Department of Energy

Official File

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

CORPORATE

March 31, 2005

In reply refer to: KDP-7

Schwabe, Williamson & Wyatt, P.C.
Mr. Raymond S. Kindley
PacWest Center
Suites 1600-1900
1211 SW Fifth Ave
Portland, OR 97204-3795
(503) 222-9981

RE: FOIA 05-023

Dear Mr. Kindley:

On February 2, 2005, the Bonneville Power Administration (BPA) received a Freedom of Information Act (FOIA) from you, designated as our log number 05-023, in which you requested the following:

1. Copies of all communication, correspondence, notes, e-mails, memoranda, meeting minutes, Federal Register Notices, other notices, public announcements or other records (written or electronic) concerning BPA notice to any of BPA's public agency customers or representatives concerning the terms, or existence, of the BPA contracts with PacifiCorp and Puget Sound Energy numbered 01PB-10854 and 01PB-10885. These agreements are also know[n] as the financial settlement agreements and include the provisions for the $200 million in risk reduction discounts to those utilities. I am interested in receiving information about any BPA notice (formal or informal) to public agency customers before or after BPA executed those contracts.

2. Copies of all communications, correspondence, notes, e-mails, memoranda, meeting minutes, agreements or any other records (written or electronic) concerning communications or agreements between BPA, its employees or representatives and PSE, its employees or representatives, and between BPA, its employees or representatives, and PacifiCorp, its employees or representatives, to limit the public distribution or public knowledge of the terms of the BPA contracts with PacifiCorp and Puget Sound Energy numbered 01PB-10854 and 01PB-10885. This request includes any information or communication between BPA, PSE or

PacifiCorp concerning the release or timing of the release of these contracts, their terms, or their associated records of decisions to the public, state public utility commissions, federal regulatory agencies or parties other than BPA, PSE, or PacifiCorp.

BPA is hereby providing all records in its possession responsive to the above request, as noted on the enclosed list. Per your item one, the documents demonstrate that as early as March 2001, BPA had telegraphed to the region the need to reduce load by a full spectrum of customers, both private and public. No contract negotiations with any entity were conducted in a public forum.

Please be aware that if you access www.bpa.gov and search for "load reduction", you should find over 200 documents related to the 2000/2001 load reduction campaign and related power rate and cost recovery adjustment clauses.

Only one item is responsive to your second item, an email from Account Executive Mark Miller cautioning that the WUTC needed to approve the transaction with Puget Sound Energy before the transaction was subject to any public announcement by BPA. This document was released in response to FOIA 04-003.

Several previous FOIA requests relate to these contracts or their predecessors, beginning as early as BPA log number 01-005 in November 2000. Specifically, BPA FOIA numbers 03-025, 03-034, 04-003, and 04-017 cover some of the same subject matter. You may access these previous FOIA responses at BPA's FOIA website at http://www.bpa.gov/EBR/FOIA/FOIAMAIN.htm. For your convenience, the FOIA inquiry and response most relevant to your inquiry, BPA log number 03-025, submitted by Mr. Dan Seligman, has been reproduced and included in this package.

No information has been redacted from the responsive documents. BPA has no other documents responsive to this request.

If you are dissatisfied with this determination, you may make an appeal within thirty (30) days of receipt of this letter to Director, Office of Hearings and Appeals, Department of Energy, 1000 Independence Avenue SW, Washington, D.C. 20585. Both the envelope and the letter must be clearly marked "Freedom of Information Act Appeal".

You have agreed to pay fees to process this request. Search, review and duplication costs for this FOIA totaled $920.55. However, we provided you an estimated cost of $500. You will be sent an invoice for $500 under separate cover by our accounting department.

If you have any questions regarding this response, you may contact me at 503-230-5110.

Sincerely,

Annie Eissler

Annie Eissler
Freedom of Information Act Officer

Enclosures
List of Materials Responsive to BPA FOIA #05-023, 2 pages
Responsive Materials

List of Materials Responsive to BPA FOIA #05-023

Item #1:

BPA Press Release, Customer demand, volatile market prompt BPA to revise rate provisions, **September 1, 2000**

BPA Journal, articles on a) recall of California contracts and b) Demand Exchange, **October 2000**

BPA Press Release, Strong demand under new contracts exceeds Federal power supply, **November 8, 2000**

BPA Press Release, BPA Rates Staff and utility customers reach preliminary settlement on power rates, **February 20, 2001**

BPA Journal, **March 2001**
Newsbreaker, West Coast Crisis Solutions Project, **March 2, 2001**
BPA Media Advisory, Forum scheduled on energy crisis, **March 26, 2001**
Letter to the Region, **March 29,2001**

Keeping Current, Working Together to Keep the Lights on and Costs Down, **April 2001**
BPA Press Release, BPA to Announce Measures for Avoiding Huge Electric Rate Hikes this Fall, **April 5, 2001**
BPA News, Major Rate Hikes, Reliability Issues Threaten NW Power System…, **April 9, 2001**
Speech, Reducing BPA's Wholesale Power Rate Increases, **April 9, 2001**
United Steel Workers Press Release, United Steelworkers of America Responds to BPA Proposal to Stay Offline for Two Years, **April 11, 2001**

BPA Journal, BPA Asks Customers to Help Mitigate Rate Increase, **May 2001**
Keeping Current, Taking on the Energy Crisis; Providing tools for conservation and load reduction, **May 2001**
May Power Supply Outlook Talking Points, [status unknown], **May 2001**
BPA Press Release, Alcoa/BPA ink agreement to benefit ratepayers and workers, **May 16, 2001**
BPA News, Alcoa, BPA ink agreement to benefit ratepayers and workers, **May 16, 2001**
e-mail, Public Comment … on News Release – BPA seeks comment on temporary small generator policy, **May 18, 2001**
Columbia Falls Aluminum Company Press Release, **May 21, 2001**
BPA News, CFAC, BPA take big steps toward lower regional power rates, **May 21, 2001**
Record of Decision, Financial Settlement Agreement and Amendment to Residential Exchange Program Settlement Agreement with PacifiCorp, **May 23, 2001**
BPA/PacifiCorp Press Release, PacifiCorp reduces its take of Federal Power, **May 24, 2001**
Northwest Power Planning Council News Release, Power Planning Council Analysis…, **May 25, 2001**
BPA/Clark Public Utilities Press Release, One of the Region's largest PUDs steps up to reduce load, **May 25, 2001**
e-mail, Council News Conference – Summer Electric Reliability, **May 25, 2001**

BPA News Shorts, **May 30, 2001**

BPA Journal, Utilities, DSIs Agree to Cut Loads, **June 2001**
BPA News, Administrator to Report on regional efforts to hold down power rates, **June 5, 2001**
BPA Press Release, Administrator will report on regional efforts, **June 5, 2001**
Record of Decision, Amended Residential Exchange Program Settlement Agreement with Puget Sound Energy, **June 6, 2001**
BPA Newsbreaker, Wright gives progress report on efforts to reduce October rate increase, **June 6, 2001**
BPA Press Conference Packet, **June 6, 2001**
BPA Press Release, More utilities, industries must reduce power purchases from BPA to hold down rates, **June 6, 2001**
BPA Press Release, Region's largest public utility steps up to Load Reduction Agreement, **June 12, 2001**
Puget Sound Energy News Room, Puget Sound Energy and BPA reach federal hydropower accord, **June 14, 2001**
BPA Press Release, Puget Sound Energy and BPA reach federal hydropower accord, **June 14, 2001**
Record of Decision, Strategy for Utility Customer Load Reduction under Subscription Power Sales Contracts and Utility Customer Exports of Unplanned Resources under Section 9(c) of the Northwest Power Act, **June 15, 2001**
BPA Press Release, BPA to announce load cuts and rates Friday, June 29, **June 22, 2001**
e-mail, Rates Workshops; Load Reduction Strategy ROD…. **June 25, 2001**
document, BPA Load Reduction and Power Buyback Preliminary Results Revised 6/26/01, **June 26, 2001**
BPA News Shorts, **June 27, 2001**
BPA Press Release, BPA announces new wholesale power rate, **June 29, 2001**
document, Grand Total for 6 months beginning October 1, 2001, **June 29, 2001**
Letter to the Region, **June 29, 2001**

Document, Load Reduction Updated 7/2/01, **July 2, 2001**
BPA Journal, The Region Responds!, **July 2001**
BPA Speeches, The electricity crisis, where do we go from here, **July 27, 2001**

FOIA O3-025 Response, **July 1, 2003**

Item #2
e-mail, re Puget signing, **June 5, 2001**

Customer demand, volatile market prompt BPA to revise rate provisions

Click here for other BPA news releases

Bonneville Power Administration
FOR IMMEDIATE RELEASE: FRIDAY, Sept. 1, 2000
PR 70 00

CONTACTS: Ed Mosey, BPA (503) 230-5359

PORTLAND, Ore. – High prices and higher customer demand are forcing the Bonneville Power Administration to alter its proposed power rates for the next five years.

BPA announced yesterday that it intends to revise the Cost Recovery Adjustment Clause (CRAC) of its 2002-2006 rates so the agency can strengthen its ability to cover its costs over the 2002-2006 rate period. The agency is not proposing an increase in its basic power rates for the five-year rate period and does not expect to make any change in its basic rates or the CRAC in the first year.

"Our intent is to limit the scope of the modifications primarily to a revision of the Cost Recovery Adjustment Clause to make it more robust in years two through five of the rate period," explained Judi Johansen, BPA administrator. "Over the next few weeks we'll be meeting with rate case parties to try to reach agreement on how to modify the rate proposal. There's a lot of work to be done. But I'm confident we'll craft a rate case revision that will work."

The CRAC is an automatic temporary increase in power prices that is triggered when BPA's financial reserves fall below a certain threshold. CRAC is one of several risk mitigation tools BPA will use to maintain a high probability of covering its costs, including its fish and wildlife and the U.S. Treasury obligations over the next five years.

BPA expects to propose raising the CRAC threshold and the limit of the amount of additional revenues to levels higher than in the rate proposal the agency submitted to Federal Energy Regulatory Commission earlier this year. These changes would provide more robust protection against years in which BPA's costs run higher than expected. Even if the revised CRAC triggers, BPA's rates still will be among the lowest in the country.

Concerned over high wholesale electricity prices, BPA's customers are flocking to the agency to buy BPA's low-cost federal power. Those customers are asking for more power than BPA has available. BPA is planning to meet this potential customer demand with a combination of its own power supplies and market purchases.

"But our customers are asking for possibly 1,400 average megawatts more than we anticipated in the rate case," said Johansen. "Had we stayed with our original rate proposal, the amount of power purchases we would have had to make at the prices we might very well see over the next five years, would have put our financial stability at risk."

BPA is scheduling meetings with rate case parties over the next two weeks to attempt to agree how to modify the rate proposal. On Sept. 15, the agency expects to publicly announce its proposal. A BPA record of decision will be published early next year.

In the meantime, BPA expects to resume signing subscription contracts on Sept. 5. The window to sign contracts will close Oct. 31.

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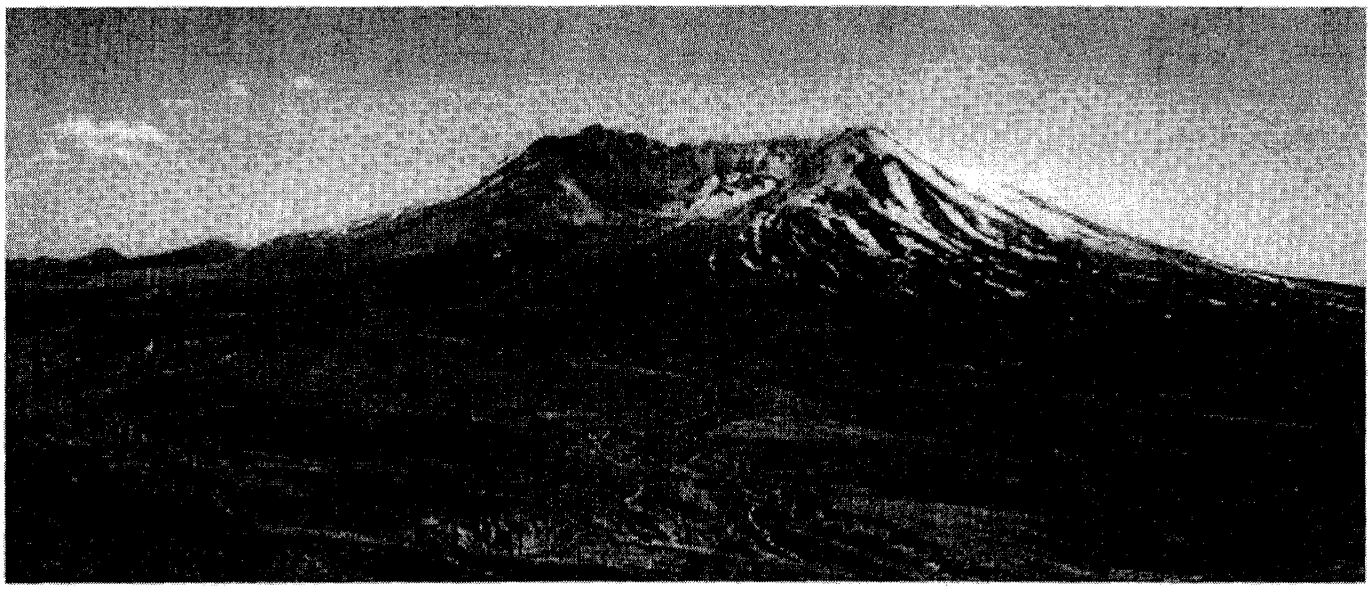
JOURNAL

October 2000

A MONTHLY PUBLICATION OF THE BONNEVILLE POWER ADMINISTRATION



Mt. St. Helens, Washington *photo by R. T. Balla*

Amended 7(i) power rate case begins in mid-October

On Aug. 31, BPA announced its intention to initiate a limited modification of the proposed power rates currently before the Federal Energy Regulatory Commission. This action is necessary to ensure the probability of BPA making its annual payment to the U.S. Treasury is at acceptable levels throughout the fiscal year 2002-2006 rate period. During September, BPA met with rate case parties and others to attempt to reach an agreement on needed modifications to the existing proposal. Those discussions did not result in an agreement, and BPA is now proceeding to develop a proposal focusing on revising the Cost Recovery Adjustment Clause (CRAC). An amended 7(i) rate case process will begin in mid-October.

Adjustment proposed to UAI charge

In September, BPA proposed an adjustment to the Unauthorized Increase (UAI) charge as implemented in the 1996 Wholesale Power Rate Schedules. The UAI is a charge imposed on a power purchaser who takes demand and energy in excess of its contractual entitlement. The purpose of the proposed adjustment is to correct the level of the UAI to reflect the development of a robust wholesale power market and its associated price volatility. Further detail on this proposed adjustment will be published in a Federal Register Notice and on BPA's Web site at www.bpa.gov/power/rates. On final approval by the Federal Energy Regulatory Commission, the adjustment to the 1996 UAI charge will be effective in early 2001 through Sept. 30, 2001. This rate proceeding is separate and distinct from the suspension of consideration of BPA's 2002-2006 final power rate proposal by FERC.

RTO filing goes to FERC on Oct. 16

The filing utilities for RTO West will file with the Federal Energy Regulatory Commission on Oct. 16. The filing will include a proposal for some key issues, such as governance, and an informational update on other key issues that remain to be resolved, such as the tariff. The filing will also include a timeline for subsequent filings and potential implementation. According to Peggy Olds, BPA's RTO project manager, not all issues will be resolved before RTO West files with FERC, but that's not a problem as long as the region agrees to an overarching design for the RTO and describes an aggressive plan for resolving those issues. At press time, outstanding issues included tariff development, key issues in pricing,

BONNEVILLE POWER ADMINISTRATION

planning, facilities inclusion and congestion management. A report addressing the overall potential benefits and costs of RTO West is expected to be completed by the filing date. The filing utilities are AVISTA, BPA, Idaho Power Co., Montana Power Co., PacifiCorp, Puget Sound Energy, Portland General Electric, Nevada Power Co. and Sierra Pacific. Visit the RTO West Web site at www.rtowest.org for more information.

DC intertie upgrade proposed

BPA is asking for public comment through Nov. 15 on a proposal to maintain the direct-current intertie at its 3,100-megawatt rating for the next 30 years. The proposal comes from two partners of the intertie, Southern California Edison and the Los Angeles Department of Water and Power. Because of damage caused by earthquake and fire, they need to replace part of the Sylmar Converter Station at the southern end of the intertie. They have asked BPA to commit to maintaining the DC intertie capacity at its current 3,100 megawatt rating for the next 30 years and to complete the necessary improvements at the Celilo Converter Station located near The Dalles, Ore., within the next 15 years.

BPA will conduct a public workshop on Oct. 17 to examine and discuss two reports related to this request. The first is an economic study that looks at how much capacity might be used through 2019. The second study takes a broader look at benefits and costs from three perspectives: BPA customers, Northwest customers and California customers. BPA will conduct a regional public comment meeting in Portland on Nov. 7 on the DC intertie proposal. For more information, see Calendar of Events on the back page. A Keeping Current on the DC intertie will be mailed out before the workshop.

BPA signs Goldendale MOU

On Sept. 25, BPA signed a general Memorandum of Understanding with Goldendale Aluminum Co. and Goldendale Energy Inc. to work toward agreement on specific terms of a three-party power sales agreement. In March 2000, Brett Wilcox, president of Goldendale Aluminum Co., approached BPA for assistance in developing the Goldendale Energy Project. The proposed project would be a 248-megawatt combined cycle combustion gas turbine generating plant. It would be located in Goldendale, Wash., and would be designed, built and operated by Goldendale Energy Inc. Output from the plant would be moved to the Goldendale Aluminum plant via new transmission facilities of Klickitat County PUD. If final agreement can be reached, this project could add needed new generation to the region sooner and at lower cost than any other project now in planning, as well as help preserve aluminum industry jobs in the region as less BPA power is being sold to direct service industries. Customer development of new generating resources would ease demand on BPA's power inventory. Should any agreement create a contingent obligation on BPA to purchase over 50 megawatts for more than five years, the agreement would be subject to a section 6(c) review prior to execution of a binding agreement. The section 6(c) review would be to determine whether the arrangement would be consistent with the Northwest Power Planning Council's energy plan. A section 6(c) review is a public process outlined in the 1980 Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act).

TBL takes hiatus on 10-minute market

BPA's Transmission Business Line (TBL) has stopped accepting the California Independent System Operator's 10-minute within-hour market sales. The real-time market allows sales of special energy and reliability products with a 10-minute price. In some cases, the energy could actually be transmitted for as little as two to three minutes within an operating hour. Normally, all transmission reservations are confirmed about 15 minutes before each hour begins. The California ISO launched the new real-time market on Sept. 1, despite long-expressed concerns from BPA and other utilities who feared the system didn't have the needed automation.

After 18 days of operating to facilitate the 10-minute market, BPA's TBL concluded that the transmission system was not being operated reliably due to the constantly changing real-time environment. Reliability comes first. On Sept. 20, BPA stopped accepting 10-minute market activity across the BPA transmission system and control area, when the services were requested for economic rather than emergency purposes. TBL continues to respond to emergency requests within the hour, and still routinely takes reservations for hour-ahead transmission. TBL is talking with customers and the California ISO about how to participate in the 10-minute market without jeopardizing transmission grid reliability. Visit the TBL Web site at http://www.transmission.bpa.gov/OASIS/BPAT for more information.

BPA recalls California contracts

With the Northwest facing power shortages as early as this winter, BPA is giving notice to its California customers that long-term contracts for surplus and excess federal power sales will not be renewed. Where contracts have recall or conversion rights, BPA is exercising those rights. BPA sold several hundred megawatts of power to California when the Northwest had surplus and excess power.

By law, BPA is directed to sell outside the Northwest only power that is surplus to the region's needs. Buyers have different rights under each contract. Where contract terms allow, BPA can convert energy sales into capacity exchanges or give notice of termination. In contracts that contain no recall or conversion provisions, BPA is notifying California buyers that contracts will not be renewed.

Customers sign up for demand exchange program

Four BPA customers, ranging from a small city to a large aluminum plant, have signed up to participate in BPA's Demand Exchange Program. Under the program, customers agree to voluntary load curtailment to help keep the system up during power emergencies. It is one of BPA's tools for dealing with potential system reliability problems this winter and in the future. The program was launched about a month ago. Daishowa America, Kaiser Aluminum and Chemical, the city of Milton-Freewater and Port Townsend Paper have signed on. Cumulatively, they have agreed to provide up to 125 megawatts of load curtailment for four to six hours at a stretch, with a significantly greater potential for single-hour curtailments. BPA hopes to sign 300 megawatts of potential single-hour load curtailment by the end of this year and 800 megawatts of four-to-six-hour potential load curtailment in the next three years.

JOE becomes law

President Clinton, on Sept. 22, signed the joint operating entity (JOE) legislation into law, which allows current public preference utility customers of BPA to pool their power purchases in one entity. This law requires BPA to sell firm requirements power to a valid joint operating entity, an entity that acts as a purchasing agent for BPA's public body and cooperative customers. A number of BPA's cooperative customers have sought to be able to jointly purchase power from BPA for a number of years. The law allows a JOE to execute a power purchase contract with BPA on behalf of its members that are BPA public preference customers. The bill does not increase or decrease the rights of BPA's public preference customers to purchase power from BPA, except that the JOE will execute the contract on their behalf.

Team provides federal project support in the West

BPA's Federal Project Support Team serves as a catalyst and facilitator — working with federal agencies, private sector service providers, and utilities — to overcome barriers to implementing federal energy efficiency and renewable energy projects. BPA's team provides expertise gained from 20 years of energy efficiency experience in the areas of contracting, procurement, project oversight and third-party financing. BPA extends the capabilities of federal agencies by providing staff support, on a cost reimbursable basis, to other federal agencies that do not have sufficient skilled staff to meet Federal Energy Management Program objectives, President Clinton's Executive Order for "Greening of the Government," and other mandated energy efficiency improvements. Each dollar of BPA federal project support staff time spent on behalf of another agency has produced over $20 of work for private sector businesses on previously installed projects.

Since 1995, the team has responded to federal agency requests to provide energy efficiency in the western United States. Projects have been by referral; BPA does not market its services. BPA's Federal Project Support Team will receive a 2000 Departmental Energy Efficiency Award on Oct. 11 in Washington, D.C., from the Department of Energy. The national award is for outstanding achievements in energy and water management.

PUBLIC INVOLVEMENT

STATUS REPORTS

Big Eddy-Ostrander Vegetation Management. Ore. — To control vegetation on two segments of the 500-kV transmission line right-of-way. One segment is from Lolo Pass to near Parkdale. The other segment is east of Parkdale. An EA is being prepared. Call to be added to the mail list.

Coeur d'Alene Tribe (CDA) Trout Production Facility Project. Idaho — To fund the design, construction, operations and maintenance of the facility to help meet the need for off-site mitigation for losses on the mainstem Columbia River. A final EA is being prepared. Call to be added to the mail list.

Condon Wind Project. Ore. — To acquire about 24.5 megawatts of electricity from the proposed Condon Wind Project. An EIS is being prepared on the wind project and its associated transmission. Call to be added to the mail list.

Fish and Wildlife Implementation Plan. Regionwide — To examine the impacts that may arise from implementing one of the fish and wildlife policy directions being considered in the ongoing regional processes. An EIS is being prepared. Call to be added to the mail list.

Fourmile Hill Geothermal Development Project (Calpine). No. Calif. — A geothermal power plant and new transmission line have been proposed on U.S. Forest Service land in the Klamath and Modoc forests. BLM has the lead. BPA is a cooperating agency. A final EIS and summary are available. Call to receive a copy.

IDFG Snake River Chinook Captive Rearing. Idaho — To fund Idaho Department of Fish and Game's captive rearing project for Endangered Species Act-listed Snake River spring/summer chinook salmon. The EA is being finalized. A FONSI is anticipated. Call to be added to the mail list.

Johnson Creek Artificial Propagation Enhancement. Idaho — Development of a native chinook salmon broodstock for rearing of acclimated smolts to preserve and recover the population. An EA is being prepared. Call to be added to the mail list.

Kangley-Echo Lake Transmission Line Project. Wash. — To build a 500-kV transmission line in central King County that would connect an existing transmission line near the community of Kangley into the Echo Lake Substation. An EIS is being prepared. Call to be added to the mail list.

Northwest Regional Power Facility. Wash. — To construct a combustion turbine near Creston. The final EIS (#2887) and a supplement analysis are available. Call to receive a copy.

Shelton-Kitsap Transmission Rebuild. Wash. — To rebuild a 31-mile 115-kV transmission line between Shelton and Kitsap substations as a double circuit 230-kV line within the existing right-of-way. A Preliminary EA (#3329) is available. Call to receive a copy. See Close of Comment.

