



P.O. Box 3621  
Portland, Oregon 97208-3621

June 29, 2001

## To BPA Customers and Citizens of the Pacific Northwest:

What a difference three months can make when people throughout the Northwest work together! Exactly three months ago, on March 29, I wrote to you about the extreme conditions our region was facing – drought, unprecedented high wholesale electricity prices and the tight power supply. All of these were combining to drive up electricity rates dramatically.

Shortly thereafter, on April 9, I faced a roomful of the region's news media representatives with more details related to this extremely bad news. For about a year we had known that rates would need to increase. By April we had concluded that, without heroic actions, the Northwest was facing a BPA wholesale rate increase of 250 percent or more.

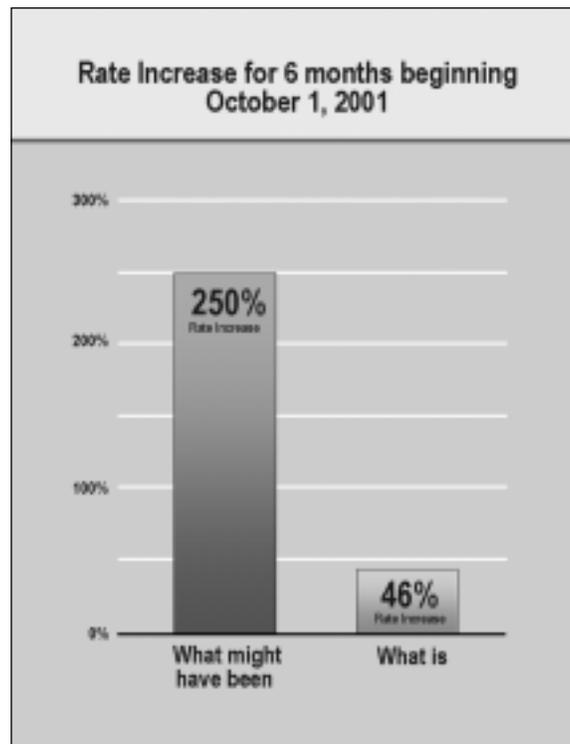
I shared our concerns that such an increase, even at the wholesale level, would have severe economic consequences for our region. As a region, we had a very short time – just under three months – to turn things around because, under BPA's recently concluded rate case, we had to announce our rates for the first six months of the rate period by the end of June. The actual rates go into effect Oct. 1. We outlined some very tough sacrifices that the region would have to make if we were to bring the rate increase down to a manageable level in such a short time.

We called on the region's utilities to reduce their power take on BPA by up to 10 percent, and we asked the region's industries that are directly served by BPA, primarily aluminum plants, to delay the restart of operations for up to two years. Starting in October, Bonneville would have been obligated to deliver approximately 11,000 average megawatts of power over the next five years. This is about 3,000 average megawatts more than our current generating resources – the region's federal hydropower dams and one nuclear plant – can provide. For the first six months starting Oct. 1, things were even worse – we needed 3,700 average megawatts. These commitments were the result of a three-year process about how much power BPA should sell.

Since we are contractually obligated to provide the power, we would have been forced to buy the additional power in the wholesale market. Fortu-

nately, we were able to secure about 1,300 average megawatts of additional power at reasonable prices, mostly prior to market prices rising dramatically last year. That left us needing to buy another 2,400 average megawatts in an exorbitantly high-priced market. That is, unless we could reduce the demand for power on BPA by an equivalent amount.

With the support of Secretary of Energy Spencer Abraham, we embarked on a difficult journey to bring the rate increase down. We were also pleased to get the support of the region's congressional delegation and governors.



*BPA's rate increase for Oct. 1, 2001, through March 31, 2002, will be 46 percent, instead of the 250 percent increase anticipated in early April.*

It is with great excitement and gratitude that we can now say that the region has substantially realized the goal of reducing the load it will place on BPA. We now have contractual commitments to reduce loads by 2,277 average megawatts for the first six months of our five-year rate period, starting Oct. 1. That's 95 percent of our goal. This brings our need to purchase power down from 2,400 average megawatts to under 100 average megawatts. To be candid, this exceeds my most optimistic expectations when we began this exercise back in April.

