



## Department of Energy

Bonneville Power Administration  
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EXECUTIVE OFFICE

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In reply refer to: P-6

To Customers and Interested Parties:

The Bonneville Power Administration (BPA) is currently in the midst of signing power sales contracts for the Fiscal Year 2002-2006 period. When signed, these contracts would lock in rates for a 5-year period, leaving BPA limited flexibility to address major change. Creating 5-year rate stability has been a fundamental premise of the Subscription Strategy. However, since the end of BPA's 2002-2006 power rate case, the wholesale electricity market has shown unprecedented volatility and a dramatic upward trend in prices. I want to be open with you about the dilemma this presents for BPA and the potential implications for the latter half of the 2002-2006 rate period.

We have all witnessed the recent price surge. While we cannot define with certainty all the factors that have caused recent short-term price volatility, increases in natural gas prices and west coast supply deficits are driving up BPA's long-term costs of power. Though power purchases will only make up roughly 20 percent of BPA's total power supply in the next rate period, this increase could have a significant impact on BPA's ability to fulfill its financial obligations. And as market prices have increased, there has been a corresponding increase in customers' desire to place load on BPA. It now appears that the firm load placed on BPA may be 1,400 average megawatts higher than anticipated in the rate case, which would require additional major purchases in the market by BPA.

Given the best information we had during our recently concluded rate case, we met our goal of an 80 to 88 percent Treasury Payment Probability (TPP) for the 5-year period. If these higher loads and prices occur, we estimate our chances of paying Treasury every year in full for the period 2002-2006 could drop to less than 65 percent. The difficulties in ensuring Treasury payment, if they were to materialize, would most likely be in the last 3 years of the 5-year rate period. As the financial stewards of the Federal Columbia River Power System, we do not believe a 5-year TPP this low is acceptable.

We don't know for certain how much additional load we will get or how long the high market prices for 2002-2006 deliveries will be with us. Our financial situation is presently very sound, though the potential for problems has clearly grown. In light of these extraordinary circumstances, it is only prudent to move forward with options that would provide BPA the flexibility to respond to this situation.

It is important to note that the issues raised here are related to changes in load and market rates. The fish and wildlife costs that will fall to BPA as a result of the recently released draft Biological

Opinion were anticipated and are covered in the proposed rates. Recent fish recovery decisions are not driving this situation.

We made a commitment to Congress and others to maintain a high probability of paying Treasury. We expect to maintain our proposed rates for at least the first 2 years of the rate period. However, we need to explore options that allow sufficient flexibility to deal with problems that may arise in the latter part of the rate period. One option is to revise our rate proposal for the 2002-2006 period before those rates are reviewed by the Federal Energy Regulatory Commission (FERC). Revisions could include altering the existing, limited Cost Recovery Adjustment Clause (CRAC) to create more flexibility, and implement similar changes to the Slice product offering. Another option is to change the Subscription contracts to allow a public process to revise rates within the rate period, if needed. Since the financial challenges are more likely to appear later in the rate period, we lean towards limiting any change in rates to the last 3 years of the rate period, with no change to the current proposal for the first 2 years. Further analysis will help us to decide whether this approach is viable.

Given the significance and seriousness of the potential decisions ahead, we have decided to continue negotiating contract terms with our customers, but temporarily suspend signing additional Subscription contracts for the time being. There may be a need for a corresponding delay in the deadline for signing Subscription contracts. We are committed to concluding Subscription as quickly as possible and providing our customers a competitive, cost-based product.

We will be discussing this with the region to ensure as much input as possible. We intend to conduct the following process:

August 1-August 22:	Collect interested parties' thoughts on appropriate responses.
August 3	Distribute a 2 to 3 page description of alternative BPA responses.
August 21	Public meeting on alternative responses – Portland Airport Holiday Inn, 10 a.m.-2:30 p.m.
August 22	Comments due
August 25	Announce what response BPA intends to implement and how the details will be defined.

As you can tell, this has not been an easy decision to make. But assuring the financial health of the System is necessary if we hope to retain its benefits for the Northwest. We ask for your understanding as we seek to deal with these difficult issues.

Sincerely,

Judith A. Johansen  
Administrator and CEO