Stateline Wind Project. Wash. and Ore. — To acquire up to 300 megawatts of electricity from the proposed Stateline Wind Project. An EIS is being prepared on the wind project and its associated transmission. Call to be added to the mail list.

NEW! White Sturgeon Mitigation and Restoration in the Columbia and Snake Rivers Upstream From Bonneville Dam. Ore., Wash. and Idaho. — To restore and mitigate for documented lost white sturgeon productivity caused by development and operation of the hydropower system using intensive fisheries management and modified hydrosystem operation. Assess lost productivity in unstudied areas. A preliminary EA is being prepared. Call to be added to the mail list.

CALENDAR OF EVENTS

DC Intertie Capacity public workshop, **Oct. 17**, 8 a.m. to noon, BPA headquarters building, Room 122, 905 NE 11th Ave., Portland, Ore.

DC Intertie Capacity public meeting, **Nov. 7**, 8 a.m. to noon, Embassy Suites Portland Airport, 7900 NE 82nd Ave., Portland, Ore.

CLOSE OF COMMENT

Shelton-Kitsap Transmission Rebuild, preliminary EA, **Oct. 6**

DC Intertie Capacity, **Nov. 15**

SUPPLEMENT ANALYSES

Wildlife Mitigation Program EIS:

SA-11, Shoshone-Bannock Mitigation Acquisition (Rudeen Ranch Property)

SA-12, Big Island McKenzie River Wildlife Project

Transmission System Vegetation Management Program EIS:

SA-01, Vegetation Management on Taft-Bell Transmission Line

EA: Environmental Assessment, EIS: Environmental Impact Statement, FONSI: Finding of No Significant Impact, ROD: Record of Decision

FOR MORE INFORMATION OR TO GET INVOLVED: The Journal is a monthly newsletter of the Bonneville Power Administration for customers and interested publics. To order documents or to be added to a mail list, call: 800-622-4520 or (503) 230-7334 (Portland). For questions/comments call: (503) 230-3478 (Portland) or 800-622-4519. Written comments may be sent to: BPA, P.O. Box 12999, Portland, OR 97212. Public Involvement, Internet, E-mail address comment@BPA.gov, BPA home page:http://www.bpa.gov

DOE/BP-3335 Oct. 2, 2000 6.5m

in the news

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Strong demand under new contracts exceeds federal power supply

BPA must purchase power to fill the gap and adjust rates to cover costs

Click here for other BPA news releases

Bonneville Power Administration
FOR IMMEDIATE RELEASE: WEDNESDAY, Nov. 8, 2000
PR 84 00

CONTACTS: Ed Mosey, BPA (503) 230-5359

PORTLAND, Ore. – Customer demand under new 10-year wholesale power contracts with the Bonneville Power Administration is so strong that the agency must purchase power on the market to augment its supply.

"To recover the cost of these purchases, the agency proposes to tack a 15 percent charge onto wholesale rates that go into effect Oct. 1, 2001," said Paul Norman, BPA senior vice president. This is being done through proposed revisions to the agency's Cost Recovery Adjustment Clause (CRAC).

Even with an additional charge, BPA's wholesale rates are still well below wholesale market prices currently forecast for the next five years on the West Coast, BPA officials said.

BPA signed new wholesale contracts last week with more than 130 Northwest utilities and industries, most of them for 10-years, said Norman. Those agreements pushed the agency's total firm energy load – the amount of energy BPA must supply – up to 11,000 megawatts. That's more than earlier agency predictions and nearly 3000 more than the federal Columbia River Power System can generate on a firm basis.

"Costs in the deregulated wholesale power market have become very volatile," Norman explained. "Recent steep increases and an apparent upward trend in market prices have prompted utilities formerly purchasing power in the market to bring their business back to BPA."

And, BPA will have to augment its supply in that same market. The proposed 15 percent charge is due solely to higher costs of purchased power. Other utilities in the Northwest have announced rate hikes in recent weeks for the same reason.

Earlier this year, BPA filed proposed power rates with the Federal Energy Regulatory Commission (FERC) for the October 2001 to October 2006 period. The rate for public agency customers and the residential and farm customers of investor owned utilities was set at about 2.2 cents a kilowatt hour, almost unchanged from rates in effect since 1996. The proposed 15 percent wholesale increase will affect each BPA customer's retail rates differently, depending on that entity's other costs.

BPA needs this adjustment to ensure timely repayment of obligations to the U.S. Treasury for investment in the Federal Columbia River Power System. This is essential to maintaining the region's low, cost-based rates. BPA's proposal includes the ability to invoke additional cost recovery increases later in the five-year period if needed to maintain financial stability and meet all of its obligations.

The proposal will be reviewed in a proceeding before an administrative law judge before being submitted in the spring to FERC for approval.

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Questions and Answers

BPA Contracts and Rates

How many customers signed contracts and for how much power?

135 public customers signed up for 6,600 average megawatts (aMW). This includes 2,000 aMW of slice and about 1,200 aMW of block sales. Of 135 customers, 127 signed 10-year contracts and eight signed five-year agreements.

Six investor-owned utilities signed contracts for 1,000 aMW. Five signed for 10 years and one signed for five years. Eight direct-service industries signed up for about 1,500 aMW.

Total commitments equal 9,100 aMW. Total BPA sales of all types now add up to about 11,100 aMW.

How much augmentation power will BPA need to purchase?

BPA will need to purchase about 3,200 aMW. The additional load comes to BPA at a time when wholesale prices are high in the West Coast electricity market.

What does BPA expect to pay for augmentation power?

BPA expects to pay more than $40 per megawatt-hour for about 2,300 aMW that remains to be purchased.

What effect will this have on retail rates?

Every utility customer has different power, operating and capital costs, which determine its rates. Some buy all their power from BPA; some only a portion. All have different operating costs. For a precise calculation, contact the utility in question.

What would BPA do if its revenues fell below acceptable levels at the end of the fiscal year, even after the proposed 15-percent cost recovery adjustment?

BPA has included a financial Cost Recovery Adjustment Clause. It would trigger if accumulated net revenues at the end of a given fiscal year dropped below $660 million. It would be capped at $330 million. BPA's power supply depends on snowfall to replenish the hydro system, so the agency must retain sufficient revenues to ensure a high probability of making scheduled payments to the U.S. Treasury.

Can BPA avoid the rate adjustment by cutting costs or some other means?

BPA has already cut its costs and lowered its rates 13 percent in 1996. BPA will continue to hold down costs and manage its finances in a way that keeps rates as low as possible. However, unprecedented levels of additional market risk make it necessary for BPA to propose revising the Cost Recovery Adjustment Clause

Does the term "Cost Recovery Adjustment Clause" imply that the rate increase is temporary?

BPA sells power at cost. The charges will remain in effect as long as needed to cover costs. If market conditions should improve and BPA were to over-recover revenues, the rate provides for distribution of a dividend to customers. In addition, the financial cost recovery adjustment clause only goes into effect for one year at a time. If it is not needed, it does not trigger.

Will the direct service industries pay the rate increases associated with the Cost Recovery Adjustments?

Yes. Higher market costs will affect all customers, including DSIs. BPA will work with the DSIs to amend the subscription contract to allow them limited benefits from re-marketing power if they choose to reduce load when the Cost Recovery Adjustment is applied.

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BPA rates staff and utility customers reach
preliminary settlement on power rates

Click here for other BPA news releases

Bonneville Power Administration
FOR IMMEDIATE RELEASE: TUESDAY, Feb. 20, 2001
PR 11 01

CONTACTS: Ed Mosey, BPA (503) 230-5359 or
Mike Hansen, BPA (503) 230-4328

(See attached table for rate impacts of various market scenarios)

PORTLAND, Ore. – The Bonneville Power Administration's rates staff has reached a partial settlement with many of its utility customers over wholesale power rates for the five-year period beginning Oct.1, 2001. The agreement, part of a new BPA rate proposal published today, provides for innovative variable adjustments to rates. These adjustments would be tied to actual loads (demand for power) placed on BPA and the prices BPA pays for power in the wholesale power market. A final decision by the BPA administrator on wholesale power rates will be made at the completion of the rate case in June.

The proposal comes after several months of discussion during which it became clear that BPA rate increases could average 60 percent or more over the five-year period. BPA's Senior Vice President for Power, Paul Norman, praised customers for the breakthrough.

"We are extremely grateful to our customers for their exceptionally constructive response to the rates issue," Norman said. "Based on their suggestion, we are proposing a major change in direction."

Originally, BPA had proposed developing a fixed rate for each year of the five-year rate period. Instead, the settlement specifies a formula that will determine and adjust rates every six months depending on BPA's actual customer demand for power and the actual amount and price of the existing power supply. BPA's utility customers proposed the flexible structure and worked with the agency on the details.

"We had been on a course for fixed rates but, given the volatility of the market, that strategy just wasn't going to work," Norman explained. "While a flexible rate that can change every six months does not fully meet the stability goal we had hoped for, it does meet our fundamental goal that we collect adequate revenues to cover our costs but no more revenues than we actually need. This proposal effectively addresses the turbulent market we are operating in."

Two substantial developments during the last few months have been driving BPA's rates upward. First, the amount of load that customers put on BPA exceeded expectations. The second development is the unprecedented rise in prices in the wholesale power market. To augment its existing resources, BPA must purchase power in this extremely volatile market.

The analysis on the variable adjustments *(see accompanying table)* shows a wide range of potential rate impacts, from a 2.4 percent increase to add 500 megawatts in a $30 per megawatt-hour market, to a 453 percent increase to acquire 3,000 megawatts in a $325 megawatt-hour market. Actual rates would likely lie between, depending on market conditions, customer actions, consumer energy conservation and BPA management actions. "Our task now," according to Norman, "is to achieve a regional agreement on how we are going to reduce the amount of power we have to buy and the price we have to pay. That will help us get the rate increase down to a level that will minimize the negative impact on the Northwest economy while protecting the environment."

BPA sets rates at a level to provide a very high probability of covering all of its costs, including all obligations to creditors. The largest creditor is the U.S. Treasury. The annual payment to the Treasury includes principal and interest on investments the federal government has made in the hydropower and transmission systems. "We are committed to making our Treasury payments on time and in full because we believe this is the best way to preserve the assets of the Columbia River for the Northwest," Norman said.

Under the new risk mitigation tools, cost recovery adjustment clauses will trigger under certain conditions to allow adjustments to the rates. The proposal also includes a dividend distribution clause to return money to customers in the event BPA overcollects. Any savings accrued through energy conservation and load reductions also will be calculated into the rate adjustment formulas.

Norman also pointed out that the rates are designed to provide the funds needed for BPA's fish and wildlife obligations, and such funding would come first before any dividend would be returned to ratepayers. "We intend to meet our fish and wildlife obligations," he said.

Retail consumers are not expected to see percentage increases as high as the wholesale increases because retail electricity bills include other costs besides those for wholesale power. Individual impacts also will vary depending on how much power a utility buys from BPA.

The proposed agreement addresses many substantial issues but does not settle all of them, nor has it been signed by all the parties to the rate case. The Supplemental Proposal was filed this week for scrutiny by rate case parties. BPA expects to complete the rate case and to issue a Record of Decision for the final rates by June 20. Rates will be submitted to the Federal Energy Regulatory Commission by July 1 to ensure adequate review time before rates go into effect on October 1. FERC conducts a review of BPA's rates to ensure the proposed rates cover BPA's costs, including the ability to make Treasury payments on time and in full.

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PRELIMINARY | **BPA ASSESSMENT OF JOINT CUSTOMER PROPOSAL**

LB-CRAC Percentages

Augmentation Amount Over the 794 aMW Purchased at ~ 28.1

Market $	3000	2500	2000	1500
30	9.3%	7.7%	5.9%	3.8%

50	39.3%	34.2%	28.4%	21.8%	
75	76.9%	67.4%	56.6%	44.4%	
125	152.0%	133.7%	113.0%	89.5%	
225	302.3%	266.3%	225.8%	179.8%	
325	452.6%	399.0%	338.6%	270.1%	

Assumes Additional Average Cost to Buy-Down Load of: ($/MWh)

Table illustrates possible outcomes of joint customer proposal.

Joint customer proposal would tie rates to actual BPA augmentation costs.

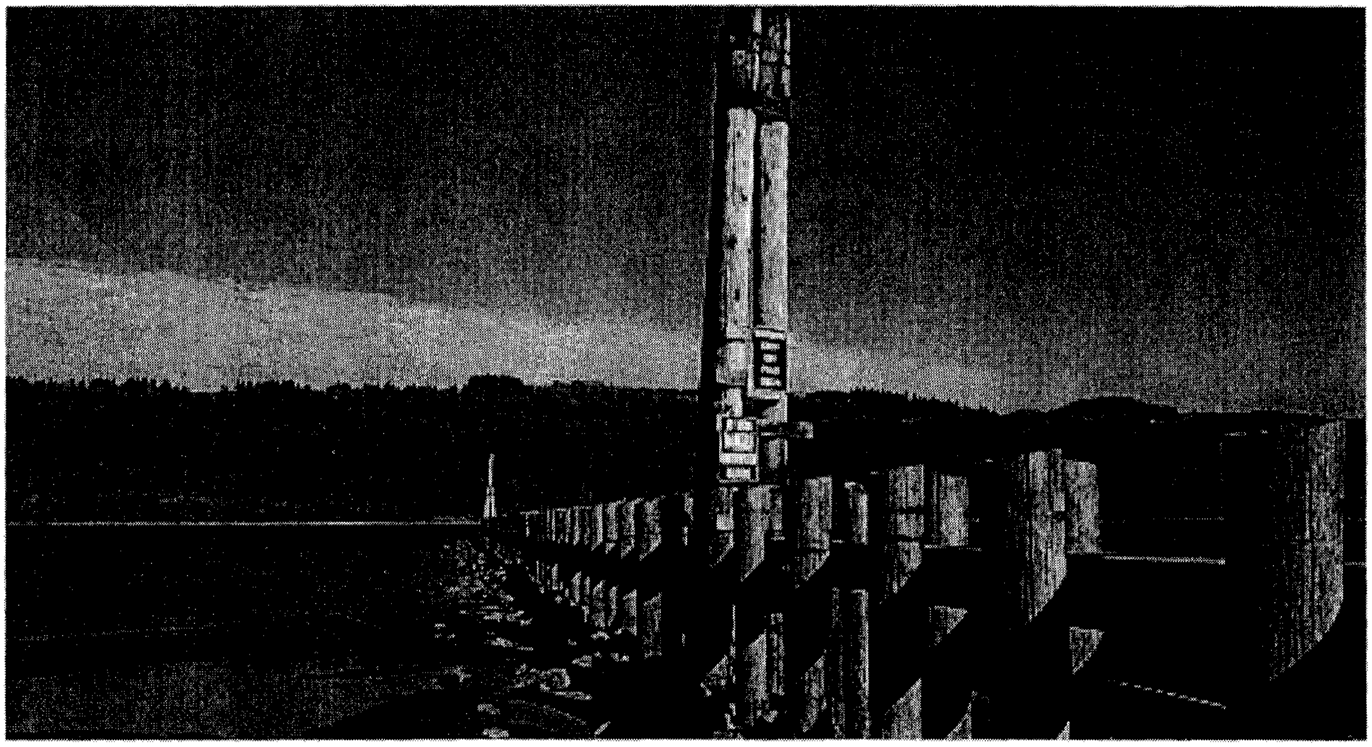
Trued-up to actuals twice a year.

Dividend distribution clause refunds excess revenues to customers.

JOURNAL

March 2001

A MONTHLY PUBLICATION OF THE BONNEVILLE POWER ADMINISTRATION



Low water on the lower Columbia River *Photo by Nick Christmas*

STAFF, CUSTOMERS REACH PARTIAL RATES SETTLEMENT

All BPA customers would see their power rates adjusted twice a year under a partial power rates settlement announced Feb. 20. A group of customers proposed the 2002-2006 wholesale power rate settlement. The settlement would adjust rates regularly to reflect BPA's actual cost of serving customers' loads.

"We are extremely grateful to our customers for their exceptionally constructive response to the rates issue," BPA Senior Vice President for Power Paul Norman said. "Based on their suggestion, we are proposing a major change in direction."

The customer/staff proposal comes after several months of discussion during which it became clear that BPA rate increases could average 60 percent or more over the five-year period. Two developments have been driving BPA's rates upward. First is the amount of load that customers put on BPA, which exceeded expectations. Second is the unprecedented rise in wholesale market prices for power. To augment its existing resources, BPA must buy power in this extremely volatile market.

BPA's analysis of the customer proposal shows a wide range of potential rate impacts, from a 0.7 percent increase for 500 megawatts of power in a $30 per megawatt-hour market, to a 453 percent increase for 3,000 MW in a $325 per MWh market. Actual rates would likely lie between, depending on market conditions, customer utility actions, consumer energy conservation and BPA management actions. "The goal," as Norman put it, "is to move from the lower left-hand quadrant to the upper right-hand quadrant" of the chart. (See chart next page.)

"This proposal effectively addresses the turbulent market we are operating in," Norman said. "Our task now," he continued, "is to achieve a regional agreement on how we are going to reduce the amount of power we have to buy and the price we have to pay. That will help us get the rate increase down to a level that will minimize the negative impact on the Northwest economy while protecting the environment."

$/MWh	3,000 aMW	2,500 aMW	2,000 aMW	1,500 aMW	1,000 aMW	500 aMW
$30	9.3%	7.7%	5.9%	3.8%	1.4%	0.7%
$50	39.3%	34.2%	28.4%	21.8%	14.3%	7.6%
$75	76.9%	67.4%	56.6%	44.4%	30.4%	16.2%
$125	152.0%	133.7%	113.0%	89.5%	62.5%	33.5%
$225	302.3%	266.3%	225.8%	179.8%	126.9%	68.0%
$325	452.6%	399.0%	338.6%	270.1%	191.2%	102.5%

BPA Assessment of Joint Customer Rate Proposal
Loaded Base CRAC Percentages

BPA rates could swing widely under a customer-proposed partial settlement, depending on market prices for power and how much BPA has to buy to meet its loads. BPA's goal is to move toward the upper right-hand quadrant of the chart.

RATE CASE CONTINUES

The proposed wholesale power rates settlement addresses many issues but does not settle all of them, nor has it been signed by all the parties to the rate case. A Supplemental Proposal has been filed. BPA expects to complete the rate case by June 20. Rates will be submitted to the Federal Energy Regulatory Commission by July 1 for review before rates go into effect on Oct. 1. FERC reviews BPA's rates to ensure they cover BPA's costs, including the ability to make Treasury payments on time and in full.

CONSERVATION, LOAD REDUCTION TOP IMMEDIATE ACTIONS LIST

Conservation and load reduction are the most immediate tools BPA has to maintain power system reliability, reduce power purchase costs and save water for fish needs. BPA has spent more than $400 million this winter curtailing industrial load, and by summer, expects curtailment of about 1,800 megawatts of the 2,100 MW of direct-service industry load it serves. Two-for-one energy exchanges with California have from Northwest reservoirs. Northwest citizens have responded significantly to calls for energy conservation. Loads during a mid-January cold snap were 2 percent lower than expected – saving the output of a combustion turbine.

DO CONSERVATION DISCOUNTS NOW!

BPA is inviting its customers to take actions now that they can count toward BPA's conservation and renewable resources discount in their rates starting in October. "This is a program we had intended to start next fall, but with the current shortage, we are offering it immediately," said Acting Administrator Steve Wright. Over $200 million will be available to fund conservation and renewable energy activities in the next five years from the discount. For details, see BPA's Web site at *http://www.bpa.gov/Energy/N/c&r.htm.*

"With the launch of the conservation and renewables discount, all three main thrusts of our 2002-2006 program are now in effect," John Pyrch, acting vice president for energy efficiency, explained. "We and our customers want to install savings sooner, not later, and reduce the amount of power we have to buy in the next rate period." BPA's budget for conservation and renewable energy efforts in 2002-2006 now comes to $465 million. The other two main conservation efforts are conservation augmentation, where customers propose conservation activities to achieve savings, and the demand exchange, which pays customers for load reductions during peak-use periods.

BPA SEEKS WIND POWER PROPOSALS

BPA is looking for perhaps 1,000 megawatts of new renewable wind power, fast. On Feb. 22, BPA sent out a request for proposals for new large-scale wind power projects. "We want as much power as fast as we can get it to help alleviate the energy shortage," said George Darr, BPA's renewable resource program manager. The request set a minimum of 15 average megawatts (about 40 to 60 megawatts of capacity) for a project. But, said Darr, "We strongly prefer larger projects with the potential for expansion." Proposals are due by April 6.

NEXT UP: IRRIGATION LOAD BUY DOWN

BPA is working to help farmers reduce the electricity they use for irrigation this summer and help themselves and the power grid in the process. Eastern Hub manager Rick Itami is developing a new irrigation load buy back program. "It's like the Voluntary Load Reduction Program," Itami said. "We'd pay our customers – and they'd pay the farmers – not to use power they'd otherwise consume." Farmers would be paid to reduce their irrigation loads by a specific amount, compared to earlier years. To do this, they could switch to non-irrigated crops or leave land fallow. BPA expects to offer the program to reduce irrigation loads from May through September this year.

TRANSMISSION INTEGRATION REQUESTS POUR IN

BPA has received requests for transmission integration studies for more than 13,000 megawatts of new generating capacity at sites around the Northwest. More are pouring through the door. In just the last two weeks, BPA has received eight formal requests for studies on integrating new combustion turbines totaling 3,850 MW. BPA has also received numerous requests to integrate smaller generation projects of five to 50 MW in the next six to twelve months. The Transmission Business Line is informing developers that it will take at least nine to 12 months to complete the required studies.

HYDRO EMERGENCY PRINCIPLES DRAFTED

Six federal agencies have drafted proposed principles for declaring emergency Columbia River hydro power operations. The principles recognize that unprecedented power market conditions and poor water may result in emergency operations this year. Criteria for declaring a power emergency include either a threat to power system reliability due to insufficient power supply or an insufficiency of funds to purchase needed power or to fund BPA programs including fish and wildlife activities. The principles include actions that must be taken before declaring an emergency such as conservation and load reduction measures.

The National Marine Fisheries Service Biological Opinion governs how the Federal Columbia River Power System is operated. Within its bounds, decisions about spill, flow and river operations in general are made by consensus among six federal agencies based on recommendations of a state/federal technical review team. The proposed principles are consistent with the Biological Opinion, which anticipates that emergencies may occur. The federal agencies have been soliciting regional input before completing the principles. The six agencies are BPA, the U.S. Army Corps of Engineers, Bureau of Reclamation, NMFS, U.S. Fish and Wildlife Service and Environmental Protection Agency.

HICKOK REFLECTS ON THE BASICS

Sometimes, the long view is more comforting than a close-up. That's what BPA Chief Operating Officer Steve Hickok suggested at Northwest energy forum convened by Sen. Gordon Smith (R-Ore.) and Rep. Greg Walden (R-Ore.) on Feb. 21.

"The lights should be out," Hickok observed after describing the drought, the West Coast supply shortage, and what he called California's regulatory calamity. "The reason the lights are on in this room today is that more than 3,000 MW of Northwest industrial load is shut down," he said. "Bonneville, the investor-owned utilities and several of the larger municipal utilities have paid some of the most electricity-intensive industries in the region to shut down for the rest of the year."

"The drought and the double California blow of disappearing generation and stratospheric prices have caused financial bleeding in the Northwest," he continued. To get through this year, BPA is focusing on reducing loads, and, as a last resort, reshaping river flows, he said. To solve the underlying shortage, Hickok prescribed a stiff regimen of expedited generation and transmission siting, conservation and renewable resource development, optimal expansion of federal hydropower facilities, completion of RTO West and deployment of distributed generation.

But, stepping back for a longer view, Hickok noted, "Seventeen years ago, Bonneville's basic wholesale rate to its utility customers for delivered power was $23 per megawatt-hour. Today it is $24." The outlook for the next 17 years also indicates a decline in real prices, he suggested, due to nuclear debt retirement, fuel cost declines, technology improvement and other factors. Although the fundamentals for electric power in the Northwest are excellent, he concluded, the next two to three years could be ugly. The challenge is to find the least-cost path through the next few years. See the complete speech at *http://www.bpa.gov/Corporate/KC/palinksx/speakersx.shtml.*

PUBLIC INVOLVEMENT

STATUS REPORTS

Avian Predation on Juvenile Salmonids in the Lower Columbia River. Wash. and Ore. — Monitor and evaluate the management actions implemented to reduce avian predation on juvenile salmonids in the Columbia River estuary.