Consequently, when rates go into effect this October, we will see an average rate increase of 46 percent for BPA's wholesale power rates. Impacts at the retail level from BPA's increase typically should be about half or less than our wholesale increase. Certainly, this is a significant increase, but it is a far cry from the more than tripling of rates we anticipated just three short months ago. And, it preserves a great Northwest asset – low-cost power. This is an extraordinary achievement. Moreover, it was made possible by a truly great and cooperative regionwide effort involving public and private power and industries.

The impacts of the regional effort will have reverberations beyond this Oct. 1 when our new rates go into effect. Under our current five-year rate process, the rate adjustment will be reassessed every six months to reflect market conditions. To the extent that prices continue to drop, that will mean declining rates. We are hopeful that, with continued success with our load reduction effort and with continued softening of market prices, we will be able to keep our rate at a comparable or lower level.

The much smaller rate increase came thanks to a huge sacrifice and effort and no small amount of creativity. When we asked utilities to

reduce their load on BPA, we left it up to them as to how they would accomplish it. They could do it through efficiency measures, curtailments, replacement generation or some combination of actions. BPA provided incentives, but the utilities provided the creativity.

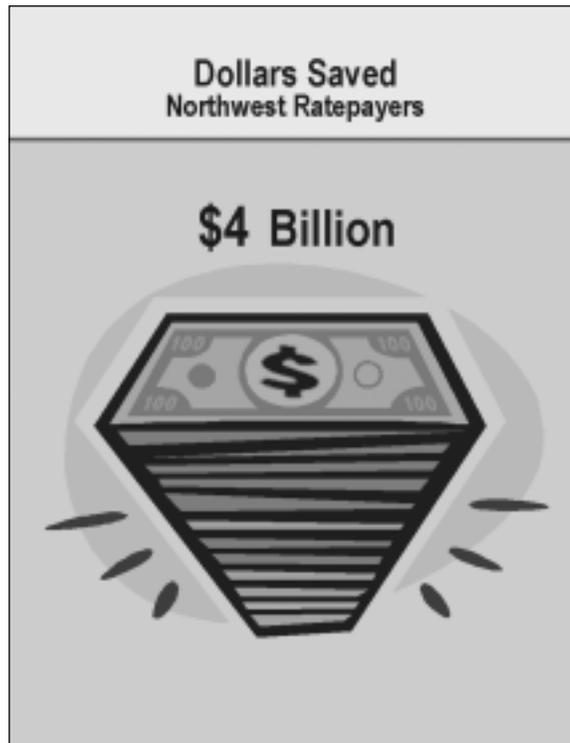
Almost every customer made load reduction commitments that last for more than just six months. As a result, we are already over 80 percent of the way to our load reduction goal for the second six-month period that starts in April 2002. We have until December to make more progress on the second six months.

One of the huge benefits of the load reduction effort is the renewed emphasis on energy efficiency.

Fourteen of our utility customers signed up for 41 conservation augmentation proposals. Another 14 put contracts in place for our commercial lighting standard offer. The compact fluorescent light coupon program has 70 utilities signed up with over six million coupons distributed, and more than 700 retail stores throughout the region are participating in the effort. So far 69 customer utilities have agreed to participate in the regional Vending-Mi\$er program, which features a device that automatically shuts down vending machines on weekends when they

aren't in use. And 41 customers have agreed to be early implementers under BPA's Conservation and Renewables Discount program.

This reflects outstanding progress on several important conservation initiatives. We recognize that there is still much work to do to get these measures installed and delivering the promised savings, but this is by any measure a great start. These energy efficiency efforts will continue to pay dividends throughout this summer and into the future. We will continue to collaborate with our utility customers to help businesses and



*As a result of this more moderate increase, about \$4 billion will NOT be spent by PNW ratepayers for electricity compared to what would have been spent had there been a 250 percent rate increase.*

consumers across the region use conservation effectively to mitigate the impacts of the rate increase.

