



Department of Energy

Bonneville Power Administration
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POWER BUSINESS LINE

June 24, 2005

In reply refer to: P-6

To Our Customers, Constituents, Tribes and Other Stakeholders:

The Bonneville Power Administration (BPA) is now concluding the Power Function Review (PFR), which began in January 2005. Following a 4-month process of program reviews, BPA issued a draft report to the region for comment on May 2, 2005. Two closeout meetings were then held with both the PFR technical- and management-level participants. The comment period closed on May 20, 2005. The PFR process sought to provide interested parties with meaningful opportunities to examine, understand, and provide input on the cost projections that would form the basis for the FY 2007 wholesale initial power rate proposal, which is expected in the fall of 2005. BPA has found the PFR process to be beneficial and appreciates the time, energy, and attention participants gave to this effort.

We believe the cost levels included in the attached report represent a good public policy balance between near-term and long-term impacts. However, the conclusions on program cost levels presented in the report were reached before the preliminary injunction on river operations was issued. This preliminary injunction calls for significant additional spill this summer, creating an expected \$67 million revenue effect to ratepayers in 2005.

The preliminary injunction is under appeal, and, therefore the cost implications for FY 2006-2009 of the 2004 Biological Opinion are not yet known. Despite this uncertainty, BPA has decided to move forward with the final PFR report without modifications. BPA will review all the PFR decisions after the impact of this ruling and associated appeals become more clear. PFR decisions will be reviewed and further reductions in PFR program cost levels may be necessary before the FY 2007-2009 final power rate proposal is developed next year if the generation and revenue losses are significant and persistent.

Overall, cost reductions totaling \$96 million per year for the FY 2007-2009 period have been identified through the PFR process. These reductions are detailed in the attached report. Cost forecasts for BPA's initial power rate proposal, due this fall, must be finalized now to allow the rates process to stay on schedule. BPA will use the numbers in the attached report for this purpose. However, many commenters noted that these reductions are not enough. BPA is also not satisfied that these costs are as low as they can reasonably be while still meeting its mission requirements. BPA will take the following steps to seek further reductions before submitting its FY 2007-2009 final power rate proposal in mid-2006:

- Conduct head-to-head benchmarking of Federal hydro project costs against Mid-Columbia and other regional hydro projects. BPA, the Corps of Engineers, Bureau of Reclamation, and Grant PUD have agreed to this effort.
- Potentially remove the Calpine geothermal project costs from the FY 2009 forecast, pending outcome of the current arbitration process, which should conclude later this summer.
- Examine extending Columbia Generating Station debt to the end of the current license period in 2024. Further discussion with customers and the Energy Northwest Board will be held on this topic. This is estimated to reduce FY 2007-2009 costs by roughly \$30 million per year, but would increase out year costs.
- Continue the Enterprise Process Improvement Project and other internal cost control initiatives.
- Further examine the timing for spill tests on the Snake River in relationship to installation of surface passage technologies such as removable spillway weirs, while continuing to ensure that our Endangered Species Act commitments are met.
- Re-examine the recovery period for conservation capital (5 years will be used for the initial power rate proposal) based on progress defining long-term conservation programs in the Long-Term Regional Dialogue process and other capital considerations.

There are also cost increases that could become apparent before the final power rate proposal. These include:

- A proposed reduction of \$1.5 million per year in funding for WECC/NERC compliance is included in the forecast. The final study of this program will be completed at the end of June indicating whether or not we can achieve this savings.
- Congress is currently considering legislation that would provide the Spokane Tribe with benefits similar to those received by the Colville Tribe to compensate for the loss of land resulting from Federal dam construction.
- The Corps of Engineers will decide when to begin treating funds for the Columbia River Fish Mitigation project as plant-in-service. This decision could increase FY 2007-2009 costs.

BPA will seek comment early next year on these further cost changes, prior to incorporating them in the final power rate proposal.

Some of the issues from the PFR are not being closed out at this time, as they will be finalized in the power rate case process. Risk mitigation packages and tools, along with debt management issues, will be discussed in the upcoming FY 2007-2009 power rate case. Additional information on the upcoming rate case is available on the BPA Web site at www.bpa.gov/power/ratecase.

Thank you very much for your attention and input to the Power Function Review. Your participation has made a difference. For further information on the PFR or other issues, please

contact your customer account executive, constituent account executive, tribal account executive, or me at (503) 230-5399. The final PFR report and additional information on the process is available at www.bpa.gov/power/review.

Sincerely,

Paul E. Norman
Senior Vice President
Power Business Line

Enclosure:
[June 24, 2005 - Power Function Review Final Report](#)