Big Eddy-Ostrander Vegetation Management. Ore. — To control vegetation on two segments of the 500-kV transmission line right-of-way, from Lolo Pass to near Parkdale and east of Parkdale.

Coeur d'Alene Tribe (CDA) Trout Production Facility Project. Idaho — To fund design, construction, operation and maintenance of a facility to provide off-site mitigation for losses on the mainstem Columbia River. Final

Condon Wind Project. Ore. — To acquire about 24.5 megawatts of electricity from the proposed Condon Wind Project. The schedule has been delayed due to possible changes in the project.

Fish and Wildlife Implementation Plan. Regionwide — To examine potential impacts of implementing one of the fish and wildlife policy directions being considered in regional processes.

Grande Ronde and Imnaha Spring Chinook Project. Ore. — To build egg incubation and juvenile rearing facilities next to the Lostine and Imnaha rivers and to modify the Gumboot adult collection facility and the Lookingglass Hatchery in partnership with the Nez Perce Tribe, Oregon Dept. of Fish and Wildlife and the Confederated Tribes of the Umatilla Indian Reservation.

Johnson Creek Artificial Propagation Enhancement. Idaho — Development of a native chinook salmon broodstock for rearing of acclimated smolts to preserve and recover the population.

Kangley-Echo Lake Transmission Line Project. Wash. — To build a 500-kV transmission line in King County to connect an existing transmission line near Kangley to Echo Lake Substation.

Northwest Regional Power Facility. Wash. — To construct a combustion turbine near Creston. The final (#2887) and a supplemental analysis are available. Call for a copy.

Santiam-Bethel Transmission Line Project. Ore. — To build a new 230-kV transmission line next to an existing line from the Santiam Substation to a Portland General Electric line that goes to PGE's Bethel Substation, a distance of 17 miles.

Schultz-Hanford Area Transmission Line Project. Wash. — To build a new 500-kV line to relieve constraints on several electrical lines, provide more operational flexibility to meet endangered salmon obligations and maintain transmission capacity to import and export energy.

Stateline Wind Project. Wash. and Ore. — Work on the EIS has been stopped. PacifiCorp has contracted with FPL Energy to buy all of the output from the project.

Umatilla Generating Project. Ore. — To integrate electrical power from a new 550-megawatt natural gas-fired combined-cycle combustion turbine generation plant proposed by the Umatilla Generating Company, LP.

White Sturgeon Mitigation and Restoration in the Columbia and Snake Rivers Upstream From Bonneville Dam. Ore., Wash. and Idaho. — To restore and mitigate for documented lost white sturgeon productivity caused by development and operation of the hydropower system using intensive fisheries management and modified hydrosystem operation.

Wholesale Power Rates Amended Proposal. Regionwide — BPA and joint customers have agreed to a partial rate settlement. The rate case as a whole continues on schedule. See stories.

CALENDAR OF EVENTS

Preserving the Benefits of the Columbia River Conference and Open Space Forum. **March 12-14**. Holiday Inn Select and Namaste Retreat and Conference Center. Wilsonville, Ore. Sponsored by BPA, Northwest Public Power Assn., Portland State University, Northwest Power Planning Council. Call NWPPA at 360-254-0109 for more information.

Load Management Forum. **March 27**, 8:30 a.m.-4 p.m. DoubleTree Hotel, SeaTac. Seattle, Wash. Sponsored by BPA, Northwest Public Power Assn., Northwest Power Planning Council.

SUPPLEMENT ANALYSES

Watershed Management Program EIS: Acquire Oxbow Ranch - Middle Fork John Day River, Ore. (SA-48)

Wildlife Mitigation Program: Acquire Jones Ranch, Malheur Wildlife Mitigation Project, Ore. (SA-13)

Call to be added to mail list, Note close of comment deadline, See calendar of events. Documents listed are being prepared unless otherwise noted: Environmental Assessment, Environmental Impact Statement, Finding of No Significant Impact, Record of Decision.

FOR MORE INFORMATION OR TO GET INVOLVED: The *Journal* is a monthly newsletter of the Bonneville Power Administration for customers and interested publics. To order documents , call: 800-622-4520 or (503) 230-7334 (Portland). For questions/comments or to be added to a mail list, call: (503) 230-3478 (Portland) or 800-622-4519. Written comments may be sent to: BPA, P.O. Box 12999, Portland, OR 97212. Public Involvement, Internet, E-mail address comment@BPA.gov, BPA home page:http://www.bpa.gov

DOE/BP-3365 Feb. 23, 2001 6.5M

Newsbreaker: STRATEGIC PLANNING REPORT TO EMPLOYEES: The West Coast Crisis Solutions Project

March 2, 2001

Click here for past *Newsbreakers*.

Given how quickly and dramatically circumstances have changed in the last few months, the earthquake in the middle seemed only appropriate to the recent executive strategic planning retreat, a.k.a., "West Coast Crisis Solutions Project." BPA will be a big part of the Northwest's solution, the execs agreed. "This is an incredible opportunity to serve the public interest," Acting Administrator Steve Wright observed. "Our mission has never been clearer or more important than it is right now."

For the short run, the goals are:

1. to make sure BPA has enough money to cover its costs, and
2. to reduce the size of BPA's rate adjustments.

BPA must do this while adhering to the Northwest's environmental values.

For the long run, the goals are to preserve the benefits of the federal hydro system for the people of the Pacific Northwest, and to make a significant contribution to solutions that will lower wholesale power supply prices.

"We believe there is a way out, and we are confident that our people will carry us there," Wright said. "Ten years from now, I hope our employees will be able to look back at this period with pride and tell the story of how well we did for the people of the Pacific Northwest."

BPA's actions so far have kept the agency in a strong position despite soaring power prices and sinking streamflows. BPA is still financially strong, with about $660 million in reserves. The governors and citizens of the Northwest have responded positively to calls for energy conservation.

But the energy crisis is far from over. The execs realized that continuing on today's financial trajectory would make it very difficult to cover the agency's costs through 2002 and that the agency is confronting rate increases that would be devastating to the Northwest economy.

"The next two years are going to be really tough," Wright warned. "But there's a lot we can do to contribute to lowering wholesale power supply prices. We're going to take actions on many fronts at once." Specifically, BPA will seek load reductions, help bring efficiencies and new resources on line more quickly, and build transmission to move power where it is needed.

Getting through this Summer

- Exploring buying back the 1,000 megawatts that are committed to the investor-owned utilities under the residential exchange settlement.
- Working with customers to find demand-side management and energy efficiency megawatts.
- Operating the hydro system under a drought contingency plan.
- Taking 4(h)(10)(C) credits for the non-hydro fish impacts of the federal dams that ratepayers have been funding.

Power's account executives also will work closely with individual customers on ways they can help mitigate the impact on their consumers, particularly local industries and businesses, to help them survive the next couple of years.

Investing in the Infrastructure

"We need a bunch of new wires," Chief Engineer Vickie VanZandt told the execs. The grid has been stretched for more than a decade with series and shunt capacitors, upgrades, remedial action schemes and other measures designed to ship more megawatts over the existing wires. "These avenues are about exhausted," VanZandt said. The system is now pushed so close to full capacity that even a small problem in Alberta can vibrate throughout the Northwest grid. More and more parts of the grid are congested, some virtually all the time.

The prescription: build some new lines. VanZandt proposed 20 reinforcements totaling 700 miles of new high-voltage line, to be built as quickly as possible. The projects would relieve congestion, restore a margin of stability and help facilitate an open, competitive, lower cost power market.

Then there's the need to integrate new resources. TBL has received 34 requests from developers for studies to integrate proposed new generation into BPA's grid. More requests are pouring in. Each study requires specialized engineering expertise. Each proposal also requires environmental review, not to mention environmental clearance by states and other federal agencies. The execs agreed to work with developers on prioritizing their requests and considering which resources might be best located in terms of reinforcing, rather than diminishing, grid stability. BPA will also work with other agencies on streamlining and consolidating the review processes wherever possible.

BPA is adding to its own resource portfolio, from wind to geothermal to energy efficiency to gas-fired turbines and anything else that looks cost-effective and comes in the door. Most of these resources, except conservation, will come on line in 2003 and beyond, but the investment to get them has to happen now.

Finding the Needed Capital

All this investment will cost money. The new transmission is expected to require $775 million in capital investment beyond the $1.35 billion already in BPA's capital budget for fiscal years 2002-2006. This money will be recovered through transmission rates. The demand for transmission is so great that TBL expects that very little if any increase in transmission rates would be needed to fully recover the costs. Meanwhile, the lines have to be built before TBL can start collecting revenue for their use.

In addition, renewable resources, long-term conservation and efficiency improvements in the federal dams themselves will take another large chunk of capital, some of which also is not yet reflected in BPA's budget.

Under current projections, BPA would run out of borrowing authority in its lines of credit with the U.S. Treasury in 2006. The need for greater capital investment would accelerate this problem. Therefore, BPA will seek an increase in its borrowing authority.

Keeping Faith with Fish

BPA remains fully committed to implementing the Biological Opinion, Fish and Wildlife Advisor Lorri Bodi stressed. "The drought makes implementation of the BiOp as a whole, particularly habitat improvement measures, that much more urgent," she said. It is a 10-year BiOp and hopefully hydrosystem operations will be impacted for only a year or two. BPA is committed to proceeding with the implementation plans for the Biological Opinions quickly. "And we are fully committed to implementing the BiOp in full as soon as we get out of the current water conditions," Bodi said.

Working in "the Zone"

One recurring theme of the strategic retreat was concern for BPA employees, especially those who've already been working at top speed for months. "We want these challenges to energize employees, not burn them out," Wright said. The group agreed that this means adding staff in key areas.

Issues on the Horizon

The execs agreed to proceed with development of the RTO as a non-profit, independent transmission system operator. They also will continue to support and provide information for the Northwest governors' efforts at considering BPA regionalization, though BPA will try to focus them on defending against near-term threats to Northwest benefits from the federal system. The execs believe the region's efforts must primarily be focused on resolution of the near-term issues, not how to regionalize BPA.

One new issue likely to emerge this fall is the differing impacts of BPA rate adjustments on the region's various utilities. Presubscription customers are shielded from CRAC. Some investor-owned utility rates could wind up lower than rates to consumers in some adjoining public utility service territories. "There will be lots of tension and clashes of values both within BPA and throughout the region," Wright observed. "We will need some short-term mechanisms that we don't have today to bring people together and talk the issues through."

There also were significant concerns about what will happen in California this summer. If it's a hot summer, the state could face frequent rolling blackouts during peak load hours. One question that must be addressed is, what happens politically if California comes calling for more power from dedicated fish flows? The execs agreed to develop a pro-active strategy with California to focus on mutually beneficial arrangements for the summer, such as the energy exchanges used this winter.

Part of the Nation's Solution

President George W. Bush has already assembled a team headed by Vice President Dick Cheney to address the nation's energy needs, including solutions to the West's energy crisis. The administration has requested suggestions from agencies on actions they can take to improve the nation's energy structure and power supply. Many of the actions BPA's execs agreed to in the strategic retreat will be submitted to the administration and thence to Congress as part of Cheney's infrastructure paper.

The Region Comes Home

In an unprecedented arrangement, representatives of the U.S. Army Corps of Engineers participated in the strategic planning retreat. "The Corps and Bureau are our partners in the hydro system. The more we work together, the more efficient we can become," BPA's Federal Hydro Projects Manager Roy Fox said.

In a sense, COO Steve Hickok noted, the region has come full-circle. "In subscription, the region has reconnected to the federal hydro system," he said. "It's what the Northwest Power Act intended. In the 1990s, the region drifted away from BPA toward markets and 'diversified supply portfolios.' Now, it's snapped back to us." Hickok observed that the region's position in the West Coast market crisis is no better or worse because load has shifted back to BPA. The same load exists either way but the region now has turned to BPA to solve the shortfall. "People have come back to the center. They've reconnected to the heart of the system," he said.

Published by BPA Internal Communications, 503-230-3927.

The execs agreed to focus on a drought-based operational strategy for the hydro system and an outreach strategy with customers to get through summer reliably.

Draft contingency operations principles prepared by BPA, the National Marine Fisheries Service, U.S. Army Corps of Engineers, Bureau of Reclamation, U.S. Fish and Wildlife Service and other federal agencies are getting good reviews as a foundation for running the hydro system in a drought year, as Vice President for Generation Supply Greg Delwiche reported. The principles create biological priorities for hydrosystem operations and identify criteria that recognize the need to keep BPA solvent to assure it can fund all its fish and wildlife commitments. The execs agreed to keep advancing the development of the principles with regional input to refine spill and flow operations for this spring and summer.

On the demand side, BPA will continue to seek load reductions with its customers, including remaining direct-service industries. The recently offered irrigation-load reduction program is expected to cut loads some this summer. Other avenues will be explored.

The idea is to cut power purchases and maintain revenues sufficient to keep BPA from going in the red. "It is absolutely crucial that we avoid triggering the financial CRAC this fall," PBL Vice President for Requirements Marketing Allen Burns observed. The financial CRAC or Cost Recovery Adjustment Clause would trigger automatically on top of the large rate adjustment already projected for this fall if BPA projected ending the fiscal year with less than $300 million in reserves. "With the scope of the rate increase we're projecting for the first six months under the customer settlement, another increase on top of that for the financial CRAC would be devastating. We just can't do it," Burns said.

The execs believe there must be adequate reserves on hand to assure BPA remains liquid during the first quarter of fiscal 2002, when cash outflow exceeds inflow. The execs tentatively set a goal in the range of $600 million in reserves to assure liquidity.

There was also a recognition that plans will need to be flexible to respond to the amount of regional precipitation. If the Northwest doesn't start getting at least normal levels of precipitation, BPA will need to take even more drastic actions.

Commitments for Now to 2003

By 2003, sufficient new resources are expected to come on line in California and throughout the West to begin moderating wholesale market prices. What will BPA do to get from here to there? The execs discussed options that had been prepared by their staffs. Here is what they concluded by the end of three days.

Reducing the Rate Increase

Power will leave no stone unturned in its search for low-cost megawatts and load reductions to minimize market purchases and keep the rate adjustments as low as possible. The immediate objective is to keep the October 2001 rate adjustment in double, not triple digits. BPA's actions will include:

- Looking for more immediate load buyouts, including remaining DSI load.

MEDIA ADVISORY

Forum scheduled on energy crisis

Click here for other BPA news releases

Bonneville Power Administration
FOR IMMEDIATE RELEASE: MONDAY, March 26, 2001
PR 19 01

CONTACTS: Mike Hansen, BPA (503) 230-4328

SEATTLE, Wash. – Northwest utility managers will gather to discuss the nature of the Northwest energy crisis and what measures are available to deal with it.

What: The information shared at this forum will help utility managers understand the energy crisis and what they can do to minimize its impacts on utilities and their customers. The forum is sponsored by Tacoma Power, PacifiCorp/Scottish Power and Portland General Electric. The Bonneville Power Administration, the Northwest Power Planning Council and the Northwest Public Power Association are hosting the event.

Who: Steve Hickok, Chief Operating Officer of the Bonneville Power Administration Keynote speaker, 8:30 a.m.

Other speakers will include:

Heber Weller, Principal of Weller & Associates Consulting
Don Dame, Assistant General Manager of Northern California Power Agency, and representatives from:

- Seattle City Light
- Oregon Public Utilities Commission
- Portland General Electric
- Puget Sound Energy
- City of Milton-Freewater
- SP Paper (Industrial)

When: Tuesday, March 27, 8:30 a.m. to 4:00 p.m.

Where: Double Tree Hotel, Seattle Airport, 18740 Pacific Highway South, Seattle, WA 98188, 206-246-8600

Why: This forum will provide utility managers with ideas to help minimize the impacts of the region's drought and high energy market prices.

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BONNEVILLE POWER ADMINISTRATION

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

March 29, 2001

To BPA Customers and Citizens of the Pacific Northwest:

If a single word could express how 2001 is shaping up for the Bonneville Power Administration, that word is *extreme*. A combination of extremely low streamflows in the Columbia Basin, extremely high wholesale electricity prices and an extremely tight West Coast power supply presents an unprecedented challenge to the agency's ability to meet its public responsibilities.

The purpose of this letter is to alert you to the fact that, should present trends continue, this combination of pressures on BPA's and the region's natural and financial resources will force decisions on hydro system operations that were unthinkable a year ago.

We can now say with certainty that the region is confronted with difficult, even agonizing, choices. For the remainder of this year, we must deal with tradeoffs involving power system reliability, BPA's financial health that supports numerous regional objectives, fish enhancement measures and reservoir elevations. The following information summarizes the reality and context of the situation we face and the potential consequences for future decisions.

Extreme conditions

The following three factors are contributing to this year's extraordinary circumstances. Each factor alone could pose challenges for BPA, but the combination is particularly difficult.

A near record low-water year

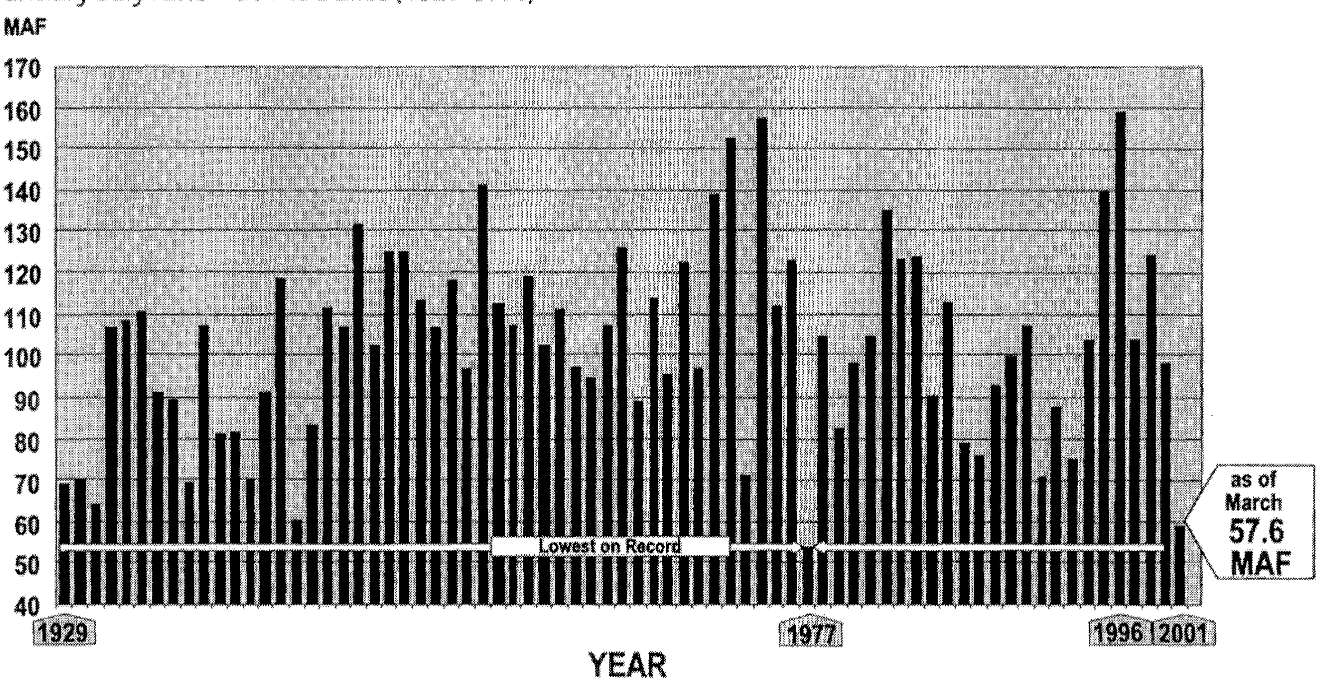
At the end of February, the National Weather Service River Forecast Center revised downward its forecast of the volume of Columbia Basin water runoff for 2001 to only 55 percent of normal, the second-lowest runoff in the 72-year record of this measurement *(see Graph 1 below)*.

A tight West Coast power supply

No doubt you have heard about the difficult power supply situation in California where power emergencies have become an almost daily

Graph 1, Water situation

January-July runoff at The Dalles (1929-2000)



occurrence, even to the extent of rolling blackouts in some areas.

For decades BPA has imported power from California during winter months when Northwest electricity demand tends to be highest. But this year, far from being able to help the Northwest, California is seeking additional power from us to help it cope with its frequent power emergencies. Other sources of power, such as Canada, also have much less to export than in past years. This lack of available supply, along with the drought, has led BPA to declare power system emergencies on two occasions this winter.

An extreme market

The tight West Coast energy supply in a deregulated market has driven wholesale power prices higher than anyone thought possible. We expect little change in the short term.

To put prices in perspective, note that historic Northwest wholesale electricity prices have rarely been above $30 a megawatt-hour. But now we are seeing prices in the range of $200 to $300 a megawatt-hour. At one point in January, wholesale power prices climbed to more than $1,000 a megawatt-hour. Faced with cold temperatures and high electricity demand, BPA spent $50 million on power purchases in just four days this winter. These kinds of prices signal that there may not be enough power available at any price to keep the lights on during certain periods.

Operation of the hydro system so far this year

Streamflows are the lifeblood of the region's hydro system. They are important to the survival of endangered salmon and steelhead that migrate to the sea during the spring and summer months. They also produce hydropower generation and revenues from the sale of power. The Federal Columbia River Power System (FCRPS) operations for fish are guided by Biological Opinions* that call for augmented flows and spill to help juvenile salmon and steelhead migrate to the sea.

At times there may not be enough water to meet the normal operation for optimal fish support and still have enough power generation at the right times. When this occurs, BPA is expected to purchase power in the wholesale market to supplement the regional supply. But the Biological Opinions anticipated that there could be circumstances when the power grid would require extraordinary support. This year may turn out to have an extended period of such circumstances.

Earlier in the year, BPA declared power emergencies when we were unable to purchase enough power to meet demand. We kept the lights on by using power we normally would have stored for the spring fish migration. The federal agencies chose to keep endangered chum redds below Bonneville Dam wet throughout the winter. Although the purpose of the decision was fish protection, it did serve to increase power generation and help preserve system reliability during the winter. However, it also reduced the amount of water stored in Grand Coulee and other reservoirs.

We share the concern of many throughout the region about the potential impacts that drought conditions could have on endangered fish. So far, we expect that the brief system emergencies we declared will have less than a 2 percent impact on spring flows for fish. Make no mistake, we take even a 2 percent effect very seriously. On the other hand, we believe there could be dire consequences for the people of the Northwest if we fail to use the flexibility of the hydro system and the provisions in the Biological Opinion when power system reliability is threatened.

The biggest issues, however, are still in front of us.

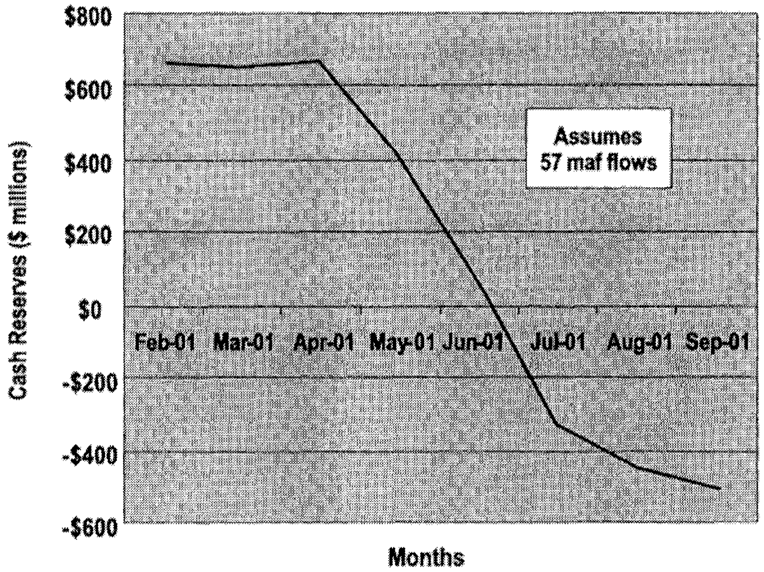
Future operations of the hydro system

Our analysis now shows that we cannot meet the standard operations called for in the Biological Opinion, maintain reliability, refill reservoirs and stay in the black financially under the latest runoff forecast. Unless the water situation turns around dramatically within the next few weeks, the region as a whole will be forced to make hard choices. Given the power purchases and load buy-downs we have been able to make for the rest of the year, we will have just enough energy to meet our own loads *only if we dramati-*

* There are two Biological Opinions. The opinion issued by the National Marine Fisheries Service addresses anadromous (ocean-going) fish such as salmon and steelhead. The opinion issued by the U.S. Department of Fish and Wildlife addresses resident fish such as sturgeon and bull trout.

