



Department of Energy

Bonneville Power Administration
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EXECUTIVE OFFICE

December 9, 2003

In reply refer to: PMB

Jim Kempton, Chair, Power Committee
Northwest Power and Conservation Council
851 S.W. Sixth Avenue, Suite 1100
Portland, OR 97204

Dear Mr. Kempton:

Thank you for sharing a copy of correspondence from the Northwest Power and Conservation Council (Council) dated October 17, 2003, asking for comment on the "Proposed Council Principles for the Future Role of Bonneville in Power Supply."

First, let me express my appreciation to the Council for restarting the Regional Dialogue as requested in the June 5, 2003, four Northwest Governors' letter. The work you did by hosting jointly with my staff the nine informal discussion sessions held around the region last September, and summarizing what you heard at those sessions, was extremely helpful. We look forward to being informed by the public process you are now leading, and assuming successful completion of the IOU residential exchange settlement, by the recommendations we expect to receive from you in April 2004.

As you know, we released a "Lessons Learned" report to the region in April 2003 in which we concluded, among other things, that we need to do a better job of developing and internally managing to clear strategic objectives. Since that report was released, we have been working to refine our strategic objectives. These objectives cover all of what BPA does, and some are relevant to the Regional Dialogue. We plan to test these objectives soon with the region before completing them.

Since restarting the Regional Dialogue, many parties have urged us to express BPA's "leanings" on the issues in play. Hence, we want to take this opportunity to share some thoughts on those issues in light of BPA's draft strategic objectives, with the understanding that these are only leanings and do not constitute any final decisions on my part. We think you will find that these thoughts are generally consistent with the Council's proposed principles.

First, for the past 65 years, BPA has been the trusted steward of the Federal core of the Pacific Northwest's power and transmission system, a system whose value has been defined by low rates, high reliability, environmental consideration, and responsiveness to citizens' desires. BPA

will continue to deliver on that value for the long term as the region determines its energy future. Protecting the value of the Federal system for the region is a paramount goal.

Second, we agree that the Council's proposed goal of limiting the firm power sales we make at embedded-cost rates to roughly the output of the existing system is a good thing. Doing this will have a number of benefits. It would help reduce BPA's wholesale firm power rates and keep them low and predictable by minimizing the dilution of the existing low-cost Federal system resources with higher cost new resources. It also will spur the development of much-needed electric infrastructure by lifting the cloud of uncertainty over load obligations that currently is seriously impeding infrastructure development, thereby helping ensure an adequate, efficient, and reliable power service.

Equally important to clarifying BPA's load obligation is clarifying our customers' rights and obligations to develop their own resources instead of relying on BPA. We know that many regional utilities are ready to move forward on resource development but need this clarity to do so. We want to encourage and facilitate their effort.

Because customers have statutory rights to purchase from BPA, there are important questions about how we accomplish the goal of limiting BPA's load obligations and clarifying our customers' choices. A tiered rate structure is one means of doing this. Our customers are discussing this issue now. We are inclined to believe tiered rates provide an excellent opportunity that should be fully explored for limiting our obligations to sell power at the lowest embedded-cost rate.

Parenthetically, it may be difficult to meet the goal of keeping our firm power sales at roughly the output of the existing system from 2007 to 2011 if the proposed settlement of IOU benefits litigation does not succeed. Without that settlement, we will have to administer the provisions of the existing contracts, which creates an option to sell 2,200 aMW of power to the IOUs or provide them financial benefits. Without settlement, I also anticipate a much more difficult regional discussion of the key policy issues, which may force the Council and BPA to reach conclusions on the key issues without the benefit of broad regional agreement on them.

Creating this clarity about BPA's and our customers' load obligations as soon as possible is a goal that we share with you and the Northwest Governors and most of our customers. Our intended schedule for doing so is outlined below.

We believe these goals are reasonably achievable within existing law and do not require our customers to give up rights they have under existing contracts. We view seeking changes in law to achieve these goals as an unpredictable, time-consuming route that we do not support.

As you know, I believe our ultimate goal should be establishing new 20-year contracts that secure the benefits of the system for the region. However, we need to work within the construct of our existing power sales contracts, most of which run through 2011. Replacing these

contracts would require the agreement of the contract holders, which may be difficult to obtain. Though I am open to discussion of this, I am concerned that attempting to replace the existing set of power sales contracts with a new set of 20-year contracts that would go into effect in 2006 may frustrate our mutual goal of bringing more certainty to load obligations as soon as possible. Through the Regional Dialogue process we can set the policy stage now for new 20-year contracts without seeking to replace all of the existing contracts immediately.

With respect to schedule, our intent is to issue a BPA policy proposal for public review in June 2004, informed by your recommendations to us in April, by further work done by customers and other parties, and by public comment on all of the above. I would expect our proposal to reflect some of the directions expressed above. Our goal is to have a Record of Decision on this policy done by fall of 2004, which then would position us for the next power rate case. This schedule should allow the BPA decision and the Council's new Power Plan to be in sync.

On a related topic, I want to urge the Council to consider expanding the scope of the leadership it provides to the Regional Dialogue. Assuming the region becomes less reliant on BPA and the Federal system to supply the region's future load growth and services, there is a need for a coordinated regional focus on the regional power system, not just on BPA issues. With BPA likely to be a shrinking fraction of the region's power system, the Council should seek to provide leadership by working with all stakeholders within the region to come to a common vision of the future direction for the regional power system as a whole.

I look forward to working with you and members of the Power Committee as we jointly move forward with the Regional Dialogue. As always, if you have questions or concerns, please feel free to contact me, or members of my staff who are coordinating our Regional Dialogue effort: Paul Norman, Bonneville's Senior Vice President for Power at (503) 230-5399; or Helen Goodwin, Project Manager, at (503) 230-3129. We stand ready, at your request, to assist in all possible regards.

Sincerely,

/s/ Stephen J. Wright

Stephen J. Wright
Administrator and Chief Executive Officer