



Department of Energy

Bonneville Power Administration
P.O. Box 3621
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POWER BUSINESS LINE

March 2, 2005

In reply refer to: PL-6

C. Clark Leone, Manager
Public Power Council
1500 NE. Irving, Suite 200
Portland, OR 97232

Dear Jerry,

Thanks for your February 24 letter regarding the Power Function Review (PFR) process. We heard many of the same comments at the PFR management meeting last week. I along with my staff have been working to assure this process allows our customers and other stakeholders to understand and provide input on power costs, to ensure that our power rates reflect the lowest costs necessary to meet BPA's objectives. Your feedback is very helpful in making course adjustments. Therefore, I would like to let you know how we are responding to each of your recommendations.

Provide more clarity on where cost decisions are actually made. You asked for clarification on what issues will be decided in the PFR and what decisions will be made in the rate case and other forums. We will provide this information before the March 15 PFR workshop.

Provide more focus on the policy decisions that drive the costs. We have heard much appreciation for the information provided about costs, but we have also heard your request for clarity about what the policy decisions are that drive those costs. To address that, we will provide and keep updated a "scorecard" showing the policy decisions to be made in each major cost category, with the cost implications of each policy decision. We will issue the first iteration of this before the March 15 workshop. We will also ensure that the PFR technical presentations flag the key policy choices.

Provide more clarity about the total cost picture. I also understand your concern that in order to provide comments on the appropriate spending level, you need to see the total cost picture, not just the individual pieces. We had heard this concern before, which was why we presented the package last week showing the overall impact of the initial PFR cost estimates on total cost to PFR ratepayers. Hopefully that package was responsive to this concern.

Provide an opportunity to comment on the whole package of cost decisions before the decisions are made. A related concern was that the PFR schedule does not provide a chance to comment on the whole set of BPA's draft decisions in the PFR prior to them being finalized. To address this we are changing the wrap-up stage of the PFR. We will issue a draft PFR closeout

letter the week of May 2. This will describe BPA's proposal to change rate case cost levels in response to comments received in the PFR process. We will take comment on this through May 20th. The final close out letter for the PFR can then be expected the week of June 13th.

Set a rate target. Finally, you have recommended the adoption of a 27-mills/kWh-rate target, and that we meet to compare views of the cost estimates. A meeting on the numbers is a good idea and has been scheduled. I think we need to have the PFR discussion about risk before we can meaningfully discuss a target. We will put the question of a target on the agenda for the next PFR management level discussion on March 16.

I am hopeful the above actions address the concerns outlined in your February 24th letter. If you have additional comments, please feel free to contact me at (503) 230-5399, or Michelle Manary, PFR project manager, at (503) 230-5858.

Sincerely,

/s/ Paul E. Norman

Paul E. Norman
Senior Vice President

cc:

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 Requirement 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