Graph 2, Effect on Expected Value Reserve Levels

FY 2001 – If all Biological Opinion measures are met



cally reduce planned spill operations. Given the lack of additional power supplies in the market, we are concerned about potential circumstances (e.g. loss of a major generating facility) where we would have inadequate power supplies.

In addition, if we were to operate to meet the normal Biological Opinion requirements, the most likely scenario is that we would not have sufficient cash to pay all of our bills during several of the summer and fall months *(see Graph 2 above)*. Unfortunately, we wouldn't miss by just a little, but more likely by a mile, even assuming all the extraordinary measures that have already been put in place *(see Appendix on page 4)*.

Such an outcome would require dramatic involvement by extra-regional interests in BPA's financial affairs, and, frankly, the repercussions of such involvement are impossible to predict.

If we are to avoid reliability or financial calamities, it is increasingly likely that BPA will need to declare extended power system emergencies this spring and summer. Given the extreme conditions, the affected federal agencies in the region, including BPA, have drafted a set of proposed principles that describe the circumstances for emergency FCRPS power operations through 2001 as well as actions that must be taken prior to declaring an emergency. These principles describe criteria for the two issues that we believe define the need for declaring a power system emergency: maintaining reliability and maintaining BPA's financial liquidity.

Keeping the lights on is obviously important. Maintaining BPA's ability to pay its bills also is important for two key reasons. If we are to preserve reliability, we must be able to pay for any power purchases we need to make. We also need to ensure that BPA can continue to be an economic engine for salmon recovery in the region. Currently, BPA's costs for fish and wildlife mitigation run into the hundreds of millions of dollars each year, and we are committed to increase our funding in the coming years.

The principles also describe priorities for hydro system operation measures that are designed to aid fish and that were included in the Biological Opinion. These priorities will help guide hydro system operations, allowing modifications based on actual streamflow conditions.

The principles were needed because the Biological Opinions did not define what constitutes a power system emergency. In addition, the principles are an attempt to define a strategy for operating the hydro system in extreme conditions such as those we are now experiencing. Because the principles establish priorities for hydro operations, they allow the region to engage in the discussions about operations without having to engage in day-to-day management decisions. These principles are designed to be flexible, recognizing that no one can predict today the actual streamflow levels of tomorrow. The goal is to avoid making all decisions reactively in real time.

The agencies have shared the draft principles with the region and are considering regional input in developing a plan for 2001 operations. We plan to finalize the criteria for declaring power emergencies in the very near future. For more information on the principles, go to *http://www.salmonrecovery.gov/2001principles3_2.pdf* or write to the Bonneville Power Administration, Public Information Center, P.O. Box 3621, Portland, OR 97208, or call 1-800-622-4520.

How will fish be protected?

BPA remains committed to implementing the Biological Opinions. These opinions are long-term plans and, as we all hope, this particular year is an aberration. It's clear it will be difficult to achieve the opinions' recommendations in this extraordinary year. Much of the damage is drought-related, and would have resulted with or without power system emergencies. But we are seeking ideas on how we might offset any harm to fish that results from power system emergency operations.

We intend to move forward to implement the plans called for in the Biological Opinions in those areas that are not affected by this year's conditions.

Conclusion

I have been greatly impressed and appreciative of the many comments we have received that reflect an understanding that this is a difficult year in which difficult choices must be made. It is my hope that we can work together as a region to preserve reliability, maintain BPA's fiscal stability, minimize impacts on reservoir operations and achieve the long-term goals in the Biological Opinions for fish enhancement. I'm asking for your help to achieve these objectives.

Sincerely,

Stephen J. Wright
Acting Administrator

Appendix

Trying to cushion the blow

Working with the Northwest states and federal agencies, BPA has taken a number of actions, both short-term and long-term, to mitigate the combined effects of near-record low water, record high prices and the tight West Coast power supply. Here's what we have done so far:

Short-term actions

Short-term, our goal has been to conserve water for fish and reduce demand on the BPA system. To accomplish this we have:

- Contracted for a total reduction of over 2,300 megawatts in market purchases and industrial load reductions since Dec. 1, 2000, at a cost of roughly $500 million.
- Assisted the Northwest governors in their public call for a 1,000-megawatt reduction in Northwest energy consumption. BPA has aggressively supported the Northwest governors' calls for conservation and sponsored advertisements in 17 regional newspapers.
- Pursued, as a last resort, more aggressive operations of the federal hydro system by calling a power emergency in accordance with the Biological Opinion Technical Management Team protocols.

Long-term actions

BPA is working with other regional interests to promote investments in infrastructure that will provide new generation (including renewables), increase the reliability of the transmission system, promote increased demand-side management and conservation and support the gas pipeline and storage capacity needed to supply new generation. Our long-term actions include:

- Offering conservation and renewable discounts to utility customers (including starting the program eight months ahead of schedule) and initiating a Demand Exchange Program. The latter program pays customers to voluntarily go off line for brief periods when the power is needed. The Demand Exchange has 463 megawatts of load signed up.
- Considering a proposal from customers that, if adopted, would adjust rates regularly to reflect BPA's actual cost of serving customers' loads. Our task now is to achieve a regional agreement on how we are going to reduce the amount of power we have to buy as well as the price we have to pay. That will help us get the rate increase down to a level that will minimize the negative impact on the Northwest economy while protecting the environment.

If BPA were unable to cover its costs in its rates, we would most likely have to get financial support from the U.S. Treasury. However, it has always been our view that it is in the best interest of the region to be clear that Northwest rate payers support the region's hydropower system, and that it does not lean on U.S. taxpayers.

A PUBLICATION OF THE BONNEVILLE POWER ADMINISTRATION

keeping CURRENT

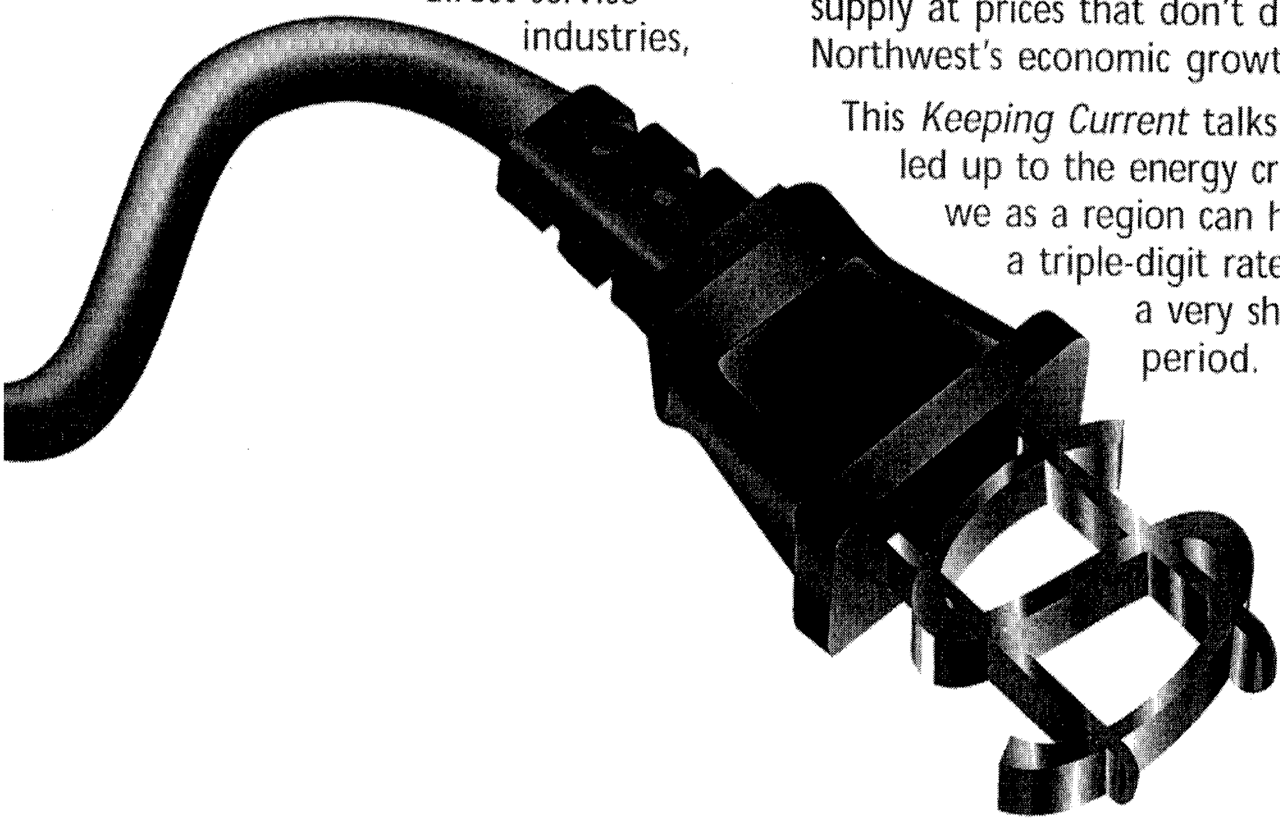
April 2001

Working together to keep the lights on and costs down

The Northwest is in the midst of an energy crisis. Not only is electricity in short supply, but its prices have been soaring. Many retail utilities already have announced major rate increases, and the cost of wholesale electricity has hit all time highs. The Bonneville Power Administration, which provides wholesale power to Northwest utilities and large direct service industries, will put new power rates into effect this coming October.

Those rates could be very high – as much as 250 percent or more – or they could be significantly lower. The difference will depend on how willing Northwest parties are to work together and make the sacrifices that will help bring rates down. The payoff will be a reliable electricity supply at prices that don't discourage the Northwest's economic growth.

This *Keeping Current* talks about what led up to the energy crisis, and how we as a region can help prevent a triple-digit rate increase in a very short time period.



BONNEVILLE POWER ADMINISTRATION

There is a very real urgency. Although BPA's new rates won't go into effect until October, they must be determined in the next few weeks so they can be submitted to the Federal Energy Regulatory Commission this June. The region must act quickly to avoid the economic stress that would surely come on the heels of a wholesale rate increase that could be 250 percent or more. While the impact on retail rates won't be as high, there would still be impacts varying with each utility. Everyone would feel the economic pinch.

That's what would happen if the region chose to take no action. But there is another path. BPA is calling for specific actions and significant contributions from all of its customer groups to take steps that could dramatically reduce the size of the rate increase. BPA's customers include Northwest public and private utilities and some large electricity-intensive industries – primarily aluminum – that buy wholesale power from BPA and are known as direct service industries. The following information provides background on what is driving electric rates up and what the Northwest can do to hold the rate increases down.

Why are wholesale power rates going up?

Two factors are affecting electricity rates all over the West, including BPA's rates. First, the electricity supply in the West is very tight. Over the last 10 years, the population has grown, along with electricity-dependent technologies (such as computers), thus increasing electricity consumption. At the same time, there has been no significant growth in new energy supplies. The result is that demand for electricity is often greater than its supply.

Second, largely due to the short supply, wholesale electricity power market prices are at record highs. For example, historic wholesale electricity prices for this region have rarely been above $30 a megawatt-hour. But now prices are in the range of $200 to $300 a megawatt-hour. At one point last January, wholesale power prices climbed to more than $1,000 a megawatt-hour, and BPA spent $50 million on power purchases in just *four days* to keep Northwest lights on.

The Northwest's drought and California's failed attempt at deregulation also have contributed to high wholesale electricity prices, but the problem isn't just short term. Even if the drought goes away, energy prices will stay high until enough new power generation is brought on line to meet the demand for energy. BPA is working to bring on new energy resources, including renewable energy and conservation measures, as well as new transmission lines to ensure that electric power can be reliably delivered into the future. But that could take a couple of years.

Unfortunately, Northwest ratepayers can't wait two years to act. Beginning this October, BPA is obligated to provide about 11,000 average megawatts of electricity to its Northwest customers for a five-year period. The 11,000-average-megawatt obligation exceeds BPA's power resources by about 3,000 average megawatts. Unless there is a significant change in power demand, BPA will have to buy the additional power in the very high-priced wholesale market. This will drive everyone's rates up.

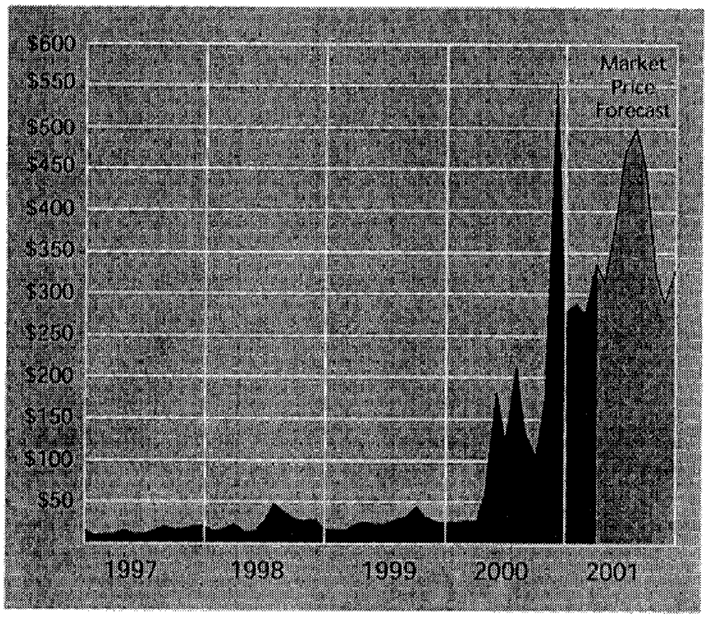
What can we do to avoid triple-digit increases?

The Northwest must look at ways to reduce rates now instead of waiting for new generation to come on line. The best way to reduce rates immediately is to reduce the demand for power put on BPA. This, in turn will reduce BPA's need to buy power in the very expensive wholesale electricity market.

BPA has already taken a number of extraordinary steps to decrease the amount of power it must buy in the market. It has promoted conservation aggressively and sought voluntary curtailments of power use. It has begun to purchase power back from direct service industries, and from irrigators who are served by BPA's utility customers. Although this is expensive, it is still far less expensive than buying power in the current market. BPA also is offering innovative incentives to its utility customers to encourage them to develop conservation and renewable energy programs and to provide incentives to their consumers to conserve.

BPA also has engaged in beneficial 2-for-1 power exchanges with California whenever possible. Under the exchanges, for each megawatt BPA ships to California, the state must send two megawatts back to the Northwest. This results in using less of the Northwest's water to generate electricity and saving more in reservoirs for future power generation and fish needs.

Power prices have skyrocketed



Average on-peak power prices since 1997, per megawatt-hour

It's important to note that BPA has sold **no** power to California that was needed in the Northwest. BPA's policy is to do **nothing** for California that will adversely affect the reliability of the Northwest's electrical system, the Northwest's environment or BPA's financial health.

Despite these extraordinary efforts to reduce the amount of electricity BPA must provide customers, it's still not enough. The ultimate solution rests with BPA's utility and industrial customers as well as every Northwest consumer. Since the consequences of a 250 percent or more rate increase would affect the entire Northwest economy, everyone has a stake in getting the increase down to a manageable level.

There isn't much time

The region must make the decisions needed to reduce its overall demand for power on BPA by the end of May. This is because BPA is due to submit a rate proposal to the Federal Energy Regulatory Commission in June for the rate period that begins October 1. The rate period covers five years, extending to 2006.

Since no one can control the market prices, the Northwest must focus on what it can control. It can control the amount of expensive power BPA is forced to buy in the market by reducing its demand for power. BPA is urging contributions from all Northwest customer groups.

First,

BPA is asking its public utility customers, such as municipally run utilities, to reduce their purchases from BPA by 5 to 10 percent. BPA is currently discussing ways to help achieve this goal.

Second,

BPA is asking investor-owned utilities (private power) to contribute back a portion of the power benefits they received from the federal system that is proportionate to the public power contribution.

Third,

and this is a significant request, BPA is asking its direct service customers, primarily the aluminum industry, to agree not to take power from the federal system for up to the first two years of the new rate period. BPA is negotiating with each industry to help provide worker compensation during that time, and is working with the companies to help them find a means to operate profitably in the long run without relying on BPA.

Fourth,

BPA is urging all citizens of the Northwest to heed the call of our governors to reduce electricity consumption by 10 percent through eliminating waste and using electricity efficiently. Everyone in the region can play a part in keeping costs down until more power resources become available. This is one case where a little bit of savings can make a big difference if everyone contributes. For ideas, see the box below.

What's in it for the utilities, industries and consumers to cut back? Quite simply, the health of the region's economy is at stake. It will take contributions from all parties to avoid a large rate increase, but the payoff will be a brighter future for the entire Northwest.

For more information

The following resources are available and provide more in-depth information about the current energy crisis and related issues. To order, call BPA's Public Information Center in Portland, Ore., at (503) 230-7334 or outside Portland at 1-800-622-4520.

- BPA administrator's letter to BPA customers and citizens of the Pacific Northwest dated Jan. 25, 2001. This letter addresses the conditions driving BPA's power rates. 4 pgs.
- BPA administrator's letter to BPA customers and citizens of the Pacific Northwest dated March 29, 2001. This letter addresses the impacts of the Northwest drought and how the federal hydro system will be operated this coming summer to meet reliability needs. 4 pgs.
- April 9, 2001, speech by Stephen Wright, BPA acting administrator, titled "Reducing BPA's Wholesale Power Rate Increases: Managing through a short-term crisis to ensure long-term benefits." 6 pgs.
- *Keeping Current* outlining BPA's conservation and load reduction initiatives. Available in late April 2001. 4 pgs.
- Homeowners' energy saving tips brochure available in May.
- Energy saving tips currently available at *www.bpa.gov*

What can I do to help?

The region's governors have called for each citizen to reduce their energy use by 10 percent. The easiest way to do that is through eliminating waste and using energy efficiently. Here are some common sense measures we can all take to help keep rates down:

- Replace conventional light bulbs with compact fluorescents. They use 75 percent less energy, last 8 to 10 times as long and provide the same amount of light.
- Turn off lights in rooms that aren't occupied.
- Turn off computers, monitors and printers when they are not in use.
- Unplug household appliances when they are not in use.
- Set your water heater temperature to 115 degrees.
- When you go on vacation, turn the water heater off entirely.
- Use programmable thermostats and set them at 68 degrees during the day, lower at night.
- Close your chimney damper when not in use. (It's like leaving a 48-square-inch window open.)
- Check furnace ductwork for cracks or leaks, and fix them with duct tape with the UL (Underwriters Laboratories) logo.
- Weatherstrip or caulk around doors and windows.
- When investing in new appliances, look for the Energy Star® label.

Bonneville Power Administration
P.O. Box 3621 Portland, Oregon 97208-3621
DOE/BP-3373 April 2001 15M

BPA to announce measures for avoiding
huge electric rate hikes this fall

Click here for other BPA news releases

Bonneville Power Administration
FOR IMMEDIATE RELEASE: THURSDAY, April 5, 2001
PR 22 00

CONTACTS: Ed Mosey or Mike Hansen , BPA (503) 230-5131

PORTLAND, Ore. – At a press conference on Monday, April 9, Steve Wright, Acting Administrator for the Bonneville Power Administration, will prescribe strong medicine for treating the region's drought-stricken, energy-starved electricity system.

"Some of these steps are painful, but, unless we take action now, we face consequences that I believe are unacceptable," he says.

Wright will identify the specific steps needed to avoid severe power shortages and skyrocketing electricity rates this fall. He will describe how utilities, industries and virtually every residential energy consumer in the Northwest can and should get involved.

Out-of-town media may participate via a dedicated conference line.

Date: Monday, April 9

Time: 12:00 noon

Location: BPA Headquarters, 905 N.E. 11th Avenue, Portland, OR in conference room 122

Dedicated Conference All participants must dial 503-230-3344.

Line Number: Wait for the double beep then enter the passcode 1351.

Please keep all phones on "MUTE" until the Q&A session.

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bpanews

PR 23 01

FOR IMMEDIATE RELEASE:
MONDAY, April 09, 2001
CONTACT: Ed Mosey or Mike Hansen, (503) 230-5131

Major rate hikes, reliability issues threaten NW power system; The region must cut energy use now to hold down costs

PORTLAND, Ore. –The region's federal electricity system is headed for wholesale rate increases of 250 percent or more after Oct. 1 unless its customers–the region's retail utilities and large industrial customers–make commitments to reduce energy use within the next 60 days, the Bonneville Power Administration warned Monday.

In January BPA said wholesale rates could rise 60 percent on average for the next five years beginning Oct. 1, 2001, and potentially 95 percent in the first year. Circumstances have gotten worse since then.

"Recent developments in the market now require a first-year increase of 250 percent or more, absent vigorous efforts to reduce demand," said Steve Wright, acting BPA administrator. "This could double the retail rates of many Northwest consumers."

Wright said an increase of this magnitude would have major economic consequences: "Already some businesses have closed and people are out of work due to high energy costs. Such an increase portends vast economic troubles – more businesses closing their doors and more lost jobs. Those with lower incomes would suffer disproportionately."

The drought is leaving the region short of electricity this summer and winter, which could pose reliability problems but, longer term, an underlying energy shortage threatens high costs and difficulties in meeting demand for several years until new power plants, power lines and conservation can be brought on line. Wholesale market prices for power purchases next year have risen dramatically since January.

-more-

Bonneville Power Administration, 905 N.E. 11th Avenue, Portland, Oregon 97232
Mailing Address: Media Relations - KC7, P.O. Box 3621, Portland, OR 97208-3621
Phone: (503) 230-5131 **Fax:** (503) 230-5884 **Web site:** http://www.bpa.gov

Wright said BPA is about 2,500 megawatts short of meeting all the demand of its customers on Oct. 1, when new power sales contracts take effect. So BPA must purchase power on the market, where prices have exploded from $25 per megawatt-hour to $300 in just over one year.

Wright went on to say BPA and the region have two choices. BPA can ask each of its customers for difficult but manageable load reductions, which would result in much lower rate increases and more stable rates. Or BPA can go into the market and attempt to buy the necessary power and raise rates to cover the costs. Wright said, "Asking for some load reduction from each customer, though difficult, looks like a better choice for the region than over-relying on the market."

Wright described the following actions that BPA would ask from each of its customer groups:

1. Publicly owned utilities should cut their purchases from BPA by 5-10 percent. This can be done through retail rate incentives as well as, focused conservation and load-buyback programs.

2. Investor-owned utilities should make a parallel commitment. Radical increases in market rates have vastly expanded the value obtained by these utilities under a formula in new contracts signed with BPA. As a result, the utilities are in a position to forgo or defer some of this value and thereby reduce economic impacts on the region.

3. It is highly likely that most aluminum plants will find it uneconomical to resume operation for one to two years, until market prices for electricity stabilize. Wright urged those companies to agree now to stay offline for up to two years, so that BPA does not have to buy power to cover the possibility that they could resume operation in October. Wright said that it is not BPA's intent to drive the aluminum industry out of the region. Rather, the plants should resume operations when the power situation stabilizes. During the downtime, BPA would provide funding for employee compensation to minimize impacts on local communities.

4. Wright also joined with the Northwest governors and other regional utilities in a continuing plea for citizens to conserve energy. "This crisis is very real. Saving energy will not only help keep the lights on, but it also is the best way to save on power bills and help save the environment at the same time," he said.

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Wright cited the woes in California, noting that the crisis in that state has taught some very important lessons. "We can learn from California's problems and seek to avoid them. We need to do everything we can to avoid power purchases in this incredibly expensive market, and we also need to make sure we set our rates high enough so we can cover our costs to assure generators get paid when they deliver power so that we don't put our credit at risk.

"We must seize control of our destiny. If everyone in the region pulls together, we can keep the electricity flowing and our rates down. But if we don't act now, very large rate increases are virtually unavoidable."

He cautioned that BPA must raise rates enough to pay its obligations to the U.S. Treasury on money borrowed to build the federal power system.

"There are those in Congress who see our current weakness as an opportunity to deprive the region of the future benefits of Columbia River hydropower," said Wright. "Failure to pay our debts would only further their cause, with potentially disastrous future consequences to the region."

"It must be remembered that the core of the federal power system that serves the Northwest is very low-cost and reliable," Wright said. "It is the cost of purchasing power on the open market that is driving the size of this rate increase. As the market price decreases, BPA's need for additional revenue will also decrease."

Commitments to take action to reduce the size of the rate increase are needed within the next 60 days. This will allow time for BPA to submit its new rates to the Federal Energy Regulatory Commission for approval and to purchase power necessary to serve load beginning October 1.

BPA's proposed rates will go into effect beginning October 1. Those rates include an adjustment clause that will vary every six months, depending on the amount of power BPA has to buy and the market price. Forecasts of market prices anticipate lower costs in future years as the region's supply and demand come into better balance.

