Northwest Power and Conservation Council

February 8, 2005

MEMORANDUM

TO: Council Members

FROM: Mark Walker, Director of Public Affairs

SUBJECT: Controversial provisions included in BPA's Fiscal Year 2006 budget

At next week's Council meeting we will have a discussion on two new budget proposals pertaining to BPA that appeared this week in President Bush's Fiscal Year 2006 federal budget. The two proposals could have a serious impact on Northwest electricity rates and the reliability of the region's electricity system.

The first proposal would require BPA to gradually increase its cost-based electricity rates to "average" national market rates. The second would require BPA to include third-party debt in debt limit calculations for its capital program. This could have an adverse impact on BPA's efforts to upgrade and modernize its transmission system.

The following explanation of the provisions is from one of the Department of Energy's budget publications that was released yesterday.

Power Marketing Administrations

The Power Marketing Administrations (PMAs), Bonneville, Southeastern, Southwestern, and Western, sell electricity generated at Federal dams operated by the Corps of Engineers and the Department of the Interior's Bureau of Reclamation (BuRec). With the exception of Southeastern, which leases transmission capacity, the PMAs own and operate over 33,000 miles of transmission lines from the Midwest to the West coast.

The Administration makes several proposals in this Budget to improve the performance of the PMAs by removing unnecessary Government intervention and allowing the PMAs to operate in a more business-like, efficient manner.

851 S.W. Sixth Avenue, Suite 1100
Portland, Oregon 97204-1348
www.nwcouncil.org

Steve Crow
Executive Director

503-222-5161
800-452-5161
Fax: 503-820-2370

The Administration will propose legislation to very gradually bring PMA electricity rates closer to average market rates throughout the country. According to the Government Accountability Office, PMA rates are artificially low because taxpayers across the Nation have borne some of the PMAs' costs. Thus, the general taxpayer has helped subsidize the cost of PMA power purchased by electricity wholesalers. Reducing subsidies to electricity wholesalers is consistent with the Administration's fiscal policies, and this proposal will create a more level playing field for the Nation's electricity suppliers and encourage appropriate energy conservation.

Fulfilling a commitment in the President's 2005 Budget, the Budget proposes specific legislative language to clarify what Bonneville liabilities and obligations should be counted toward Bonneville's statutory cap on borrowing. Under Budget Enforcement Act scorekeeping procedures, some agency transactions, such as lease-purchases, result in liabilities that make a claim on future Bonneville resources, and therefore constitute a form of Federal debt for budget purposes. Bonneville entered into one such transaction in 2004 and is considering entering into others. To ensure the integrity and usefulness of Bonneville's $4.45 billion debt limitation with the Treasury, the Administration is proposing legislation to ensure that, in the future, these types of debt-like transactions are treated as debt and counted toward Bonneville's statutory debt limit. In order to accommodate Bonneville's projections of its investment through 2010, including potential financing through transactions that would count against its debt cap under proposed legislation, the Budget is proposing to increase the limit on Bonneville's debt by $200 million.