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July 2, 2005

MEMORANDUM

TO: Power Committee

FROM: Howard Schwartz

SUBJECT: Briefing on Bonneville's Power Function Review Final Report

Purpose

This is a briefing for the Power Committee that requires no decision immediate action. The Power Function Review has important implications for conservation and fish and wildlife funding.

Power Function Review Summary

BPA conducted a "Power Function Review" (PFR) from January-June 2005 in order to educate its stakeholders on its cost structure prior to entering into the next rate case and to solicit input from them on whether the cost structure is appropriate. The meetings were mostly attended by various customer representatives (utilities, industrial customers, etc.) but also by some public interest representatives, tribes, states and Council members. Since BPA rate cases are only about how its costs are to be recovered—and not about the costs themselves--- the PFR will be the only opportunity rate case participants will have had to question BPA's cost structure.

The PFR was structured so that BPA presented detailed budget information about all of its 'power functions' at several meetings, each of which focused on a specific area such of Fish and Wildlife, the Columbia Generating Station, Conservation and Renewables, Corps and Bureau projects and operations, debt structure, etc. At the final meetings, participants reviewed a proposed final report with the participants, which BPA revised before issuing the final version on June 24, 2005.

Key Outcomes

- The whole process resulted in BPA reducing its Power budget by \$96 million from a beginning estimate of about \$2.7 Billion. Most of these reductions were from accounting changes or the discovery that scheduled expenditures were not needed.

- The process was dominated by customer demands that BPA budget to a target that would result in a PF rate of 27 mills. This would have required cuts of about \$400 million that were clearly unattainable. In this atmosphere, voices that argued that BPA's costs were reasonable and that many functions were under-funded had a hard time being heard.
- As it stands, BPA will enter the rate case with a cost structure that translates into a PF rate of about 29 mills plus additional costs for risk. The customers were appalled at BPA's initial risk estimates and have demanded wholesale changes in every aspect of BPA's risk proposal (Treasury Payment Probability, how reserves are calculated, IOU residential exchange risk, secondary revenues, etc.). Further workshops and discussions are continuing. Thus, it is likely, that BPA rates will decline modestly at best, confounding the expectations of utility managers who expected, as a matter of course, that when the power purchases of 2001 were paid off, rates would fall dramatically.
- Over the course of the Review, the conservation budget was cut by \$5million dollars/year and BPA reduced its target below the Council's level. After vigorous protests, the \$5 million dollars was restored, but the budget, about \$80 million, is still well below what the Council estimates will be needed for BPA to achieve its share of regional targets.
- BPA's actual budget for renewables is somewhat murky in that BPA has committed both hard and soft dollars to the "facilitation" of wind and other projects. Its target is \$21 million, including \$6 million/yr for a renewables rate credit, but only \$9 million/yr will come from rates; the rest will come from revenues from BPA's sales of green products (tags, green power, etc.).
- Despite vigorous complaints by customers, fish and wildlife costs were left untouched.

The final report, meeting summaries and all written comments may be found at <http://www.bpa.gov/power/pl/review/>.