-more-

Wright also called on the region to make infrastructure investments, such as upgrading power lines, which can more rapidly bring supply and demand into balance and thereby lead to lower wholesale power costs. Infrastructure investments are the long-term solution, Wright said

BPA is a not-for-profit federal agency. BPA is required by law to pass through all its power costs to its electric utility and direct service industrial customers.

For electronic version go to www.bpa.gov and click on the Media Center icon.

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Reducing BPA's Wholesale Power Rate Increases

Managing through a short-term crisis to ensure long-term benefits

By Stephen Wright
Acting Administrator, Bonneville Power Administration
April 9, 2001

Last January, I sent out a letter to Northwest citizens that caused some shock waves. That was my intent. I believe it is important to warn of bad news while there is still time to take actions that can lessen the impact. At the time, I said that, if certain conditions persisted, BPA's customers--Pacific Northwest utilities and direct-service industries--could face a significant rate increase for the wholesale power they buy from the Bonneville Power Administration. The figures I cited then were for an average rate increase of 60 percent over the five-year rate period that starts this coming October. I cautioned that the increase could be as high as 90 percent in the first year.

Unfortunately, the situation has worsened. It now appears possible that, without the kinds of action that I am about to call for today, the first-year increase could be 250 percent or more. If that were to occur, it likely would translate into doubling the retail rates in many utility service areas.

An increase of this magnitude would have widespread economic consequences. Already, we are seeing some businesses curtail operations or even close as a result of high energy prices. With such an increase, we'd surely see more businesses close and more job losses, with people with lower incomes suffering disproportionately. In addition, a weak economy frequently translates into less public support for environmental protection.

I don't believe these consequences are acceptable. More importantly, I don't believe they are inevitable. That's why I am here today to call for some very specific actions and to call on all stakeholders in the Pacific Northwest to own part of the process that will help us avert an economic blow to our region. I believe we can get the rate increase down to a manageable level, but we need to make some tough decisions, and we have little more than 60 days to do this. BPA's rates, which will go into effect in October, should be submitted to the Federal Energy Regulatory Commission in June.

First, let me review what has led us to this point. Some of it you already know. We are experiencing the second worst water year in 72 years of record-keeping. According to a report released by the Northwest Power Planning Council, if the drought persists, the hydropower generating capability in the Northwest from March through August will be 4,700 megawatts below normal over those months--the equivalent power consumed by four Seattles. The implications are ominous since the Northwest relies on hydropower for nearly three-quarters of its electricity.

But the summer drought is only the immediate crisis. We are becoming increasingly concerned about power supply for the coming winter. Canadian reservoirs, which store half the system's water, are extremely low this year, which means we could start next year with less than a full tank. If that were to happen, and especially if we have a second dry year in a row, electricity reliability wouldn't be the only thing at risk. Low reservoir levels also raise concerns for salmon and steelhead next year.

Low water combined with a tight wholesale power market and skyrocketing power prices is a devastating combination. The fiasco in California has helped drive wholesale electricity prices to unprecedented levels. When we completed our new Subscription power contracts last fall, BPA's contractual obligations added up to approximately 11,000 megawatts--about 3,000 megawatts more than our current generating resources can provide on a firm basis. The only way we can meet our obligations is to buy the vast majority of the additional power in a wholesale power market where supplies are tight and prices are sky high. This is what is driving rates up.

This year, due to the high power prices, BPA has not been able to purchase sufficient power to ensure system reliability. Consequently, we have periodically declared power system emergencies. These emergency declarations have allowed us to increase power generation from the river and reduce operations that offer benefits to migrating juvenile fish. The increased generation has reduced the amount of water that is normally stored at this time of year so that it can be used to augment spring and summer river flows. While there may be some impact on fish, by far the major impact on fish is the drought itself, not the emergency power operations. We are continuing to implement all other aspects of the federal measures for fish recovery.

Currently, we are operating the river on an emergency basis, and we can continue some fish spill or flow augmentation only as long as water volume does not dip much below current estimates. The record low runoff is a water volume of 53 million-acre feet. As of last week, the volume forecasts had dropped to 56 million-acre feet, which is 53 percent of the normal runoff. This severely limits our flexibility to do much more than meet power needs.

Beyond the current drought, high power prices are expected to continue until significant new generation and additional conservation measures are put in place. This will take a couple of years at best. And, we can't expect much help from Canada, which also is suffering drought, nor any help from California, which is in the throes of an electricity restructuring crisis.

We must focus instead on what we can control if we expect to minimize the size of the coming wholesale rate increase. The most immediate and direct way to decrease the size of next year's rate increase is quite simply to decrease the amount of power BPA has to buy in the market.

We already have taken a number of extraordinary steps in this direction. We have promoted conservation aggressively and sought voluntary curtailments in power use. We have begun to purchase curtailments from our direct service industrial customers and from irrigators who are served by our utility customers. We have offered innovative incentives for development of conservation and renewables, and we have engaged in beneficial 2-for-1 power exchanges with California. We also are continuing to collaborate with the Corps of Engineers and Bureau of Reclamation to increase the productive capability of the federal power system.

But even these extraordinary measures haven't been enough in the face of the triple whammy of historic low water conditions, an extremely tight power market and enormous volatility in power prices. We now need to up the ante if we are to get the rate increase for the next year down to a manageable level.

We literally are at a crossroads, and the region has essentially two options. Path A is to wait and see where market prices settle in June. Under this scenario, we'd rely on cost recovery mechanisms to kick up rates if prices remain high. We would take no special actions and we wouldn't push or negotiate with our customer groups to secure load reductions. The risk is that, if market prices stay the same, we could expect to see a first year rate increase in the 200 to 300 percent range, and possibly greater.

Then there's Path B, which calls for aggressive and immediate steps to reduce the size of the rate increase by reducing the amount of electricity demand put on BPA. Under this scenario, BPA would not have to buy as large an amount of power in a very expensive wholesale power market. It's a strategy that calls on our customers and other stakeholders to share a sacrifice by reducing their demands for power. It requires significant, and I mean **significant**, contributions from all customer groups. It could keep the first-year rate increase below 100 percent. I believe Path B is the course we must choose, so let me lay out some of the actions that will move us along this path.

As I discuss this path, let me outline the principles I believe are key to reducing rates. First, rates must be set to cover costs if we are to avoid creating a credit problem, which could lead to refusals to sell to us in the future. We must also cover our costs to ensure we preserve the benefits of the federal hydropower system over the long term, which is essentially the bottom line.

Second, the situation is urgent. We must act quickly because rates must be in effect this coming October 1. As I said earlier, our rate proposal is due in to the Federal Energy Regulatory Commission in June.

Third, our problem is caused by a significant exposure to a volatile market in the first one-to-two years of the rate period. If we are to manage a reduction in the rate increase, we must reduce our exposure to that market by reducing demand for energy, increasing our supply and minimizing the short and long-term damage to the region's economy.

Fourth, contributions to the solution are needed from all customers. We can't play a game a chicken where each party waits for the other to step forward. If that happens, no one will step forward. Each group must contribute if we are to preserve an equitable distribution of the benefits of our hydropower resource.

Actions needed

Given those principles, let me outline the actions we as a region need to take. We need a three-pronged approach that includes curtailment of power use, conservation--or more efficient use of power--and power buybacks. This needs to happen across all four states, across public and private power, and across all sectors of energy use--industrial, commercial, agricultural and residential. It will take all of us working together if we are to avoid severe economic hardships for the region. Let me be clear; what I am about to suggest requires a great deal of sacrifice, but the alternative is to suffer far more serious consequences. We are beginning negotiations now with our customers. If people don't come to the table with reductions in their demand for electricity, a very large and very damaging rate increase is inevitable.

First, we are calling on our public utility customers to make a contribution to the solution. We need every utility customer to reduce its Subscription purchases from BPA by 5 to 10 percent. BPA's rate increases will spur some of this reduction, but more focused efforts are needed if we are going to achieve significant savings. We are willing to make modest incentive payments to help achieve this, but the incentive payments cannot be large or they will defeat the intended effect.

We are running several demand-side management initiatives including a conservation and renewables discount, a conservation augmentation program and a demand exchange program. In addition, we now are discussing the potential for new programs to provide incentives to our public utility customers to adopt innovative retail rate structures that encourage their consumers to conserve energy.

Second, we are calling on investor-owned utilities to make a contribution. When our new rates go into effect this October, investor-owned utilities--or IOUs--will receive sizable benefits from BPA for their residential and small farm customers as a result of a the residential exchange. Under this program, as it is set out in the Subscription period, 1,900 average megawatts of financial and power benefits are scheduled to go to the IOUs. But, because of dramatic changes in market prices, the estimated value of these benefits has increased enormously since they were negotiated a year ago. By 2002, the value will be 10 times higher than the negotiations intended to capture. As a result, IOUs are in a position to reduce their Subscription demand significantly and still enjoy benefits in excess of anything they have experienced in the 20-year history of the residential exchange.

Third, we are asking our direct service industries--or DSIs--to agree not to take power from us for up to the first two years of the rate period in return for certain limited compensation to the companies and their workers. It is our expectation that the companies would not be able to operate given a potential tripling of our rates anyway. Coming to an agreement now that the plants will not operate would allow BPA to avoid making power purchases, thereby decreasing our rates for all remaining customers.

It is not our intention to drive the aluminum industry out of the region, but we are continuing to encourage the industry to move off of BPA power supplies after the 2006 rate period because we do not have a statutory obligation to continue to serve them. The customers we are obligated to serve--the region's retail electric utilities--need more than our current generation resources can produce. We will work with these companies to help them find a means to operate profitably in the long run without relying on BPA.

Almost all of the DSIs are already shut down until this fall, and their power is being remarketed to support Northwest needs during the current drought. These buydowns played a key role in keeping the lights on this winter and in maintaining reservoir levels higher than they otherwise would have been.

Fourth, I am urging all citizens of the Northwest to heed the call of our governors to reduce electricity consumption by 10 percent through eliminating waste and using electricity more efficiently. There are a number of common sense measures we can all take, and one good place to start right now is to go out and replace conventional light bulbs with compact fluorescents, which consume about 20 percent of the electricity used by regular bulbs for the same amount of light.

These four sets of actions that I have described are urgently needed between now and June if we are to avert grave near-term economic consequences. These are difficult actions. But, with hindsight, we can learn from the problems California experienced and seek to avoid them. We need to do everything we can to avoid power purchases in this incredibly expensive market. We also need to make sure we set rates high enough so we can cover our costs to assure generators get paid when they deliver power on a contractual basis so we don't put our credit at risk.

We also are looking to longer-term solutions that will help lead to lowering the incredible wholesale power supply prices we are currently experiencing. The fundamental problem is supply and demand being out of balance. Prompt infrastructure investments are needed in generating resources, especially gas-fired and wind-powered generation; gas pipeline capacity and storage; electric power transmission facilities; and energy conservation measures.

BPA's rates will now be set on a six-month basis based on our actual costs. If wholesale power prices can be brought down quickly, through infrastructure investments and other actions, then our rates will come down in the future. The faster these actions can be taken, the quicker our rates can come down.

We already have begun plans to shore up the transmission infrastructure, and we are negotiating to purchase the output from combustion turbines and new renewable resources. We also are increasing our efforts to encourage and procure energy efficiency. We are working to implement these actions quickly, but at best, some actions, such as securing more generation, will take one-to-two years.

That's why I am calling for cooperation and sacrifices for the next two years from all parties BPA serves. If the region cannot or will not take the actions necessary to reduce the rate hike, we have no recourse but to set our rates to recover our costs. BPA does not receive subsidies from taxpayers. We must wholly cover our costs with revenues we receive from sales of power and transmission. We are obligated to repay, with interest, all capital investments that have been made by the federal government in the facilities that are part of the Northwest's federal power system. Already, we have drawn on our financial reserves heavily this winter, and more of the same still may be ahead of us.

Some have suggested that we can simply fail to pay one of our largest creditors--the U.S. Treasury--rather than declare power emergencies or raise rates sharply. While there is no absolute guarantee we will make our full Treasury payment this October, I believe we should use all management tools available to do so. Our ability to pay our debt in full and on time is the best protection the Northwest has to preserve the benefits of the Columbia River hydropower system for the region. There are interests outside the region that want to see the benefits of this system directed toward other purposes. They could take great political advantage of the opportunity that would be presented if BPA did not cover its costs. One consequence could be the loss of cost-based rates for power from the federal system. We have seen how exorbitant market rates can be. If that were to happen, the region would be looking at far higher rate increases than we are now facing.

So, in closing, let me underscore the message. We are on a trajectory that poses grave consequences for the Pacific Northwest, primarily due to extraordinary conditions beyond our control--extremely low water, an extremely tight power supply and extremely high wholesale power prices. We believe the only alternative to a huge rate hike is to reduce our exposure to the market in the first two years of the next five-year rate period by reducing the Subscription demand on BPA. It will take major contributions from all our customers if we are to prevent a triple digit rate increase. And, we will need to make these very difficult decisions very quickly.

Finally, we believe this proposal, while not an easy one to achieve, fairly balances the sacrifices the region needs and does not unfairly hit one customer group or one state over others. I know putting these proposals into place will be tough, but I believe the consequences of not taking this path will even be tougher.

FOR IMMEDIATE RELEASE
April 11, 2001

For More Information Contact:
Carla Din (510) 594-6898
David Foster (612) 670-8190

United Steelworkers of America Responds to BPA Proposal to Stay Offline for Two Years

(Portland, OR) The United Steelworkers of America (USWA), representing 5,000 jobs in the aluminum smelting industry in the Northwest, responded to a Bonneville Power Administration request of the direct service industry to stay offline for up to 2 years. USWA will consider proposals that keep workers whole and allow businesses to remain viable in the Northwest during any period of curtailment, but will continue to push for a 2-tiered rate structure as a much more productive and comprehensive alternative.

"We are interested in doing our part to help the region reduce its overall energy load," said USWA District 11 Director David Foster. "However, we have enormous reservations about getting off the system without any indication of the level of compensation our workers will be getting. We likewise have no assurances that the aluminum smelters will be allowed back on the BPA grid for the balance of the Subscription period after 2 years."

The United Steelworkers are urging the BPA to hold a public hearing that will provide an open forum to discuss related issues. "While we remain open to help solve these serious energy problems, any recommendations to bring the aluminum industry offline for 2 years is premature. We need to know what effects a lengthy curtailment will have on workers and on the viability of the businesses," Foster stated. "It is very difficult for any business to be sidelined for 2 years. If demand is filled by smelters in other parts of the world, we may never have a viable aluminum industry in the Northwest again."

According to Jim Woodward, Sub-District Director, District 11, USWA members would prefer to be productive, contributing members of society, rather than just receiving financial compensation. "Our workers want their lives back at the plants with the knowledge that they have a job from one day to the next, rather than facing so much uncertainty. With few, if any, comparable employment opportunities in rural areas, workers would have to be uprooted from their communities to search for work elsewhere."

As a preferred alternative, the United Steelworkers are urging BPA to implement a 2-tiered rate structure as the fair and right thing to do. This approach would give every BPA customer approximately 75% of power allocated for the 2001 - 2006 period at the original rate, with additional power requirements sold at higher market rates. This would provide financial incentives for conservation. Under the 2-tiered proposal, aluminum industry power would be reduced from 1500 megawatts to about 1100 megawatts.

Individual aluminum companies would only be eligible to participate in this rate structure provided that they make a commitment to the following conditions:

- o Complete energy self-sufficiency by 2006;
- o Provisions that would mitigate any negative impact on workers during periods of curtailment;
- o Investment in new, environmentally sound energy generation, with significant reliance on renewable resources.

For the FY 2002-2006 Subscription period, BPA is committed to provide to its direct service industrial customers 1500 megawatts of power. No other BPA customer-- industrial, commercial, agricultural or residential-- is being asked to reduce its load to the point of leaving the system.

JOURNAL

May 2001

A MONTHLY PUBLICATION OF THE BONNEVILLE POWER ADMINISTRATION

BPA POWER COSTS TOP $1 BILLION IN SIX MONTHS

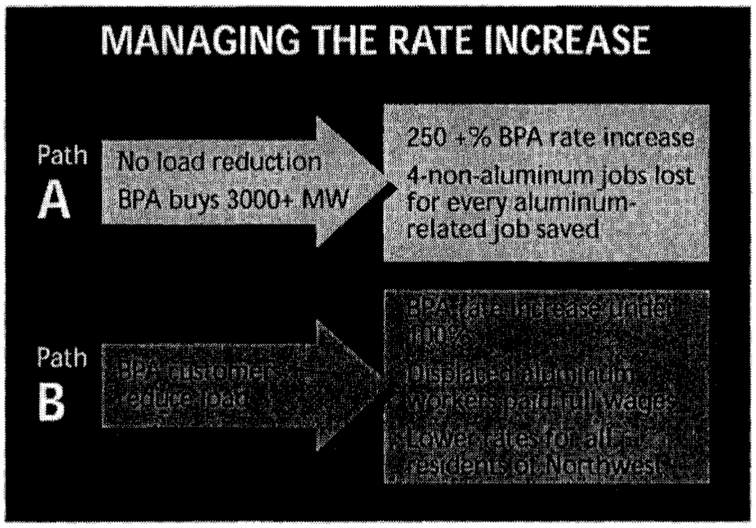
BPA spent more than $1 billion buying power in the first six months of fiscal year 2001. Power purchases are now roughly half of BPA's total operating expenses. The average price BPA paid rose from $29 per megawatt-hour in the first half of 2000 to $97 per MWh in the first half of this year. See BPA's second quarter financial report at *http://www.bpa.gov/corporate/dfr/dfro/00-2qtrly.pdf*

BPA ASKS CUSTOMERS TO HELP MITIGATE RATE INCREASE

"We need to do everything we can to avoid power purchases in this incredibly expensive market," BPA Acting Administrator Steve Wright told the region in an April press conference. Wright laid out two paths the region could take:

- Path A, the current trajectory, would lead to a 250 percent or higher BPA wholesale power rate increase this fall.
- Path B, a 5 to 10 percent load reduction by all BPA customers and aluminum plants off line for up to two years, would keep BPA's rate increase this fall below 100 percent.

"I know this will be tough, but the consequences of not taking this path (B) will be even tougher," Wright said. "We're all in this together and we can only get out of it if we work together."



Path B, reducing demand on BPA, will reduce BPA's rate increase.

To keep its rate increase below 100 percent, BPA is asking:

1) Publicly owned utilities to reduce their loads on BPA by 5 to 10 percent.

2) Investor-owned utilities to contribute a proportionate portion of the power benefits they receive from BPA.

3) Direct service industries, primarily aluminum companies, to delay restarting their operations up to two years. Almost all aluminum smelting capacity in the Northwest is now shut down. All aluminum companies except Kaiser have agreed to compensate their workers during their shutdowns through September.

BPA is offering to provide funds to continue employee compensation for up to two more years, if the companies agree now to delay restart of their plants.

Even just 1,000 megawatts of DSI load on BPA starting in October would likely result in $1.5 billion in additional costs BPA would have to incur for power purchases for 2002 alone. For more info, look at *http://www.bpa.gov/Corporate/KC/mediacenter/home.shtml*

BPA DECLARES POWER EMERGENCY

On April 3, Acting Administrator Steve Wright declared a power system emergency for the Federal Columbia River Power System. The power emergency is based on Northwest Power Planning

BONNEVILLE POWER ADMINISTRATION

Council estimates of power system reliability problems for spring and summer of this year and the impact of spill for fish passage under the 2000 Biological Opinion on West Coast power prices and power system reliability.

AGENCIES PROPOSE FISH ACTIONS

Six federal agencies, including BPA, have proposed a revised plan for running the hydro system this drought year. The major difference is in water spilled past the dams and additional streamflows normally released for fish. Under the plan, the start date and amount of spill this year would be based on monthly revisions of the forecast for this year's runoff for the Columbia River. No water was spilled in April. As of this writing, spill for May is under consideration.

Except for flow levels and spill, BPA and the other federal agencies are doing everything called for in the biological opinions on endangered Columbia River fish and in the Northwest Power Planning Council's Fish and Wildlife Program. This includes actions ranging from improving dam passage facilities to restoring habitat, updating hatcheries to conducting research.

Federal agencies also have proposed specific actions to help improve migration conditions for fish in this drought year. For example:

- The U.S. Army Corps of Engineers will barge or truck as many Snake River smolts as possible, between 70 to 90 percent of all migrants, past federal dams this year.
- The Corps has proposed to barge fish at McNary Dam this summer. This would move smolts from the Upper Columbia and strays from the Snake past the Lower Columbia dams.
- BPA is continuing to provide mid-Columbia streamflows at a rate of 65 thousand cubic feet per second to keep salmon eggs submerged in the Vernita Bar on the Hanford Reach.
- The agencies also propose to pulse or surge water flows through Lower Granite Dam to move smolts quickly through that pool.

The agencies are seeking ideas to offset the potential effects of the power emergency on fish, especially those listed under the Endangered Species Act.

The six federal agencies are: BPA, the Corps, Bureau of Reclamation, National Marine Fisheries Service, U.S. Fish and Wildlife Service and the Environmental Protection Agency. For details, see *www.salmonrecovery.gov*

BUY A BETTER LIGHT BULB

From Avista Utilities to Vera Water & Power, 59 utilities have joined ranks with BPA in a region-wide campaign to turn the region on to compact fluorescent light bulbs. The bulbs fit any lamp and offer the same light as ordinary bulbs, but use just one-fourth as much energy and last eight to 10 times longer. The program offers consumers coupons for $6 off on any compact fluorescent bulb rated at 13 watts or more that carries the Energy Star® label. BPA will pay for as many $6 coupons as consumers redeem. Participating utilities are distributing the coupons. Nearly 600 retailers are participating, from chains such as Fred Meyer, Bi-Mart and Home Depot to many independent stores. For details, including lists of participating utilities and retailers, see *http://www.bpa.gov/Energy/N/projects/cfl/*

LOTS OF WIND BLOWS IN

BPA received 25 proposals for wind generation projects in response to a recent request. "The response blew us away," said George Darr, project manager. The projects add up to about 2,600 megawatts of capacity. BPA will evaluate projects for cost, ease of integration with the Northwest power grid and other factors. The first projects should be on line in late 2002 or early 2003.

BPA SUPPORTS SOLAR STATION

BPA, the Bonneville Environmental Foundation and Energy Northwest are sponsoring a 50-kilowatt solar installation at Hanford, Wash., enough power for up to 50 homes. Estimated cost of the plant is $250,000.

IRRIGATION PROGRAMS CUT LOADS, INCREASE WATER IN STREAMS

BPA expects to reduce its power loads by 90 to 120 average megawatts this year through irrigation buydown programs. Up to 100 aMW will be saved by paying Columbia Basin Project irrigators not to irrigate. Water they would otherwise use will stay in the Columbia River to generate power and help fish downstream. Another irrigation program will save up to 20 aMW. Total cost to BPA is about $25 million. BPA is also leasing water rights from three eastern Oregon farmers to increase Snake River flows and test water-right-leasing contracts.

TURBINE CONTRACTS EXPECTED

BPA is exhorting its customers to reduce demand on the agency for the first two years of the 2002-2006 rate period. What happens after that?

Among other things, new combustion turbines. "We're looking at buying the output of several CTs," said Scott Wilson, Bulk Hub account executive. "Some simple cycle CTs could come on line as early as this winter. More-efficient combined cycle units could come on line about two years from now. We're looking to buy the best, cleanest, lowest-cost projects out there."

Each project developer is obtaining the necessary siting and other permits for its projects. Most of them are working with BPA's Transmission Business Line to request integration to the BPA grid.

"Power purchase contracts will be contingent on the developer obtaining all the necessary permits. We're not taking any dry-hole risks," Wilson said. BPA's 1995 Business Plan Environmental Impact Statement reviewed the environmental impacts of adding combustion turbines to BPA's resource base.

A BIRD'S EYE VIEW OF AIR IMPACTS

BPA is doing an environmental study of the cumulative air-quality impacts of more than 30 natural-gas-fired combustion turbines that have been proposed for integration to the BPA transmission grid. Air emissions are the primary cumulative environmental impact of combustion turbines. The study will assist BPA's National Environmental Policy Act process and records of decision on individual transmission and integration requests. For more on this and other BPA environmental studies, see *http://www.efw.bpa.gov/cgi-bin/PSA/NEPA/Projects*

FERC APPROVES RTO WEST FILING

The Federal Energy Regulatory Commission has accepted the Northwest proposal for a regional transmission organization. FERC characterized the RTO West proposal as a key "first step." RTO West can serve as an anchor for the ultimate formation of a West-wide RTO, FERC said.

FERC commended BPA and the eight Northwest utilities in RTO West for their "extraordinary collaborative process" and for finding a solution that includes both public and private utilities. For details, see *www.rtowest.org*

MORE WAYS TO GET TO BPA

BPA's Web site, *www.bpa.gov*, has reams of information on power, water, fish, transmission and energy conservation subjects, including most of the stories in this edition of the BPA *Journal*.

