



## Department of Energy

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

FINANCE

June 19, 2009

In reply refer to: F-2

To Customers, Constituents, Tribes and Other Regional Stakeholders:

The Bonneville Power Administration (BPA) now brings to a close the second round of the Integrated Program Review (IPR2) for FY 2010-2011 Power and Transmission Costs which began on March 18, 2009. While both Power and Transmission costs are included in the scope of the IPR process, the focus of this IPR2 has been on costs that affect Power rates.

BPA hosted three management-level meetings on March 18, April 9, and April 29, 2009, to hear and collaboratively discuss comments on proposed program spending levels for Power and risk mitigation tools that could be used to keep BPA's FY 2010-2011 power rates as low as possible while continuing to meet key agency objectives. BPA released a Draft Decisions Report on April 24, 2009. Comments on draft decisions were received at the April 29 meeting and during the public comment period held from March 18 through May 4, 2009. BPA appreciates and values the participation and input you have provided during this process.

The purpose of the attached report is to provide BPA's final conclusions about the costs to be included in its FY 2010-2011 power and transmission rate case final proposals based on discussions and comments received. The final program levels identified in the attached report reflect efforts taken by BPA and its partners to address the current deterioration in economic conditions and the difficulty a large BPA Power rate increase would create in the region. Significant reductions in program level forecasts have been identified during the IPR2, including total reductions affecting power rates of \$106 million over the FY 2010-2011 rate period and an additional \$43 million identified in FY 2009.

BPA has reduced planned Agency Services costs by \$19 million and Power Internal Operations costs by \$9.7 million in the FY 2010-2011 period, resulting in a 7 percent reduction in internal costs affecting power. Energy Northwest has confirmed reductions totaling \$11.3 million in FY 2010 and \$40.1 million in FY 2011, primarily from fuel cost reductions and shifting fuel costs out of the FY 2010-2011 period. The Corps of Engineers and Bureau of Reclamation have reduced FY 2010-2011 Operations and Maintenance program level forecasts by \$13.2 million. BPA, in conjunction with several Northwest Tribes, has confirmed \$30 million in reductions to Fish & Wildlife expense forecasts in FY 2009-2010. All of these and other reductions detailed in the attached report will contribute in a major way to our effort to keep the size of the Power rate increase as low as possible.

BPA believes the program levels reflected in the attached report are at an appropriate level given current economic conditions and the need to minimize the size of BPA's Power rate increase in FY 2010-2011. Customers challenged us to find additional cost reductions; however, BPA does not believe it would be prudent to make additional reductions. BPA's capital program is expanding, with the general support of IPR participants, to address increased renewable generation, energy efficiency, and fish and wildlife needs, and to assure reliability of the hydroelectric and transmission systems. To successfully achieve this planned capital program, adequate internal infrastructure must be in place. Additionally, regulatory requirements and environmental obligations have increased in recent years. These all put significant pressure on BPA expenses as well as capital. BPA believes making reductions in addition to the already significant reductions would jeopardize BPA's ability to meet key strategic objectives and responsibilities.

The reductions being put in place here reflect the near term stresses as a result of the combination of (1) the calamitous global, national and regional economic downturn, and (2) substantially reduced 2009 BPA revenues as a result of poor water and market conditions. These events have resulted in an imperative to focus on near term rates. Should there be recovery from either of these factors in the FY 2010-2011 period, BPA may consider restoring some of these reductions.

Thank you very much for your attention and input to the Integrated Program Review for FY 2010-2011 Power and Transmission costs. For further information on the IPR2 or other issues, please contact your customer account executive, constituent account executive, tribal account executive, or me at (503) 230-5111. Additional information on the process is available at <http://www.bpa.gov/corporate/Finance/IBR/IPR/>.

Sincerely,

*/s/ David J. Armstrong*

David J. Armstrong  
Executive Vice President and Chief Financial Officer

Enclosure  
IPR2 FY 2010-2011 Power and Transmission Program Levels Final Report