Every sector of the region responded to our request. While some utilities did not join in the effort at this time, they still can make a difference in the future, and we extend to them an open invitation. BPA is a not-for-profit energy provider, but it must recover all of its costs. This means costs are passed through to our customers who in turn pass them on to the people and businesses in the Northwest. While our rates will now be set for the first six-month period, any further reduction in our costs will ultimately lead to lower rates at some point in the future. To the extent that utilities can make additional commitments to decrease their demands on BPA – and therefore decrease BPA's need to go to the very expensive wholesale market for power – it will bring rates down in the future.

We also are pleased with the response of the direct service industries. Most of the region's aluminum companies agreed to delay restarting their smelters for periods extending from six months to up to two years. BPA is providing funding to the companies to use for compensation (pay and benefits) for their workers. This will help them retain a skilled labor pool and minimize the impact on local economies. Energy market prices are falling as supply and demand are brought into balance, and this should enable the companies to resume operations.

But, yes, there are some jobs lost in the interim. Still, the alternative was lost jobs without any compensation and a greater chance that they would have been lost permanently. It is doubtful that any of these energy-intensive companies could have stayed in business with such high energy prices. Worse yet, other businesses and industries throughout the region would have

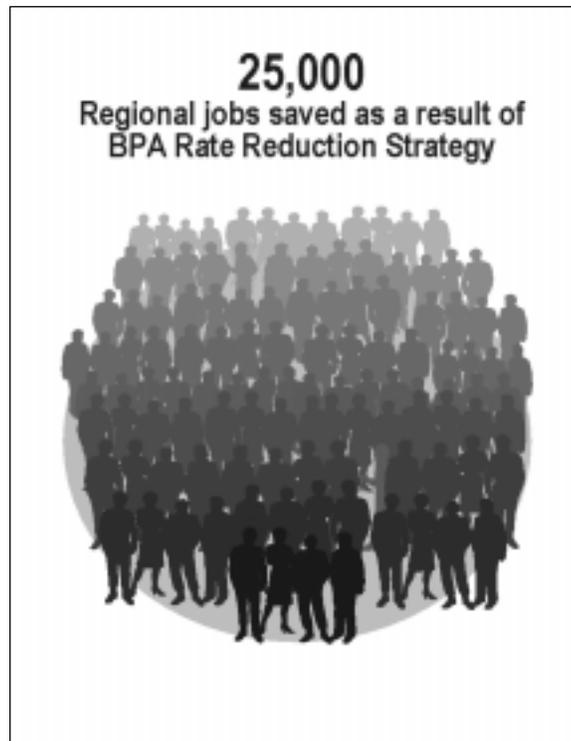
found it very tough going with a larger BPA rate increase. In fact, economic studies indicate that 25,000 additional jobs would have been lost in the region had BPA been forced to go to the market and put in place a 250 percent rate increase. It is extremely gratifying to be associated with an effort that results in 25,000 breadwinners being able to maintain their incomes and their dignity.

There is indeed an economic bonus for the entire region. The load reduction effort resulting in the lower rate increase means a \$4 billion saving for Northwest ratepayers. This is money that will not be taken out of the pockets of families with limited incomes, of businesses struggling to compete and of farmers struggling with low commodity prices, just to name a few.

Load reduction on BPA also translates into greatly improved reliability on both transmission and generation systems so long as we can sustain the reductions. As we use less electricity, we are far less likely to find ourselves on the brink of emergencies than we were this past winter. This reduction in use can make the difference in keeping lights on when energy supplies are tight.

The decreased demand also has contributed significantly to bringing West Coast wholesale electricity prices down, and these prices were definitely trending down even before price caps were instituted. In six months or so, some may look at lower market prices and may wonder why we made so many sacrifices. But it will have been those very sacrifices that helped bring prices down.