Recently, BPA has added two "hot buttons" to its home page that may make information of interest easier to find.

For energy-saving tips and links, click on the Energy Star® on BPA's home page.

For BPA fact sheets, speeches, press releases, graphs and charts, photographs and other general public information, click on the "Media Center" button.

To get you started, several stories in this issue of the *Journal* include directions for finding posted documents and other information. You can also call our toll-free lines to request printed documents delivered by mail. See the *Journal* back page.

PUBLIC INVOLVEMENT

STATUS REPORTS

Avian Predation on Juvenile Salmonids in the Lower Columbia River EA/FONSI (3367). Wash. and Ore. — Monitor and evaluate the management actions implemented to reduce avian predation on juvenile salmonids in the Columbia River estuary.

NEW! Blackfeet Wind Project EIS. Mont. — To acquire 36-66 megawatts of electricity from the proposed wind project.

Coeur d'Alene Tribe (CDA) Trout Production Facility Project EA. Idaho — To fund design, construction, operation and maintenance of a facility to provide off-site mitigation for losses on the mainstem Columbia River.

Condon Wind Project EIS. Ore. — To acquire about 50 megawatts of electricity from the proposed Condon Wind Project. A meeting on the draft EIS will be held in Condon late May or June.

Fish and Wildlife Implementation Plan EIS. Regionwide — To examine potential impacts of implementing one of the fish and wildlife policy directions being considered in regional processes.

Grande Ronde and Imnaha Spring Chinook Project EA. Ore. — To build egg incubation and juvenile rearing facilities next to the Lostine and Imnaha rivers and to modify the Gumboot adult collection facility and the Lookingglass Hatchery in partnership with the Nez Perce Tribe, Oregon Dept. of Fish and Wildlife and the Confederated Tribes of the Umatilla Indian Reservation.

John Day Watershed Restoration SA. Ore. — SA to Watershed Management Program EIS. (SA-50).

Johnson Creek Artificial Propagation Enhancement EA. Idaho — Develop native chinook salmon broodstock for rearing of acclimated smolts to preserve and recover the population.

Kangley-Echo Lake Transmission Line Project EIS. Wash. — To build a 500-kV transmission line in King County to connect an existing transmission line near Kangley to Echo Lake Substation.

NEW! McNary-John Day Transmission Line Project EIS. Ore. and Wash. — To build a new 500-kV transmission line from McNary Substation to John Day Substation.

Mid-Columbia Coho Reintroduction Feasibility Project, Modifications to Original Proposal SA. Wash. — SA to EA/FONSI (SA-01)

Santiam-Bethel Transmission Line Project EA. Ore. — To rebuild a 17-mile section of the Santiam-Chemawa line to double-circuit to accommodate a new 230-kV transmission line from the Santiam Substation to a Portland General Electric line that goes to PGE's Bethel Substation.

Schultz-Hanford Area Transmission Line Project EIS. Wash. — To build a new 500-kV line to relieve constraints on several electrical lines, provide more operational flexibility to meet endangered salmon obligations and maintain transmission capacity to import and export energy.

Umatilla Generating Project EIS. Ore. — To integrate electrical power from a new 550-megawatt natural gas-fired combined-cycle combustion turbine generation plant proposed by the Umatilla Generating Co., L.P.

Transmission System Vegetation Management EIS SAs. These address vegetation management for:

- Big-Eddy-Ostrander. Ore. (SA-05)
- Danger Tree Clearing on Nine Rights-of-way in Walla Walla Region. Ore. and Wash (SA-02)
- Grizzly-Summerlake Transmission Line Corridor. Ore. (SA-03)
- Land at Walla Walla Substation. Wash. (SA-06)
- Ponderosa-Pilot Butte. Ore. (SA-04)
- Sections of McNary Powerhouse, the McNary Roundup and McNary Switchyard South Lines. Ore. (SA-07)

NEW! Wallula Power Project EIS. Ore. and Wash. — To integrate power from the Wallula Power Project into the transmission grid.

White Sturgeon Mitigation and Restoration in the Columbia and Snake Rivers Upstream From Bonneville Dam EA. Ore., Wash. and Idaho. — To restore and mitigate for documented lost white sturgeon productivity caused by development and operation of the hydropower system using intensive fisheries management and modified hydro system operation.

Wholesale Power Rates Amended Proposal. Regionwide — BPA and joint customers have agreed to a partial rate settlement. The rate case as a whole continues on schedule.

CALENDAR OF EVENTS

Blackfeet Wind Project. Scoping meetings, **May 10**, 2-4 p.m., Bureau of Indian Affairs, Main Conference Room, 531 Boundary St., Browning, Mont., and **May 10**, 6-8 p.m., Cattle Baron Restaurant, U.S. 89, near milepost 40, Babb, Mont.

McNary-John Day Transmission Line Project. Scoping meetings, **May 23**, 4-8 p.m., Paterson School, 51409 West Prior Rd., Paterson, Wash., and **May 24**, 4-8 p.m., Roosevelt School, 615 Chinook Ave., Roosevelt, Wash.

Conservation or Crisis? A Northwest Choice. Conference sponsored by BPA and NewsData. **Sept. 24-26**, DoubleTree Hotel, Jantzen Beach, 909 N. Hayden Island Dr., Portland, Ore. Contact Jennifer Eskil (509) 527-6232 for info.

CLOSE OF COMMENT

Blackfeet Wind Project. Scoping. **May 25**, 2001

McNary-John Day Transmission Line Project. Scoping. **June 7**, 2001

Unless otherwise noted, documents cited are being prepared. Indicates a new document is available. Call to order new documents or to be added to the mail list(s) of project(s) of interest to you. Process Abbreviations: **EA** – Environmental Assessment, **EIS** – Environmental Impact Statement, **FONSI** – Finding of No Significant Impact, **ROD** – Record of Decision, **SA** – Supplement Assessment.

FOR MORE INFORMATION OR TO GET INVOLVED: The *Journal* is a monthly newsletter of the Bonneville Power Administration for customers and interested publics. To order documents, call 1-800-622-4520 or (503) 230-7334 (Portland). For questions/comments or to be added to a mail list, call (503) 230-3478 (Portland) or 1-800-622-4519. Written comments may be sent to: BPA, P.O. Box 12999, Portland, OR 97212. Public Involvement E-mail address: *comment@BPA.gov*, BPA home page: *http://www.bpa.gov*

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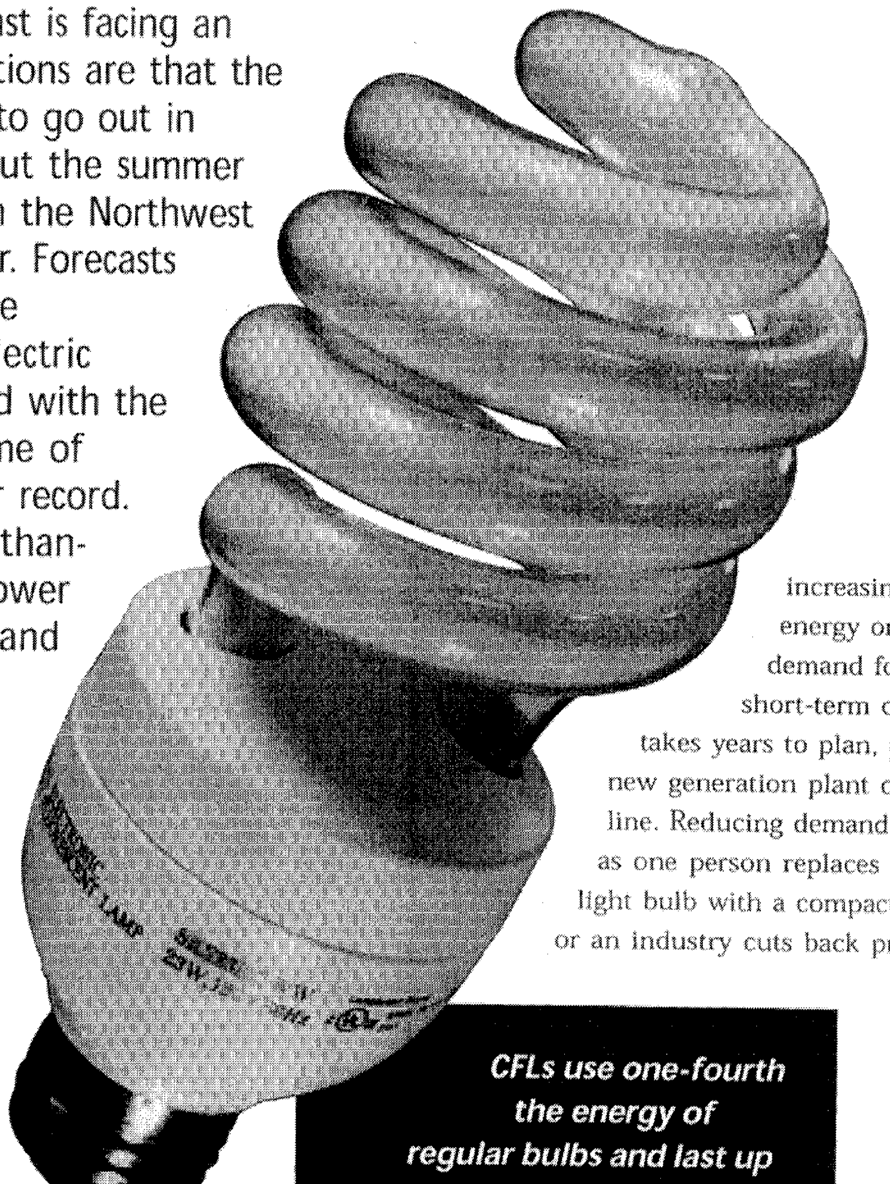
A PUBLICATION OF THE BONNEVILLE POWER ADMINISTRATION

keeping CURRENT

May 2001

Taking on the energy crisis: Providing tools for conservation and load reduction

The entire West Coast is facing an energy crisis. Predictions are that the lights will continue to go out in California throughout the summer and energy prices in the Northwest will continue to soar. Forecasts also suggest that the Northwest's hydroelectric system must contend with the second-lowest volume of water in the 72-year record. That means far-less-than-normal water for power and for threatened and endangered fish.



The region can confront the energy crisis by increasing its supply of energy or by reducing its demand for energy. The short-term choice is clear. It takes years to plan, permit and build a new generation plant or a transmission line. Reducing demand can begin as soon as one person replaces an incandescent light bulb with a compact fluorescent bulb or an industry cuts back production.

CFLs use one-fourth the energy of regular bulbs and last up to 10 times longer.

BONNEVILLE POWER ADMINISTRATION

The challenge

When BPA finished signing up all its customers during the power Subscription process in 2000, it found itself about 3,000 average megawatts short of the energy it needs to meet all the load its customers want to place on the agency. Five years ago, when BPA's power costs were high relative to the market, some customers chose to remove all or part of their load from BPA to pursue more inexpensive power in the market. The market has changed dramatically, and most of the utilities that left the agency are coming back to BPA. BPA is required by law to serve them.

Faced with a regional shortage of power, BPA has challenged individuals and businesses in the region to reduce electricity use. If businesses, industry and individuals reduce their energy consumption enough, the potential rate increase forecast for this October can be brought down from 250 percent or more to under 100 percent.

The challenge is great, but it is not unrealistic. Between 1980 and 2000, BPA and its utility partners used conservation to save 780 average megawatts. That's more than enough power to supply the city of Portland for a year without using any resources and without producing any pollution.

In December 2000, BPA, anticipating the potential for a winter electricity shortage in the Northwest, joined with the governors of Oregon and Washington to urge conservation and load reduction in homes and businesses. In addition, the agency ran advertisements in 17 newspapers throughout the Northwest that provided information on how homeowners and businesses could save money and energy while saving water for fish and future generation needs. The appeals were successful. On Dec. 11, during the winter's first energy emergency, citizens and businesses reduced the region's peak load by 825 megawatt-hours during the evening.

BPA is offering utilities and industries financial incentives to achieve conservation and load reduction.

During the recent years of low energy costs, conservation seemed to take a back seat. Now that the region is in a period of energy shortages and high prices, it's important to rebuild and maintain awareness of demand reduction, conservation and renewable power as smart and effective ways to use resources.

Tools for utilities

Along with the challenge, BPA is providing leadership through programs that offer local utilities and industries financial incentives to achieve conservation and load reduction.

The agency has created a host of programs to accomplish those ends. Most of the programs are targeted to large industries because huge savings can be gained from a few sources. Some programs, however, are designed for utilities to deliver to individuals and small businesses. Home conservation has the advantage that it can often save the homeowner money while reducing the energy deficit.

To support home conservation, BPA has created a coupon redemption program to encourage the use of Energy Star® compact fluorescent light bulbs. Customers of participating utilities will receive coupons worth $6 off the cost of compact fluorescent light bulbs. The program is a partnership with BPA's customers, and it can be a way a customer utility can broaden the impact of another of BPA's programs — the BPA Conservation and Renewables Discount (see next page).

The VendingMi$er™ is another tool. VendingMi$er™ power control units will be attached to many of the region's vending machines as early as June. The VendingMi$er™ plugs into an electrical outlet and the vending machine plugs into it. The device powers down all electrical components of the machine during the time, such as nights and weekends, when it is not being used. A motion sensor mounted above the machine detects when people approach and turns the machine back on. The contents of refrigerated vending machines stay cool and fresh.

The VendingMi$er™ is a device that powers down vending machines at times, such as nights and weekends, when they are not being used.

BPA expects the region to be able to reduce its use of electricity by as much as 15 average megawatts through the program. That is enough energy to power 15,000 homes for a year. The units will be offered to bottlers through local electric utilities.

The Conservation and Renewables Discount and Conservation Augmentation

When the agency offered its power contracts, they included an option to encourage energy conservation and the development of renewable energy resources — the Conservation and Renewables Discount. BPA also created Conservation Augmentation to buy conservation as part of its effort to augment its base power supply. Both efforts were scheduled to begin in October 2001 with the new rate period. However, because of the energy crisis, BPA implemented both in February so they could begin producing results.

The **Conservation and Renewables Discount** gives utilities and direct service customers (primarily aluminum plants) a discount on their power purchases from BPA when they create conservation or renewables programs **beyond** what they already had in place or scheduled for implementation. The programs can be conventional or innovative — participants are encouraged to be creative and design programs unique to their circumstances. What matters is that the programs are cost effective. The Conservation and Renewables Discount is budgeted at $40 million a year for fiscal years 2002 through 2006.

Utilities that certify they are already spending more than 3 percent of their retail revenues on qualifying conservation activities are exempt from the requirement to use the discount on programs beyond what they already have under way.

If utilities and the DSIs don't initiate programs and use all the budgeted funds, BPA will use them itself to promote conservation and renewable power generation.

BPA is also pursuing renewables projects outside this program. For example, the agency recently sent out a request for proposals for wind power that produced about 2,600 megawatts of proposals.

BPA must augment the power generated by the Federal Columbia River Power System dams and the power it buys from the Columbia Generating Station (the nuclear plant formerly called WNP-2). Rather than simply go to the extraordinarily high market to purchase all the power it needs, BPA has chosen to fund conservation for a portion of that need.

BPA has several active efforts under **Conservation Augmentation**. BPA sent out an invitation to reduce load through conservation to its utility customers. Customers are responding with proposals, both innovative and traditional, that they have designed to be successful in their particular settings. The customers specify the type and quantity of conservation to be achieved, the delivery system, the cost and the payment method. BPA is reviewing the proposals and entering into bilateral negotiations with utilities that submit promising proposals. Utilities have an opportunity for up to 10 years of financing. The agency has not set any particular price it will pay — it all depends on the nature of the proposal — nor has it set any limits on how much can be spent in this activity. Partnerships with other federal agencies under the Conservation Augmentation umbrella are working to lower the power demand at dams, office buildings, hatcheries and military bases. For example, the U.S. Army Corps of Engineers is replacing hundreds of incandescent light bulbs with compact fluorescent bulbs throughout its dams.

Demand reduction at the industrial level

Demand reduction is not traditional conservation, but it can provide immediate relief on the demand side. BPA has created two programs to reduce the demand of large users during times of critical shortages.

The agency's **demand reduction** program targets large consumers of electricity, such as aluminum companies. By buying back power from these large consumers, BPA reduces demand on the system and saves both money and water that can be used later for fish passage and power generation. So far, the effort has reduced demand by 1,300 megawatts during targeted hours.

BPA's demand reduction and demand exchange programs target large consumers of electricity.

The **demand exchange** program encourages large users of electricity to either reduce demand or provide additional generation during what are termed high-load hours — the hours when electricity is in greatest demand.

When BPA is facing an immediate shortage of power during high-load hours, it provides notice on an Internet site. Companies that have signed up for the program can see the price BPA is offering for power curtailment. If the timing and price work for a company, it will respond with an offer of an amount of power the company pledges to curtail. BPA then confirms or declines the offer.

The offer must be at least 500 kilowatts and last at least one hour. Large blocks of power over longer periods of time are preferred. So far, 13 companies have signed on for the program. Since last December, 7,000 megawatt-hours have been curtailed as a result of the program. That's enough power to keep Seattle going for three hours.

The region won't be able to rely on load reduction, conservation and renewable resources to supply all the demand that has followed economic growth in the region, but it can certainly use these approaches to reduce the amount of new generation the region will require.

And, while preparing to bring new generation and transmission on line, BPA will work with its customers, utilities and industries alike to sponsor cost-effective load reduction and conservation. It is the right short-term strategy for many reasons. One important reason is that it puts the ability and the responsibility to help create a new energy future for the Northwest in the hands of those who use the power.

Every individual, utility and industry can help overcome the current energy crisis.

For More Information

For additional copies of this publication, call BPA's Public Information Center at (503) 230-7334 in Portland, Ore., or outside Portland at 1-800-622-4520.

Bonneville Power Administration
P.O. Box 3621 Portland, Oregon 97208-3621
DOE/BP-3380 May 2001 13M

May Power Supply Outlook
Talking Points

Outlook:

The power supply outlook has improved, at least for the summer, but the crisis is not over.

The summer outlook is better because of emergency actions. The emergency actions include reduced spills at the dams, installation of 480 megawatts of temporary generation (primarily diesel-fired), and reduced industrial power usage. Reducing spill likely reduced the survival of juvenile salmon migrating to the ocean by about 2 percent. Temporary generators are heavy polluters. Industrial power reductions of more than 3,300 megawatts have cost the region thousands of jobs.

These are necessary actions to help the region through a crisis, but they are not a model for a long-term energy plan. What we are doing in the region gets us through the short term but will not suffice for long-term resources.

The longer term is less certain. In our last version of the analysis, in March, we estimated a 20-percent probability of power deficits in the Northwest this winter. Our May analysis reduces that probability to 17 percent. In a normal year, energy would be stored in Columbia River reservoirs in British Columbia for use in the winter. If 1,500 megawatt-months can be stored this year, the probability is reduced to 12 percent, but to do that would require reductions in summer spill. The probability could be reduced further through energy-exchange agreements with California, if California has energy available later this year.

Drought:

The drought continues. 2001 is the second-driest year on record in the Columbia River Basin. Hydropower generation is still about 5,000 megawatts below normal.

Nonetheless, the region should be able to meet demand for power this summer if there are no unanticipated power plant outages, and it should also be possible to store some water this summer to improve power system reliability next winter.

What can be done to help:

1. Add new generation. New power plants are coming online, including both gas-fired power plants and wind plants. Including the temporary generation, more than 1,900 megawatts of new electricity will come online this year.

2. Conserve. Use energy prudently. The region has made progress on energy conservation, but more progress is possible. When we say conservation we mean two things -- first, we mean the things you can do at home, such as installing compact fluorescent bulbs, turning off computer monitors when they aren't being used, and generally reducing your power usage. Second, conservation means making investments in energy efficiency -- purchasing efficient clothes washers and refrigerators for the home, and investing in efficient lights, motors and other equipment in businesses an industries. The most conservation ever acquired in one year in the Northwest was 135 megawatts, in 1993. We could do that again, and if we do we can displace -- not build -- an average-size natural gas-fired power plant every two years. Conservation alone won't solve the energy crisis, but conservation is a key element of a long-term energy strategy for the region.

Bonneville:

We are well aware of the impact of this power crisis on the Bonneville Power Administration. Bonneville and several of its

largest customers have reached agreements to reduce load, and that is good news for the region because by reducing its load, Bonneville won't have to buy as much power on the expensive wholesale market. It is critical that Bonneville and its customers continue to negotiate agreements to reduce load.

Spill:

Bonneville recently authorized limited spill to aid juvenile salmon migration, and our analysis suggests it may be possible to spill more water later this month and in early June. But this only should be done if the reliability of the power supply is not jeopardized.

Our analysis is ongoing. We will continue to monitor the energy situation carefully and report periodically to the region.

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Alcoa, BPA ink agreement to benefit ratepayers and workers

Click here for other BPA news releases

Bonneville Power Administration
FOR IMMEDIATE RELEASE: WEDNESDAY, May 16, 2001
PR 35 01

CONTACTS: Ed Mosey or Mike Hansen , BPA (503) 230-5131

PORTLAND, Ore. – The Bonneville Power Administration today announced an agreement with Alcoa that will curtail operations at the Alcoa Ferndale (Intalco) plant for up to two years and compensate workers in the interim.

"This agreement will enable Alcoa to keep its plant poised to operate when the price of electricity declines and makes that economically feasible," said Steve Wright, acting BPA administrator. "Meanwhile, affected workers will get full pay and benefits. At Alcoa's request, plant communities will also receive compensation for decreased tax revenues."

The agreement is key to shrinking an upcoming region-wide wholesale electric rate increase scheduled for Oct. 1. BPA's overall energy obligation will drop by over 400 average megawatts, thereby avoiding power purchases of $600 million next year at today's prices, BPA officials said.

That's money that will stay in the Northwest economy, Wright said. He also pointed out that planned load reduction will help keep the lights on as the Northwest continues to deal with a severe energy shortage.

The agreement will apply to operations at Alcoa's Intalco plant near Bellingham, Wash. Terms state that 25 megawatts will continue to be delivered to the magnesium alloys plant at Addy, Wash., as long as Alcoa determines that the plant can be operated economically.

Wright said BPA is working with other Northwest aluminum companies as well as with public and investor-owned utilities to reduce purchases from BPA. He said the Alcoa agreement is a big slice of the 2,000 megawatts or more of load reduction still needed by the region to avoid severe rate increases.

"Northwest consumers can actually do something to keep their power rates down," Wright said. "Through conservation and other means of cutting back on electricity use, they and their utilities and businesses can limit the region's exposure to the skyrocketing wholesale power market."

Wright said the goal is to reduce load sufficiently to hold the October wholesale rate increase below 100 percent, still high but considerably less than an increase of

250 percent or more if BPA is forced into the market to buy power. A wholesale rate increase of 250 percent could double retail rates for many Northwest consumers, BPA officials said.

A strong region-wide effort to conserve energy and hold electricity costs down will boost the Northwest economy and reduce long-term stress on the environment from actions taken to avoid severe energy shortages, the BPA chief executive said.

