and absorbing current low levels of inflation are reasonable near-term goals, and that further reductions are possible in the future.

At the February 23 Management Group PFR workshop, BPA shared a preliminary assessment of the average PF rate that would result from adoption of the program levels being discussed in the PFR process, given certain assumptions. We would like to sit down with you next week to discuss your rate assessment, in addition to how we derived our proposed rate target and the cost reductions needed to achieve it. Such a discussion would help shed light on the areas that need to be focused on in the PFR discussions and help determine a rate target to guide this process.

Conforming the program budgets as part of a rate target will provide a unifying standard to the discussions of the discrete program budgets. It will also provide a meaningful yardstick against which to judge the results of the PFR process.

The Joint Customers look forward to working with you and your staff to resolve these matters, and to a PFR process that lays a solid foundation for a successful BPA rate proceeding.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Clark Leone". The signature is fluid and cursive, with a large loop at the end.

C. Clark Leone
Manager

On behalf of the following organizations and utilities:

Alcoa Inc.
Benton County Public Utility District
Benton Rural Electric Association
Clark Public Utilities
Columbia Falls Aluminum Company, LLC
Franklin County Public Utility District
Grays Harbor Public Utility District

Idaho Energy Authority
Industrial Customers of Northwest Utilities
Mason County Public Utility District No. 3
Northwest Requirements Utilities
PacifiCorp
PNGC Power
Power Resource Managers, LLP
Public Generating Pool
Public Power Council
Seattle City Light
Snohomish County Public Utility District No. 1
Springfield Utility Board
Western Montana G&T
Western Public Agencies Group