All in all, the effort to reduce what would have been at least a 250 percent rate increase has been nothing short of outstanding. The fact that this region pulled together in just under three months is even more remarkable. I have



*Because BPA's rate increase has been mitigated substantially through these load reductions, as many as 25,000 jobs have been saved in the Pacific Northwest.*

nothing but praise for the industries and utilities that contributed and for the many citizens who supported this effort. It makes me very proud to be a Pacific Northwesterner.

We cannot rest on our laurels, however. This effort, momentous though it is, is a short-term fix that is helping us through an immediate crisis. Now we must build a bridge to the long term. First we must assure that the conservation pledges that have been made are fulfilled. We need to do this to assure that our costs do not exceed what we are now forecasting and to protect reliability for next winter.

Individual citizens and businesses can and must play a critical role as well if we are truly going to succeed in this endeavor. We have set our rates in anticipation of significant efforts by all citizens to reduce their electricity use. To help this effort, BPA and our partner utilities will be reaching out to the region's citizens to engage their participation. The purpose will be to provide education to individuals and businesses on the need to reduce electricity use over the near term, as well as generating new ideas on how to do so. In addition to helping the Northwest economy as a whole, there is no better way for individual citizens to control the size of their electricity bills than by putting energy efficiency measures in place.

As was specifically recognized in the President's National Energy Plan, there is a tremendous need to develop our energy infrastructure. For the longer term, we urge that the region move forward aggressively to develop an infrastructure for the Northwest that assures adequate and environmentally acceptable generation and transmission facilities and long-term energy efficiency to serve our region's needs. The fundamental problem that has caused our

current difficulties is that demand for electricity has increased dramatically while electricity supply has not kept pace. Our current short-term strategy, which is based on many short-term measures such as load curtailments, is no substitute for long-term action. We must not lose sight of the long-term goal by being lulled by our near-term success.

For our part, we commit to working with the congressional delegation, governors, tribes, utilities, industries, interest groups, and state and federal agencies to forge a long-term energy infrastructure for our region. To do this, the Northwest will need to continue the teamwork that it demonstrated so ably over the last three months. I firmly believe we can succeed at this difficult challenge and build a reliable, low cost and environmentally sound power system that will be an outstanding example for the rest of the nation.

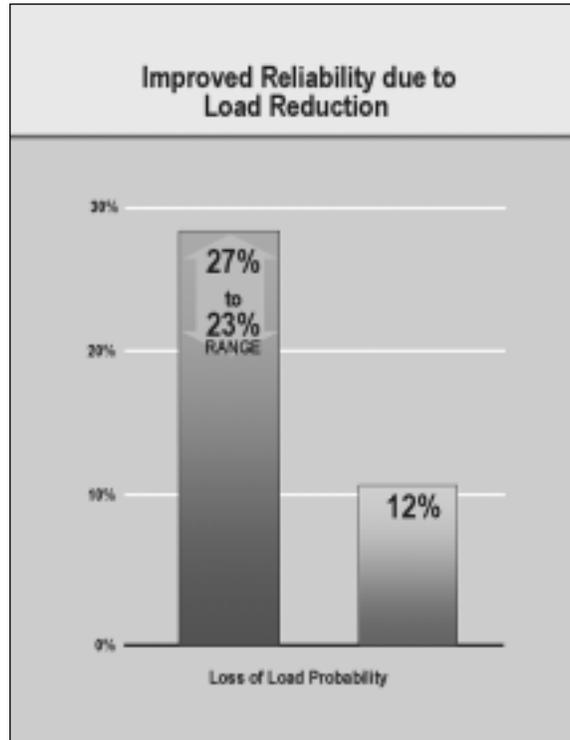
The effort to spread the benefits of power from BPA for the years 2002-2006 has been a long and complex process that

began more than three years ago. We are finishing this process on a high note, proving the premise that, if we act collectively, we will benefit collectively. It is my hope that we can build on this tremendous success as we go forward to meet our future challenges.

With tremendous gratitude and respect,



Stephen Wright  
BPA Acting Administrator



*BPA expects that its success at gaining these load reductions will lead to increased reliability this winter. The probability of lost electrical load has been reduced to 12 percent from as high as 27 percent.*