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PR 35 01

FOR IMMEDIATE RELEASE:
WEDNESDAY, May 16, 2001
CONTACT: Ed Mosey or Mike Hansen at (503) 230-5131

Alcoa, BPA ink agreement to benefit ratepayers and workers

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-more-

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Insley,Gary C - PTS

From: Roadman, Val - PL
Sent: Friday, May 18, 2001 2:57 PM
To: Aho, Rodney - PSE; Anderson, Brenda S - PTF-5; Beede, C T - PSE/Missoula; Berwager, Syd - PT-5; Bloyer, Dan - PSE; Burns, Allen - PS-6; Clarke Jr, Stuart - PSW/Seattle; Elizalde, John - PSW-6; Fitzsimmons, David - PSW; Forman, Charles W - PSW-6; Hustad, Kenneth H - PSE/Spokane; Insley, Gary - PTS-5; Itami, Rick - PSE/Spokane; King, Larry D - PS/BURLEY; Kitchen, Larry - PT-5; Lamb, William D - PTF-5; Le, Nga (Dan) - PTF-5; Leathley, Kimberly - PTP-5; Lebens, John - PSW; Linn, Young S - PTF-5; Miller, Mark - PT-5; Mills, David - PTF-5; Norman, Paul - P; Oliver, Stephen - PT-5; O'Neal, Paul J - PSW; Pyrch, Karen S Graves - PSW-6; Reich, George T - PSW/Seattle; Rettenmund, Frederic D-PSE/Spk; Rockwood, Theresa - PSW-6; Schimmels, Nancy M-PSE/Spokane; Tetnowski, Sonya M - PSE-6; Thompson, Garry R -PSE/Spokane; Von Muller, Tom H - PL/Spokane; Watts, Kirsten - PSW/Seattle; Wilson, Scott - PT-5; Wykoff, Angela M - PSW-6; Alder, Michael - PGF-6; Allison, Jack - PGF-6; Berger, Michael - PGF-6; Foulkes, Gabrielle - PGF-6; Fox, Roy B. - PGF; Hacker, Kathy S - PGF-6; Jones, Mark A - PGF-6; Wellschlager, John D - PGF-6; Keep, Barney - PSP; Arrington, ZoeAnne - PM-6; Latham, Dale - PS-6; Delwiche, Gregory K - PG-5; Pyrch, John - PN-1; Brost, Ed - PGC/Richland; Stier, Jeffrey K - KN-DC; Ball, Crystal A - KN-DC; Seifert, Roger - KN-DC; Ball, Crystal A - KN-DC; Custer, Cindy J - KR/WSGL; Evans, Bart - KR-7C; Hunt, Karen - KR-7; Hustad, Carol S - KR/Spokane; Kuntz, Gail K - KR/MSGL; Morgado, Nicole K - KN-DC; Morrow, Anne - KR-7C; Reller, Mark D - KR/MSGL; Swedo, Robert L - KR/Spokane; Taves, John - KR-7C; Williams, John J - KR/BOISE; Eastman, Darrell - KT-7; Shank, Bob - KT/Spokane; Smith, John A - KT/Spokane; Tawney, Patricia - KT; Tuck, Nandranie S - KT-7
Cc: Mesa, Philip A - PGPL-5; Bome, Suzanne L - PT-5; Cage, Candace - PSW-6; Ervast, Yolanda S - PSE/Bend; Jee, Rose - PSW; Larson, Cheryl - P; Montague, Kay - CCD/Idaho Falls; Moore, Lisa A - PSE/Spokane; Palmer, Linda L - PS-6; Polenske, Judy - PSW/Seattle; Scott, Jenifer A - P-6; Uhrich, Judy A - PSE/BURLEY; Wilson, Sarah J - PTS-5; Atterbury, Laura M - PL-6; DeKlyen, Tom - PL; Dowty, Phyllis M - PL; Evans, Liz - PSW; Legarde, Lorena - PL-6; Roadman, Val - PL; Roehm, Jenny L - PL; Whitney, Carolyn A - PL; Jones, Cynthia L - PSP-5; Adler, David J - LP-7; Burger, Peter J - LP-7; Casad, Kurt R - LP-7; Hull Gerit F - LP; Johnson, Tim A - LP-7; Miller, Thomas D - LP-7; Runzler, Kurt W - LP-7; Skidmore, Lara - LP-7; Van Buren, Marybeth - LP; Westenberg, Sarah A - LP-7; Wright, Jon D - LP-7; Newton, Tiffany - PG-5; Hyzer, Patricia - PN-6; Hage, Bonnie - KR-7; James, Lorena A - KR/Helena; Jones, Sheron - KN-DC; Ostrom, Sara A - KR-7; Welch, Sheryl D - KR/7C; Shelton, Valerie M - KT/Spokane; Alton, Charles - KEC-4; Pierce, Kathy - KEC-4; Anderson, Robert - PSW; Vincent, Grant - PGGB; Mahar, Dulcy - KC-7; Mosey, Edward - KC-7; Hansen, Michael - KC; Moore, Hugh A - KC-7; Templeton, Ian - KC-7; Hyman, Aretha A - KC-7; Kuehn, Ginny -KC-7
Subject: Public comment & Update on News Release - BPA seeks comment on temporary small generation policy

Importance: High

Below is additional information to help you in the release of information on a Temporary Small Resource Policy. Public comments must be received by close of business on May 31, 2001, in order to be considered. There's a public meeting on 5/24. (Allen would like to have some public customers attend.)

<u>Meeting to be held:</u>
May 24, 2001 4:00-6:00pm
BPA's Rates Hearing Room
911 NE 11th Avenue, Room 224
Portland (near Lloyd Center)

<u>To participate by telephone:</u>
1-800-937-6563
Password for this call is "spring"

Written comments by 5/31 should be sent to:
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

or email to: comment@bpa.gov
or fax to BPA at 503-230-3285

1.

SmallGeneration.do
c

= 5/16/01 news release sent to you earlier (no changes)

2. Attached is 5/18/01 Paul Norman supplemental information characterizing policy in a slightly different way from news release

Small Generation
Policy - cove...

= 5/18/01 **internal** supplemental information **(not posted on the web)**

3. Attached is a Fact Sheet containing specific criteria.

5_.doc

= Energy Emergency Temporary Small Resource Police Fact Sheet (5/16/01)

4. Attached is the draft policy.

TSRPolicy_.doc

= Energy Emergency Temporary Small Resource Policy (5/16/01)

5. If you have any questions, contact Robert Anderson (PSW-6) at x-4151.

6. Press release will be posted to the external BPA web site at www.bpa.gov under the Media Center icon. The following blurb (or something similar) plus fact sheet and draft policy will be posted at BPA's external website at http://www.bpa.gov/Power/subscription

May 18, 2001 -- The Bonneville Power Administration wants to hear from the public on the details of a plan to allow customers to use small temporary generating resources to help enhance Northwest electric reliability during the current energy shortage. The proposed policy targets temporary generating resources of 1 MW to 25 MW size that will be used by a customer for no more than 12 months. This proposed policy will complement BPA's rate mitigation and load reduction policies. **BPA is accepting public comment on this policy through May 31, 2001.** A public meeting to take comments on this **proposal policy** will be held on May 24, 2001, from 4:00 to 6:00 PM in BPA's Rates Hearing Room. This room is located on the second floor of the 911 Building of BPA's Portland complex. The address is 905 N.E. 11th Street, Portland, Oregon. Those attending the meeting will need to register at the Security Desk in the 911 building lobby and show picture identification. Written comments should be received at BPA by close of business on May 31, 2001. Written comments should be sent to: Bonneville Power Administration, P.O. Box 12999, Portland, Oregon 97212. You may also E-mail your comments to: comment@bpa.gov. Alternatively, you can fax your comments to BPA at 503-230-3285. See attached **press release** and **fact sheet** for additional information.

7. I'm hearing that our external website appears to be down for those trying to access it from outside BPA so I'm not sure if this information will be accessible today via our external websites. You might want to do your outreach today and send out the proposal policy and fact sheet.

-----Original Message-----
From: Roadman, Val - PL
Sent: Friday, May 18, 2001 7:33 AM
Subject: FW: News Release - BPA seeks comment on temporary small generation policy
-----Original Message-----
From: Hyman, Aretha A - KC-7
Sent: Thursday, May 17, 2001 4:16 PM
Subject: News Release - BPA seeks comment on temporary small generation policy

- The Bonneville Power Administration hopes to establish a short-term policy to encourage the use of small electric generation to help the Northwest meet its needs during the current energy shortage. Before implementing the policy in June, BPA wants to hear from the public on the details of the plan. **A public meeting is planned for May 24.**

bpanews

PR 37 01

FOR IMMEDIATE RELEASE:
THURSDAY, May 17, 2001
CONTACT: Robert A. Anderson at (503) 230-4151.

BPA seeks comment on temporary small generation policy

PORTLAND, Ore. – The Bonneville Power Administration hopes to establish a short-term policy to encourage the use of small electric generation to help the Northwest meet its needs during the current energy shortage. Before implementing the policy in June, BPA wants to hear from the public on the details of the plan. A public meeting is planned for May 24.

The policy will encourage the immediate addition of electricity generation to help the region until planned long-term generation can be built. While BPA will not fund the construction of the generators nor buy the output, the policy complements the load reduction strategy BPA has with its customers. Customers who reduce their load on BPA by 10 percent would be allowed to use temporary small generators to supply a small portion of their needs.

BPA has asked its customers to reduce their demands on BPA so BPA can avoid expensive large power purchases in the wholesale market. Such purchases could lead to a triple-digit wholesale rate increase this October. The use of the small generators, along with other actions such as energy conservation, can help decrease reliance on BPA and thus help keep rates down. The generation plants would have to meet all applicable local, state and national regulations.

The temporary policy would apply from June 1, 2001, through Sept. 30, 2002.

A public meeting on the proposed policy will be held May 24 from 4 to 6 p.m. in the Rates Hearing Room at BPA headquarters at 905 NE 11th Avenue in Portland. For more information call Robert A. Anderson at (503) 230-4151.

# # #

BPA Public Meeting On Temporary Small Generation Policy

BPA is embarking on every initiative possible to keep rates down and the system reliable. In this effort we are asking customers to reduce loads by 10%. Conservation measures are obviously the first choice, however most conservation measures take several months if not years to implement and achieve results.

Some of our customers are having difficulty achieving the 10% goal through conservation measures alone, and some are looking for ways to contribute to the regional power supply and increase reliability. As a result, they have asked us for flexibility to add temporary, small generating resources.

While our May 17, press release says we are "encouraging" use of small generation, our real focus is rate reduction and reliability. This proposed policy is a result of customer inquiries. It indicates that BPA will not penalize customers for assisting in the reduction of regional loads for reliability and rate stabilization.

This meeting is to test regional support for BPA allowing customers this temporary flexibility.

Meeting to be held:
May 24, 2001
4:00-6:00pm
BPA's Rates Hearing Room
911 NE 11th Avenue, Room 224
Portland (Near Lloyd Center)

To participate by telephone:
1-800-937-6563
Password for this call is "spring"

For more information call Robert A. Anderson at (503)230-4151

ENERGY EMERGENCY
Temporary
Small Resource Policy
Fact Sheet
May 17, 2001

1. Limited to generating resources that are new to the Region. Participation is on a first come, first served basis.

2. Policy period runs from June 2001 through September 2002.

3. Specific Small Resource generators of individual utility customers may participate for no more than twelve months.

4. BPA will neither buy the output of the Small Resource nor provide any financing for it. Customer may buy resource back up services for the Small Resource from BPA.

5. No more than 450 MW will be accepted under the policy. Small Resources must be at least 1 MW and no more than 25 MW per unit.

6. To participate the utility must have 10% load reduction under BPA's rate mitigation policy. The utility may apply some or all of the temporary Small Resource to its own load to meet this requirement.

7. All Small Resources used under the Policy must comply with all applicable State and Local regulations regarding siting and operation. Diesel and natural gas fired reciprocating generators must employ BACT emissions control equipment.

8. All Small Resources used under this Policy must conform to all applicable industry standards and environmental regulations, FERC, NERC, NEPA, etc.

9. Participating customers will hold BPA harmless and indemnify BPA against any and all claims arising from the operation of the Small Resource.

10. All Small Resources must be separately metered and the customer is responsible for all metering and transmission required for participation of the Small Resource.

DRAFT

ENERGY EMERGENCY
Temporary Small Resource Policy
May 17, 2001

Background
Under Section 2(2) of the Northwest Power Act, BPA must assure an adequate, efficient, economical, and reliable power supply. BPA is to provide its power services consistent with sound business principles, as discussed in BPA's Business Plan. Present conditions for the upcoming summer and operating year indicate that an adequate supply of power to meet load in the Northwest may not be available on a timely basis. BPA has a projected need for the upcoming operating year to augment the Federal Base System by up to 3,000 megawatts (MW). At this same time, market prices are as high as $350 per MW hour (MWh) for power purchased for delivery in the next six-to-twelve months. BPA is also faced with water conditions that are one of the lowest on record (with 53% of average flows) and with financial reserves that are precarious.

Proposed Policy
BPA is proposing this Temporary Small Resource Policy as an incentive to customers to reduce firm load on BPA in the short term. The policy allows the temporary use of short-term resources by BPA customers to help meet their load and to relieve immediate supply needs. This policy is a one-time, short-term, response to the power emergency caused by the shortage of long-term planned resources and the short-term market demand on the West Coast. This policy is intended to be an interim measure that helps bridge the gap created by the power emergency.

This policy is limited to 450 MW of small resources that are new to the region. These temporary small resources can be diesel, reciprocating gas, or gas turbine, and must produces at least 1 MW, but no more than 25 MW per unit. In order to participate, the utility must have a 10% load reduction under BPA's rate mitigation policy. The customer may apply some, or all, of the temporary Small Resource to its own load to meet this requirement. The policy will be effective from June 2001 through September 30, 2002, and participation is on a "first come, first served" basis. However, each temporary new resource may operate for no more than a 12-month period.

BPA will take no financial stake in developing such resources, and will not buy the output of the resources. Customers may, however, buy resource back-up services from BPA. This policy requires the customer to meet all applicable Federal, State and Local regulations and industry practices including, but not limited to, those of the Federal Energy Regulatory Commission and National Electric Reliability Council. In addition all diesel and natural gas fired reciprocating engine powered generators must be equipped with BACT emission control technology.

BPA recognizes that addition of these temporary short-term resources will not precisely match load, and that power may need to be resold by the customer to help manage its resources during this energy emergency. Therefore, BPA is clarifying its "5b9c" Policy to give customers the flexibility to help the region deal with the energy emergency. These temporary small resources may be operated for service to regional load or sold on the open wholesale market under certain conditions. For the duration of this emergency, the excess output may be sold, without a reduction in BPA's requirements obligation to the customer adding the resource. This policy is designed to allow the immediate addition of energy resources and to remove a potential impediment to customers; it is applicable only through September 30, 2002.

A) All resources are brought into the program on the clear understanding that this policy is applicable on a temporary basis. BPA is conducting a broad review of a variety of actions planned or underway to meet the energy emergency. BPA may decide as part of the broader review to modify the temporary small resource policy. Any such modifications would apply only to resources added after the adoption of the modifications; modifications would not be retroactive to resources already in operation.

B) A resource's operation may vary depending on applicable regulations for the particular resource. For example, if a state limits the number of hours a particular kind of generator may operate; monthly or annually, then that limitation applies in determining the amount of power from that resource eligible for treatment under the policy.

C) The developer and/or customer will be entirely responsible for all costs of development, operation and site remediation. The developer and/or customer will hold BPA harmless and indemnify BPA against all claims arising from the operation of the resource.

D) For the duration of the emergency, customers can serve their own load with such resources without 5(b) effects on their net requirements and may export a portion of these small resources not used for their load without a reduction of BPA firm power obligation to the customer under 9(c).

E) Developers must be able to change the operation of the resource after the 12-month period of this policy. Customers may continue to operate the resource but it would be subject to the standard 9(c) policy on export after the 12-month period to which this clarification applies.

F) Any resource that does not meet the program criteria or ceases to meet criteria will be covered by the 5(b)/9(c) Policy as the terms of that policy apply to the larger, more permanent non-Federal resources of the customer.

G) All temporary small resources must be separately metered in accordance with BPA's current policies on new metering arrangements.

H) Customers and resource developers are responsible for obtaining transmission paths as required.

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CFAC
Part of the Glencore Group

Fax Transmittal

PRESS RELEASE
May 21, 2001

Columbia Falls Aluminum Company, LLC (CFAC) has reached agreement with Bonneville Power Administration (BPA) to help balance the region's energy needs while keeping the plant and workforce viable. The agreement provides adequate power for CFAC to restart 20% of the plant's capacity October 1, 2002 and an additional 30% October 1, 2003, assuming affordable power is available at that time.

CFAC's current agreement calls for BPA to supply 171 MW, enough to operate January 1, 2002 to September 30, 2006. Under the new agreement, CFAC will forego 167 MW through September 30, 2002, and 100MW from October 1, 2002 through September 30, 2003. Affected employees will maintain full pay and benefits through October 1, 2003.

bpanews

PR 39 01

FOR IMMEDIATE RELEASE:
MONDAY, May 21, 2001
CONTACT: Ed Mosey or Mike Hansen, (503) 230-5131

CFAC, BPA take big step toward lower regional power rates

PORTLAND, Ore. – The Bonneville Power Administration (BPA) and Columbia Falls Aluminum Company (CFAC), located near Kalispell, Mont., have agreed on a curtailment of the plant's power supply from BPA for up to two years. The pact covers most of the 171 megawatts CFAC would purchase from BPA under a contract commencing Oct. 1, 2001.

"This agreement, like the one announced last week with Alcoa, provides a significant portion of the load reduction BPA needs to avoid very large rate increases this fall," said Steve Wright, acting administrator of BPA. "We believe that these two agreements demonstrate that the aluminum industry can suspend operations for a short period with the intent of restarting when wholesale power prices decline."

BPA does not have sufficient supply to serve all of its customers' requirements. By negotiating agreements with the aluminum companies to stay out of production for up to two years, the agency hopes to avoid purchasing power in the market. Absent load reductions by the companies and BPA's utility customers, wholesale rates could more than triple on Oct. 1.

Wright added, "The high cost of wholesale power in the market would most likely have forced the companies to shut down anyway, so helping them to maintain a paid work force until prices come down is the best possible outcome for all concerned."

The agreement calls for reductions in power deliveries to CFAC as follows: 167 megawatts through Sept. 30, 2002; and 100 megawatts from Oct. 1, 2002, through Sept. 30, 2003. Affected workers at CFAC will receive pay and benefits while the potlines are idle.

-more-

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BPA will fund the workers' compensation. This is intended to help keep a workforce in the area so that the plant can restart when conditions allow, and to cushion the impact on the local economy.

Wright said the agreements should help dispel the notion that BPA's call for a temporary curtailment of aluminum production will ultimately lead to the demise of the industry.

"I commend both Alcoa and CFAC for making these commitments," Wright said. "These agreements protect aluminum workers while holding down rates, thereby preserving many thousands of jobs in other industries throughout the region."

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FINANCIAL SETTLEMENT AGREEMENT AND AMENDMENT TO RESIDENTIAL EXCHANGE PROGRAM SETTLEMENT AGREEMENT WITH PACIFICORP

RECORD OF DECISION

Bonneville Power Administration
U.S. Department of Energy

May 23, 2001

Record of Decision

Financial Settlement Agreement and Amendment to Residential Exchange Program Settlement Agreement With PacifiCorp

INTRODUCTION

This Record of Decision addresses the development of an amendment to the Residential Exchange Program Settlement Agreement between PacifiCorp and the Bonneville Power Administration (BPA), Contract No. 01PB-12229, executed in October 2000, and the coincident development of a separate Financial Benefits Agreement, in order to provide financial benefits to the residential and small farm consumers of PacifiCorp through a settlement of PacifiCorp's participation in the Residential Exchange Program (REP) for the period from July 1, 2001, through September 30, 2006. 16 U.S.C. § 839c(c). In order to fully understand the proposed amendment and financial agreement with PacifiCorp, it is helpful to understand BPA's initial development of the REP Settlements with regional investor-owned utilities (IOUs). A review of such development follows.

BACKGROUND

BPA was created in 1937 to market electric power generated at Bonneville Dam, and to construct and operate facilities for the transmission of power. 16 U.S.C. § 832-832l (1994 & Supp. III 1997). Since that time, Congress has directed BPA to market power generated at additional facilities. *Id.* § 838f. Currently, BPA markets power generated at thirty Federal hydroelectric projects, and several non-Federal projects. BPA also owns and operates approximately 80 percent of the Pacific Northwest's high-voltage transmission system. In 1974, BPA became a self-financed agency that no longer receives annual appropriations. *Id.* § 838i. BPA's rates must therefore produce sufficient revenues repay all Federal investments in the power and transmission systems, and to carry out BPA's additional statutory objectives. *See id.* §§ 832f, 838g, 838i, and 839e(a).

In the 1970's, threats of insufficient resources to meet the region's electricity demands led to passage of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act). 16 U.S.C. § 839, *et seq.* (1994 & Supp. III 1997). In that Act, Congress, among other things, directed BPA to offer new power sales contracts to its customers. *Id.* §§ 839c, 839c(g). While Congress provided that BPA's public agency customers (preference customers) and investor-owned utility customers (IOUs) had a statutory right for service from BPA to meet their net requirements loads, Congress did not provide such a right to BPA's direct service industrial customers (DSIs). BPA was provided the authority, but not the obligation, to serve the DSIs' firm loads after the expiration of their power sales contracts in 2001. *See id.* §§ 839c(b)(1), 839d. Congress also established the Residential Exchange Program, which, as discussed in greater detail below, provides Pacific Northwest utilities a form of access to the benefits of low-cost Federal power. *Id.* § 839c(c).

A. The Residential Exchange Program (REP)

Section 5(c) of the Northwest Power Act established the REP. *Id.* § 839c(c). Under the REP, a Pacific Northwest electric utility (either a publicly owned utility, an IOU or other entity authorized by state law to serve residential and small farm loads) may offer to sell power to BPA at the utility's average system cost (ASC). *Id.* § 839c(c)(1). BPA purchases such power and, in exchange, sells an equivalent amount of power to the utility at BPA's PF Exchange rate. *Id.* The amount of the power exchanged equals the utility's residential and small farm load. *Id.* In past practice, no actual power sales have taken place. Instead, BPA provided monetary benefits to the utility based on the difference between the utility's ASC and the applicable PF Exchange rate multiplied by the utility's residential load. These monetary benefits must be passed through directly to the utility's residential and small farm consumers. *Id.* § 839c(c)(3). While REP benefits have previously been monetary, the Northwest Power Act also provides for the sale of actual power to exchanging utilities in specific circumstances. Pursuant to section 5(c)(5) of the Northwest Power Act, in lieu of purchasing any amount of electric power offered by an exchanging utility, the Administrator may acquire an equivalent amount of electric power from other sources to replace power sold to the utility as part of an exchange sale. *Id.* § 839c(c)(5). However, the cost of the acquisition must be less than the cost of purchasing the electric power offered by the utility. *Id.* In these circumstances, BPA acquires power from an in lieu resource and sells actual power to the exchanging utility.

Each exchanging utility's ASC is determined by the Administrator according to the 1984 ASC Methodology, an administrative rule developed by BPA in consultation with its customers and other regional parties. A utility's ASC is the sum of a utility's production and transmission-related costs (Contract System Costs) divided by the utility's system load (Contract System Load). A utility's system load is the firm energy load used to establish retail rates. BPA's current ASC Methodology was established in 1984. BPA has recognized, however, that the ASC Methodology can be revised. BPA's current ASC Methodology uses a "jurisdictional approach" in determining utilities' ASCs, which relies upon cost data approved by state public utility commissions (in the case of IOUs) and utility governing bodies (in the case of public utilities) for retail ratemaking. These data provide the starting point for BPA's determination of the ASC of each utility participating in the REP. Costs that have not been approved for retail rates are not considered for inclusion in Contract System Costs.

The schedule for filing and reviewing a utility's ASC is established in the 1984 ASC Methodology, which provides that "not later than five working days after filing for a jurisdictional rate change or otherwise commencing a rate change proceeding, the utility shall file a preliminary Appendix 1, setting forth the costs proposed by the utility and shall deliver to BPA all information initially provided to the state commission." The filing includes all testimony and exhibits filed in the retail rate proceeding. Not later than 20 days following the effective date of new rate schedules in a jurisdiction, the utility must file a revised Appendix 1 reflecting costs as approved by the state commission or utility governing body. BPA then has 210 days to review the filing and issue a report signed by the Administrator. During this review process, BPA ensures that the costs and loads conform to the rules and requirements of the ASC Methodology, as well as the applicable provisions of the Northwest Power Act. BPA makes adjustments as necessary.

The REP has traditionally been implemented through Residential Purchase and Sale Agreements (RPSAs), which were executed in 1981. Between 1981 and the present, Residential Exchange Termination Agreements have been negotiated with all of the previously active exchanging utilities except Montana Power Company (MPC). MPC continues to be in "deemer" status. When a utility's ASC is less than the PF Exchange Program rate, the utility may elect to deem its ASC equal to the PF Exchange Program rate. By doing so, it avoids making actual monetary payments to BPA. The amount that the utility would otherwise pay BPA is tracked in a "deemer account." At such time as the utility's ASC is higher than BPA's PF Exchange rate, benefits that would otherwise be paid to the utility act as a credit against the negative "deemer balance." Only after the "positive benefits" have completely offset the "negative balance," bringing the negative "deemer account" to zero, would the utility again receive actual monetary payments from BPA under an existing or new RPSA. The issue of deemer balances with IOUs is currently in dispute. Regional utilities are eligible to participate in the REP again beginning July 1, 2001, except for those utilities that have previously executed settlement agreements for terms extending beyond July 1, 2001.

