



Department of Energy

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

POWER BUSINESS LINE

February 27, 2004

In reply refer to: PL

Dear Customers, Constituents, and Other Regional Stakeholders:

I want to give you an update on Bonneville Power Administration's (BPA's) plans for resolving the Regional Dialogue issues concerning our power supply role post-2006. Last fall BPA and the Northwest Power Planning and Conservation Council (Council) hosted a series of informal discussions with customers and other regional stakeholders on this topic. The Council then issued a paper entitled "The Future Role of the Bonneville Power Administration in Power Supply" and asked for comment. The Council more recently initiated a series of meetings to help them develop their recommendations to BPA, which they plan to complete at the end of April 2004. The Council's issue paper, as well as their plans over the next couple of months to discuss Regional Dialogue issues, can be found on their website at: www.nwppc.org/energy/bparole/.

In a letter to the Council dated December 9, 2003, Administrator Steve Wright provided BPA's views in response to the Council issue paper. That response is available on BPA's Regional Dialogue website at: www.bpa.gov/power/regionaldialogue. In late June, BPA will issue a draft policy statement that is informed by the Council's comments, as well as by comments received from customers and other stakeholders in the region.

That's a summary of recent progress on the process, but what about the substance of the Regional Dialogue? Nearly all of BPA's regional power sales contracts continue through 2011, which BPA intends to honor. Despite this, BPA has uncertainty of over 3,000 aMW regarding how much power it will supply at its lowest embedded cost rates for the 2007-2011 period. As stated in our December 9, 2003, letter to the Council, BPA believes our first priority must be to resolve issues for the 2007-2011 period. Time is getting short to resolve these issues.

As we currently see it, those issues are the following, subject to change based on input we receive. The set of issues listed below is consistent with the issues defined by the Council:

1. **Long-Term Power Obligations:** Establish BPA's policy for its total load obligations at the lowest embedded cost rates. We expect to propose that these obligations be limited to close to the firm output of the existing Federal system. This part of the policy would extend past 2011.
2. **Tiered Rates:** Determine whether BPA should propose a tiered rates construct to implement the other Regional Dialogue policy decisions. Specific rate design decisions would be reserved for the rate case.

3. **New Publics and Annexed Loads:** Determine the conditions under which newly formed public utilities or IOU loads annexed by public utilities will be served at the lowest embedded cost rate.
4. **Conservation and Renewables:** Address BPA's general approach to carrying out its conservation and renewable resource responsibilities.
5. **New/Different Products:** Establish how BPA should respond to customer requests to modify, (a) the amounts they are obligated to purchase under existing contracts from 2007-2011, and/or (b) the type of product they purchase. This would include requests to increase or decrease Slice purchases from 2007-2011.
6. **Cost Controls:** Propose mechanisms to provide customers and others with greater assurance regarding cost management by BPA and its partners, and more input to cost decisions.
7. **Service for Expiring Five-Year Contracts:** Identify whether BPA will provide products to public utility customers with contracts expiring on September 30, 2006, that vary from their existing service, and whether 2007-2011 service will be offered at the lowest PF rate or at a different rate established in the next rate case.
8. **Post-2006 Service to Direct Service Industries (DSI)/New Large Single Loads:** Determine whether BPA will offer Federal power to DSI loads. If so, determine the amount of power BPA will offer to sell to DSIs from 2007-2011, and the terms and conditions of such service. The draft policy statement will also address treatment of new large single loads, including treatment of former DSI loads that may become loads of public utilities.
9. **Residential Exchange:** Determine how BPA will implement terms of existing IOU contracts for 2007-2011, including whether BPA will provide IOUs power or financial benefits over the remaining term of the contracts.

We hope that our proposal in June will be informed by strong recommendations from the Council, customers and other interested parties. To the extent possible, we strongly prefer that our proposal reflect regional agreements on these issues, and will continue working closely with all parties between now and June to that end.

Longer-Term Issues

Resolution of the issues listed above still leaves key long-term questions unanswered. For instance, what is the long-term role of the Slice product after current contracts expire in 2011? Also, how much benefit and in what form will residential customers of investor-owned utilities receive after current contracts expire in 2011? We have not yet decided when these longer-term issues will be resolved and captured in new contracts for the post-2011 period. Again, our

priority now is on resolving the more pressing 2007-2011 issues, though our intention is that our 2007-2011 decision not overly prejudice the post-2011 direction with the exception of the first issue. We will discuss the timeline for resolution of the longer-term issues with our customers, the Council, and others in the region.

Refining BPA Strategic Objectives

As BPA focuses on the Regional Dialogue issues, we are also refining our overall Agency Strategic Objectives. Defining clear objectives and managing rigorously to them was a central theme of BPA's Report to the Region that was issued in April 2003. These objectives are relevant to many of the issues that will be addressed in Regional Dialogue. As we hold Regional Dialogue discussions over the coming months, we will also brief you on BPA's Strategic Objectives and ask for your feedback.

Regional Dialogue Process and Timeline

After the Council provides us their recommendations, but before we issue our Regional Dialogue draft policy statement in late June, we plan to hold informal discussions with interested customers, constituents, the Council, and others to discuss our proposal. Once the draft policy statement is issued, a series of public meetings will be scheduled beginning in July to provide opportunities for everyone to comment formally on all aspects of the draft policy statement. Informal discussions on specific issues will also continue. The Administrator intends to make final policy decisions and sign a record of decision in the fall of 2004. These policy decisions will guide BPA's post-2006 rate proposal, potential contract amendments, any new contracts with direct service industries, the development of post-2006 conservation and renewable resource programs, and BPA's cost management approach.

Updated information will continue to be posted on BPA's Regional dialogue website at: www.bpa.gov/power/regionaldialogue. I strongly encourage your active participation to make sure that your views are heard and considered. I look forward to productive regional discussions over the coming months. In the meantime, if you have any questions on this process, please contact your Account Executive or Helen Goodwin, Regional Dialogue Project Manager, at 503-230-3129. You can also contact Alex Smith, Vice President of Requirements Marketing at 503-230-7640, or me at 503-230-5399.

Sincerely,



Paul E. Norman
Senior Vice President
Power Business Line