



Department of Energy

Bonneville Power Administration
P.O. Box 3621
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FINANCE

November 14, 2008

In reply refer to: F-2

To Our Customers, Constituents, Tribes and Other Stakeholders:

The Bonneville Power Administration (BPA) now brings to a close the Integrated Program Review (IPR) examination of FY 2010-2011 Power and Transmission costs that began on May 15, 2008.

Between the opening "Overview" workshop and the end of June, eight days of technical workshops were held covering all Power and Transmission program levels through FY 2011. The Administrator hosted a management-level meeting on July 2, 2008, to hear comments personally, and a public comment period was held from May 15 through August 15, 2008. Through this process, BPA sought to provide interested parties with meaningful opportunities to examine, understand, and provide input on the cost projections that would be included in the initial proposals for FY 2010-2011 Power and Transmission rates. These initial proposals are expected to be published in February 2009. In addition, FY 2009 Power program levels were reviewed and commented on, and a final report on those cost projections was provided on July 23, 2008. BPA appreciates the participation and input you provided during this process, especially given the numerous other concurrent and important processes. We have found it beneficial.

BPA believes the program levels reflected in the attached report are an appropriate balance between minimizing impacts to ratepayers in the short term and the need to make investments for the long term. In particular, BPA identified the following areas that need investment now: the transmission system; the aging and deteriorating Federal hydro system; the reliability, safety and performance of Columbia Generating Station; environmental and regulatory obligations and safety and security needs; and the internal infrastructure necessary to support the business.

BPA identified roughly \$8 million in net reductions for FY 2009 Power costs compared to draft IPR levels. For FY 2010-2011, BPA determined it is appropriate to restore the renewable rate credit, increasing costs by \$2.5 million and \$4 million for those years. Reductions in capital forecasts have also been made through this IPR process. These changes are detailed in the attached report. Cost forecasts for BPA's Power and Transmission rate proposals must be finalized now to allow the rate process to stay on schedule. BPA will use the attached report for this purpose.

Customers challenged us to find additional cost reductions in several areas. We do not believe it is prudent to include additional cost reductions in rates unless and until we are confident we can deliver them. We will continue to examine costs over the next several months. We believe that

progress on several fronts, including the Network Open Season, Regional Dialogue, Biological Opinion, renewable and conservation activities, and asset plans over that time will make the potential for additional savings more clear. Also, the implications for BPA and the region of recent events in global financial markets and indications of a severe economic downturn need to be evaluated. Prior to submitting final rate proposals in July 2009, BPA will assess any new or updated information available and determine if we believe further cost changes are appropriate. We will conduct an abbreviated public review of these costs in the March/April time frame, with the results being incorporated into the final rate proposals. BPA accomplishes review of proposed spending levels outside its formal rate case to allow for substantial public input, and the decisions are not revisited in the rate case.

Thank you very much for your attention and input to the IPR for FY 2010-2011 Power and Transmission costs. For further information on the IPR or other issues, please contact your Customer Account Executive, Constituent Account Executive, Tribal Account Executive, or me at (503) 230-5111. The final IPR report and additional information on the process is available at www.bpa.gov/corporate/Finance/IBR/IPR/

Sincerely,

/s/ David J. Armstrong November 14, 2008

David J. Armstrong
Executive Vice President and Chief Financial Officer

Enclosure
IPR FY 2010-2011 Power and Transmission Program Levels Final Report