B. The Comprehensive Review of the Northwest Energy System

In early 1996, the governors of Idaho, Montana, Oregon and Washington convened the Comprehensive Review of the Northwest Energy System to seize opportunities and moderate risks presented by the transition of the region's power system to a more competitive electricity market. *See* Comprehensive Review of the Northwest Energy System, Final Report, December 12, 1996 (Final Report). The governors appointed a 20-member Steering Committee that was broadly representative of the various stakeholders in the power system to study that system and make recommendations about its transformation. *Id.* Each governor had a representative on the Steering Committee to make certain the public was educated about and involved in the Comprehensive Review. *Id.* In establishing the review, the governors stated:

The goal of this review is to develop, through a public process, recommendations for changes in the institutional structure of the region's electric utility industry. These changes should be designed to protect the region's natural resources and distribute equitably the costs and benefits of a more competitive marketplace, while at the same tine assuring the region of an adequate, efficient, economical and reliable power system.

Id. In 1996, the Steering Committee held 30 daylong meetings. *Id.* In addition, almost 400 people were involved in more than 100 meetings of various work groups reporting to the Steering Committee. *Id.* Hundreds of citizens attended the 10 public hearings that were held throughout the region on the Committee's draft report. *Id.* More than 700 written comments were received. *Id.* The Final Report was the product of that work. *Id.*

The Final Report noted that the electricity industry in the United States is in the midst of significant restructuring. *Id.* This restructuring is the product of many factors, including national policy to promote a competitive electricity generation market and state initiatives in California, New York, New England, Wisconsin and elsewhere to open retail electricity markets to competition. *Id.* This transformation is moving the industry away from the regulated monopoly structure of the past 75 years. *Id.* Today the region is served by individual utilities, many of which control everything from the power plant to the delivery of power to the region's homes or businesses. *Id.* In the future, the region may have a choice among power suppliers that deliver their product over transmission and distribution systems that are operated independently as common carriers. *Id.* There is much to be gained in this transition. *Id.* Broad competition in the electricity industry that extends to all consumers could result in lower prices and more choices about the sources, variety and quality of their electrical service. *Id.*

The Final Report also noted that there are risks inherent in the transition to more competitive electricity services. *Id.* Merely declaring that a market should become competitive will not necessarily achieve the full benefits of competition or ensure that they will be broadly shared. *Id.* It is entirely possible to have deregulation without true competition. *Id.* Similarly, the reliability of the region's power supply could be compromised if care is not taken to ensure that competitive pressures do not override the incentives for reliable operation. *Id.* How competition is structured is important. *Id.* It is also important to recognize the limitations of competition. *Id.* Competitive markets respond to consumer demands, but they do not necessarily accomplish other important public policy objectives. *Id.* The Northwest has a long tradition of energy policies that support environmental protection, energy-efficiency, renewable resources, affordable services to rural and low-income consumers, and fish and wildlife restoration. *Id.* These public policy objectives remain important and relevant. *Id.* The Final Report states that given the enormous economic and environmental implications of energy, these public policy objectives need to be incorporated in the rules and structures of a competitive energy market. *Id.*

The Final Report stated that, in some respects, the transition to a competitive electricity industry is more complicated in the Northwest because of the presence of BPA. *Id.* BPA is a major factor in the region's power industry, supplying, on average, 40 percent of the power sold in the region and controlling more than half the region's high-voltage transmission. *Id.* BPA benefits from the fact that it markets most of the region's low-cost hydroelectric power. *Id.* It is hampered by the fact that it has high fixed costs, including the cost of past investments in nuclear power and the majority of the costs for salmon recovery. *Id.* As a wholesale power supplier, BPA is already fully exposed to competition and is struggling to reduce its costs so that it can compete in the market. *Id.* The transition to a competitive electricity industry raises many issues for the BPA and the region. *Id.* In the near term, how can BPA continue to meet its financial and environmental obligations in the face of intense competitive pressure? *Id.* In the longer-term, when market prices rise and some of BPA's debt obligations have been retired, how can the Northwest retain the economic benefits of its low-cost hydroelectric power when the rest of the country is paying market prices? *Id.* And finally, what is the appropriate role of a Federal agency in a competitive market? *Id.*

The Final Report noted that while participants on the Comprehensive Review Steering Committee represented, by design, many divergent interests, they were fundamentally interconnected through one unifying value. *Id.* Collectively, they share an abiding interest in the stewardship of a great regional resource -- the Columbia River and its tributaries. *Id.* The river is the link that brought all the parties together and unites them in a single, overriding goal. *Id.* That goal is to protect and enhance the assets of this great natural resource for the people of the Pacific Northwest. *Id.*

The Final Report stated that the Federal power system in the Pacific Northwest has conferred significant benefits on the region for more than 50 years. *Id.* The availability of inexpensive electricity at cost has supported strong economic growth and helped provide for other uses of the Columbia River, such as irrigation, flood control and navigation. *Id.* The renewable and non-polluting hydropower system has helped maintain a high quality environment in the region. *Id.* But while the power system has produced significant benefits, these benefits came at a substantial cost to the fish and wildlife resources of the Columbia River basin. *Id.* Salmon and steelhead populations had been reduced to historic lows, and many runs were about to be listed under the Federal Endangered Species Act. *Id.* Resident fish and wildlife populations had also been affected. *Id.* Native Americans and fishery-dependent communities, businesses and recreationists had suffered substantial losses due in significant part to construction and operation of the power system. *Id.* The region's ability to sustain its core industries, support conservation and renewable resources, and restore salmon runs would be clearly threatened if the region cannot reach a consensus regional position to bring to the national electricity restructuring debate. *Id.* Without a sustainable and financially healthy power system, funding for fish and wildlife restoration could be jeopardized. *Id.*

The Final Report noted that the Governors of Idaho, Montana, Oregon and Washington, in their charge to the Comprehensive Review, and the Steering Committee in their deliberations, recognized that the electricity industry is changing, whether the region likes it or not. *Id.* The Comprehensive Review was not an initiation of change, but a response to change. *Id.* It was an effort to shape that change, to the extent shaping is possible, to ensure that the potential benefits of competition are achieved and equitably shared, environmental goals are met, and the benefits of the hydroelectric system are preserved for the Northwest. *Id.* The region's ability to shape the change in the Northwest electricity industry depends on its ability to develop a regional consensus. *Id.* If the Comprehensive Review failed to result in a consensus for regional action, the electricity industry would still be restructured. *Id.* A return to the historical industry structure is not an option. *Id.* Many of the comments received during the public hearing process on the Steering Committee's draft recommendations made it clear that this was not a widely appreciated fact. *Id.*

The Final Report summarized the Steering Committee's goals and proposals. The Steering Committee's goals for Federal power marketing were to: (1) align the benefits and risks of access to existing Federal power; (2) ensure repayment of the debt to the U.S. Treasury with a greater probability than currently exists while not compromising the security or tax-exempt status of BPA's third-party debt; and (3) retain the long-term benefits of the system for the region. *Id.* The recommendation was also intended to be consistent with emerging competitive markets and regional transmission solutions. *Id.* The mechanism proposed to accomplish these goals was a subscription system for purchasing specified amounts of power at cost with incentives for customers to take longer-term subscriptions. *Id.* Public utility customers with small loads would be able to subscribe under contracts that would accommodate minor load growth. *Id.* Subscriptions would be available first to regional customers a specified multiparty priority order, starting with preference customers, then the DSIs and the residential and small farm customers of the IOUs participating in the REP, followed by other regional customers. *Id.* Non-regional customers could subscribe after in-region customers. *Id.* Within each phase of the subscription process, longer-term contracts would have priority over shorter-term contracts if the system were oversubscribed. *Id.*

With regard to the REP, the Final Report noted that as a result of the Northwest Power Act, Northwest utilities have the right to sell to BPA an amount of power equal to that required to serve their residential and small farm customers at the utilities' average system costs and receive an equal amount of power at BPA's average system cost. *Id.* In reality, this is an accounting transaction. *Id.* No power is actually delivered. *Id.* This was intended to be a mechanism to share the benefits of the low-cost Federal hydropower system with the residential and small farm customers of the region's IOUs. *Id.* As a result of decisions made by BPA in its 1996 rate case, those benefits were reduced. *Id.* The Steering Committee acknowledged that the residential and small farm consumers of exchanging IOUs would be adversely affected by the reduction of exchange benefits. *Id.* Congress intervened for one year to stabilize the exchange benefits. *Id.* However, on October 1, 1997, there would be rate increases to the residential and small farm customers of the exchanging utilities. *Id.* The Steering Committee encouraged the parties to continue settlement discussions and to explore other paths to ensure that residential and small farm loads receive an equitable share of Federal benefits. *Id.*

C. BPA's Power Subscription Strategy

The concept of power subscription came from the Comprehensive Review of the Northwest Energy System, which, as noted above, was convened by the governors of Idaho, Montana, Oregon, and Washington to assist the Northwest through the transition to competitive electricity markets. The goal of the review was to develop recommendations for changes in the region's electric utility industry through an open public process involving a broad cross-section of regional interests. In December 1996, after over a year of intense study, as noted above, the Comprehensive Review Steering Committee released its Final Report. The Final Report recommended that BPA capture and deliver the low-cost benefits of the Federal hydropower system to Northwest energy customers through a subscription-based power sales approach. In early 1997, the

Governor's representatives formed a Transition Board to monitor, guide, and evaluate progress on these recommendations.

Public process is integral to BPA's decisionmaking. With the changing marketplace for electric power, there is considerable regional interest in defining how and to whom the region's Federal power should be sold. The public was involved at several levels during the development of BPA's Power Subscription Strategy. In addition to the public meetings held specifically on Subscription, BPA sought input from a wide range of interested and affected groups and individuals. BPA collaborated with Northwest Tribes, interest groups, Congressional members, the Department of Energy (DOE), the Administration, and BPA's customers to resolve issues, understand commercial interests, and develop strong business relationships.

In early 1997, BPA and the Pacific Northwest Utilities Conference Committee (PNUCC) invited 2800 interested parties throughout the Pacific Northwest to help further define Subscription. The collaborative effort to design a Subscription contract process began with a public kickoff meeting on March 11, 1997. At this meeting, a BPA/customer design team presented a proposed work plan, including a description of the environmental coverage for Subscription. An important element of the work plan was the formation of a Subscription Work Group. The Work Group, which normally met in Portland twice a month from March 1997 through September 1998, was open to the public. On average, 40-45 participants--representing customers, customer associations, Tribes, State governments, public interest groups, and BPA--attended. Three subgroups formed to more intensely pursue the resolution of issues involving business relationships, products and services, and implementation.

Over 18 months, BPA, its customers and other interested parties discussed and clarified many Subscription issues. During this time, BPA and the public confirmed goals, defined issues, developed an implementation process for offering Subscription, and developed proposed product and pricing principles. The following is a chronology of events.

On March 11, 1997, a public meeting was held in Portland to kick off the Federal Power Marketing Subscription development process. The following topics were discussed at this meeting: the role of the Regional Review Transition Board in the Subscription process; the Draft Work Plan that was developed to guide the development process; the issues that relate to the Subscription process that need to be addressed; and the National Environmental Policy Act (NEPA) strategy for this effort. The Work Plan identified a "self-selected" work group to lead this effort (anyone eligible to participate).

On March 18, 1997, a "Federal Power Marketing Subscription" web site was established at BPA to help disseminate information about the Subscription Process.

On March 19, 1997, the Federal Power Subscription Work Group held its first meeting in Portland, Oregon. The Work Group held a total of 33 meetings (approximately two per month), ending on September 22, 1998.

On September 9, 1997, a Progress Report was presented to the Transition Board.

On November 25, 1997, an update meeting for stakeholders was held in Spokane to discuss progress to date and next steps. A summary of the meeting, along with the meeting handout/slide presentation and concerns/issues raised, was posted to the web site.

In January 1998, an article entitled "*Subscription Process Underway*" was published in the BPA Journal, (January 1998).

On April 30, 1998, BPA's Power Business Line (PBL) established a web site to disseminate information about a customer group's Slice of the System Proposal. The Subscription Work Group evaluated the Slice proposal, and the proposal as modified by BPA continued to be developed in a subgroup through January 1999. BPA's pricing of the Slice product was part of BPA's initial power rate proposal and was also included in BPA's 2002 Final Power Rate Proposal, Administrator's Record of Decision (ROD), WP-02-A-02.

In June 1998, as part of the Issues '98 process, BPA published Issues '98 Fact Sheet #3: Power Markets, Revenues, and Subscription. Issues '98 (June/Oct. 1998). The fact sheet discussed implementation approaches being considered by the Subscription Work Group so participants in the Issues '98 process could comment. As part of Issues '98 BPA conducted a series of meetings around the region. Issues related to Subscription were key topics in the discussions at those meetings. The public comment period for Issues '98 closed June 26, 1998.

On June 8, 1998, BPA's PBL established a web site to disseminate information about development of the power rates that would be used in the Subscription contracts beginning October 1, 2001. Preliminary discussions regarding development of the power rates occurred in a series of informal public meetings and continued in workshops before BPA's initial proposal was published in early 1999.

On June 18, 1998, the third Subscription public meeting was held in Spokane to present, discuss, and collect comments on the various components related to Subscription. The meeting slide presentation and summary of the meeting were posted to the web site.

On September 18, 1998, BPA released its Power Subscription Strategy Proposal for public comment. Accompanying the proposal was a press release entitled "Spreading Federal Power Benefits" and a Keeping Current publication entitled "Getting Power to the People of the Northwest, BPA's Power Subscription Proposal for the 21st Century." Keeping Current (Sept. 1998). On September 25th, an electronic version of the BPA Power Product Catalog was posted to the web site.

On September 22, 1998, the Federal Power Subscription Work Group held its final meeting in Portland, Oregon.

Subscription issues were discussed at the "Columbia River Power and Benefits" conference on September 29, 1998, in Portland, Oregon. Over 250 people attended. Conference notes were posted to BPA's web site.

On September 30, 1998, BPA's Energy Efficiency organization established a web site to help disseminate information on the proposal for a Conservation and Renewable Discount. Development of the discount continued in a series of meetings through January 1999. Development of the discount was part of BPA's initial power rate proposal and was also included in BPA's 2002 Final Power Rate Proposal, Administrator's ROD, WP-02-A-02.

The public was invited to participate in two comment meetings on the Subscription Proposal; one in Spokane, Washington, on October 8, 1998; the other in Portland, Oregon, on October 14.

BPA developed the Power Subscription Strategy Proposal after considering the efforts of the Subscription Work Group, public comments on Subscription, and the broad information from Issues '98. The Proposal incorporated the information received from customers, Tribes, fish and wildlife interest groups, industries and other constituents. It laid out BPA's strategy for retaining the benefits of the Federal Columbia River Power System (FCRPS) for the Pacific Northwest after 2001. The comment period on the proposal closed October 23, 1998, although all comments received after that date were considered in the Power Subscription Strategy ROD and the NEPA ROD.

During the spring and summer of 1998, BPA conducted extensive public meetings with all interested parties regarding the development of BPA's Power Subscription Strategy. At the conclusion of these lengthy discussions, on September 18, 1998, BPA released a Power Subscription Strategy Proposal for public review. During the comment period BPA received nearly 200 responses to the proposal comprising nearly 600 pages of comments. After review and analysis of these comments, BPA published its final Power Subscription Strategy on December 21, 1998. *See* Power Subscription Strategy, and Power Subscription Strategy, Administrator's ROD. At the same time, the Administrator published a National Environmental Policy Act (NEPA) ROD that contained an environmental analysis for the Power Subscription Strategy. This NEPA ROD was tiered to BPA's Business Plan ROD (August 15, 1995) for the Business Plan Environmental Impact Statement (DOE/EIS-0183, June 1995). The purpose of the Subscription Strategy is to enable the people of the Pacific Northwest to share the benefits of the FCRPS after 2001 while retaining those benefits within the region for future generations.

The Subscription Strategy also addresses how those who receive the benefits of the region's low-cost Federal power should share a corresponding measure of the risks. The Subscription Strategy seeks to implement the subscription concept created by the Comprehensive Review in 1996 through contracts for the sale of power and the distribution of Federal power benefits in the deregulated wholesale electricity market. The success of the Subscription process is fundamental to BPA's overall business purpose to provide public benefits to the Northwest through commercially successful businesses.

The Subscription Strategy is premised on BPA's partnership with the people of the Pacific Northwest. BPA is dedicated to reflecting their values, to providing them benefits and to expanding and spreading the value of the Columbia River throughout the region. In this respect, the Strategy had four goals:

> Spread the benefits of the FCRPS as broadly as possible, with special attention given to the residential and rural customers of the region;
>
> Avoid rate increases through a creative and businesslike response to markets and additional aggressive cost reductions;
>
> Allow BPA to fulfill its fish and wildlife obligations while assuring a high probability of U.S. Treasury payment; and
>
> Provide market incentives for the development of conservation and renewables as part of a broader BPA leadership role in the regional effort to capture the value of these and other emerging technologies.

The Power Subscription Strategy describes BPA decisions on a number of issues. These include the availability of Federal power, the approach BPA will use in selling power by contract with its customers, the products from which customers can choose, and frameworks for pricing and contracts. The Power Subscription Strategy discussed some issues that would not be finally decided in the Strategy. Most of these issues were decided in BPA's 2002 power rate case, although some were decided in other forums, such as the transmission rate case, which concluded recently. For example, while the Strategy documents BPA's intention to implement a rate discount for conservation and renewable resources, the final design of that discount was developed in BPA's 2002 power rate case. Other issues to be decided in the 2002 power rate case include the design and application of the CRAC, which rates apply to which sales, and the design of the Low Density Discount (LDD). Customers raised issues regarding the application of other customers' non-Federal resources to serve regional load. These resource issues involve factual determinations under section 3(d) of the Act of August 31, 1964, P.L. 88-552 (Regional Preference Act), and section 9(c) of the Northwest Power Act, 16 U.S.C. § 839f(c) (1994 & Supp. III 1997), which BPA could not address in the Power Subscription Strategy and which were not made a part of the decisions in the Subscription Strategy ROD.

While BPA's Power Subscription Strategy did not establish any rates or rate designs, rate design approaches identified in the Power Subscription Strategy were part of BPA's initial power rate proposal, which was published in 1999. The comments received during the Subscription public process regarding the various rate-related issues were addressed in BPA's 2002 power rate case, which included extensive opportunities for public involvement.

BPA's Power Subscription Strategy provided a framework for the 2002 power rate case and Subscription power sales contract negotiations. The Subscription window was to remain open 120 days after the 2002 Final Power Rate Proposal, Administrator's ROD, was signed by the BPA Administrator, providing relatively certain information to potential purchasers regarding rates.

One element the Power Subscription Strategy proposal was a settlement of the REP for regional IOUs for the post-2001 period. The Power Subscription Strategy proposed that IOUs may agree to a settlement of the REP in which they would be able to receive benefits equivalent to a purchase of a specified amount of power under Subscription for their residential and small farm consumers at a rate expected to be approximately equivalent to the PF Preference rate. Under the proposed settlement, residential and small farm loads of the IOUs would be assured access to the equivalent of 1,800 aMW of Federal power for the FY 2002-2006 period and 2,200 aMW of Federal power for the FY 2007-2011 period.

The Power Subscription Strategy noted that BPA would set the physical and financial components of the Subscription amount, by year, in the negotiated Subscription settlement contracts. Any cash payment would reflect the difference between the market price of power forecasted in the rate case and the rate used to make such Subscription sales. The actual power deliveries for these loads would be in equal hourly amounts over the period.

The Power Subscription Strategy proposed that BPA would offer five-year and 10-year Subscription settlement contracts for the IOUs. Under both contracts, the Subscription Strategy proposed that BPA would offer and guarantee 1,800 aMW of power and/or financial benefits for the FY 2002-2006 period. At least 1,000 aMW would be met with actual BPA power deliveries. The remainder could be provided through either a financial arrangement or additional power deliveries, depending on which approach was most cost-effective for BPA. The IOUs' settlement of rights to request REP benefits under section 5(c) of the Northwest Power Act would be in effect until the end of the contract term. *See* 16 U.S.C. § 839c(c) (1994 & Supp. III 1997).

Under the 10-year settlement contract, in addition to the benefits provided during the first five years, BPA proposed to offer and guarantee 2,200 aMW of power or financial benefits for the FY2007-2011 period. BPA intended for this 2,200 aMW to be comprised solely of power deliveries. The IOUs' settlement of rights to request REP benefits under section 5(c) would be in effect until the end of the 10-year term of the contract. In the event of reduction of Federal system capability and/or the recall of power to serve its public preference customers during the terms of the five-year and 10-year contracts, BPA would either provide monetary compensation or purchase power to guarantee power deliveries.

In summary, residential and small farm loads of the IOUs could receive benefits from the Federal system through one of two ways. An IOU could participate in the established

REP or it could participate in a settlement of the REP through Subscription. If an IOU chose to request REP benefits under section 5(c), then the Subscription settlement amount for all the IOUs would be reduced by the amount that would have gone to the exchanging utility.

D. Power Subscription Strategy Supplemental ROD

As noted above, on December 21, 1998, the BPA Administrator issued a Power Subscription Strategy and accompanying ROD, which set the agency's PBL on a course to establish power rates and offer power sales contracts in anticipation of the expiration of current contracts and rates on September 30, 2001. The Strategy and ROD were the culmination of many public processes that came together to form the framework to equitably distribute in the Pacific Northwest the electric power generated by the FCRPS.

BPA's 1998 Power Subscription Strategy served to guide BPA in accomplishing its goals. After adoption of the Strategy, however, developments occurred that prompted BPA to seek, in some instances, additional comment from customers and constituents on new issues. The Strategy contemplated further public processes to implement its goals. BPA's 2002 power rate case, ongoing since August 1999, was completed on May 8, 2000. BPA and its customers continued discussions on power products and power sales contract prototypes, and the Slice of System product was further defined. In a December 2, 1999, letter, BPA sought comment from customers and constituents on some of these new issues, specifically, the length of the Subscription window for power sales contract offers, the actions required of new small utilities during this window to qualify for firm power service, and new developments with respect to General Transfer Agreements. Other issues arose independently, such as new large single loads (NLSL) under the Northwest Power Act, duration of the new power sales contracts, and a new contract clause regarding corporate citizenship. BPA also undertook a comment process on the amount and allocation of power and financial benefits to provide the IOUs on behalf of their residential and small farm consumers. On November 17, 1999, BPA sent a letter to all interested parties requesting comments on two specific issues: (1) whether the amount of the proposed IOU settlement should be increased by 100 aMW from 1800 aMW to 1900 aMW for the FY 2002-2006 period; and (2) the manner in which the settlement amount should be allocated among the individual IOUs.

1. Total Amount of IOU Settlement Benefits

BPA's intent in the Power Subscription Strategy was to spread the benefits of the FCRPS as broadly as possible, with special attention given to the residential and rural customers of the region. The Subscription Strategy enabled the benefits of the FCRPS to flow throughout the region, whether currently served by publicly owned or privately owned utilities.

The Power Subscription Strategy provided that residential and small farm loads of the IOUs, through settlement of the REP, would be provided access to the equivalent of 1800 aMW of Federal power for the FY 2002-2006 period. At least 1000 aMW of the 1800 aMW would be served with actual BPA power deliveries. The remainder would be provided through either a financial arrangement or additional power deliveries depending on which approach was most cost-effective for BPA.

The four Pacific Northwest state utility commissions (Commissions), in a letter dated July 23, 1999, requested that BPA increase the amount of the settlement from 1800 aMW to 1900 aMW for the FY 2002-2006 period. This request was made in order for the Commissions to arrive at a joint recommendation for allocating the settlement benefits among the IOUs for both the FY 2002-2006 and FY 2007-2011 periods. Many parties supported this increase for many reasons, including: (1) the increase is a wise policy decision and it helps to ensure that the regional interest in the system and preserving the system as a valuable benefit in the Northwest will be shared as broadly as possible among the region's voters; (2) the increase is appropriate in order for BPA to achieve the stated Subscription Strategy goal to "spread the benefits of the Federal Columbia River Power System as broadly as possible, with special attention given to the residential and rural customers of the region," *see* Power Subscription Strategy at 5; (3) the increase creates a fair and reasonable settlement to the REP for the IOUs; (4) the increase to the settlement staves off contentious issues surrounding the traditional REP as well as provides a fair allocation of power to the IOUs; and (5) the increase will help ensure an appropriate sharing of benefits of Federal power among the residential ratepayers in the Northwest.

After review of the comments, BPA found the arguments for increasing the IOU settlement amount by 100 aMW to be compelling. BPA determined that the conditions surrounding the proposed increase to the proposed Subscription settlement of the REP were expected to be met. Therefore, BPA increased the amount of total benefits for the proposed settlements of the REP with regional IOUs from 1800 aMW to 1900 aMW.

2. Allocation of Settlement Benefits Among IOUs

In the Power Subscription Strategy, BPA noted its intent to request comments from interested parties regarding the amounts of Subscription settlement benefits that should be provided to individual IOUs. BPA also noted that the Commissions indicated that they would collaborate on an allocation recommendation. After review of all comments, BPA would determine the appropriate amounts to be allocated to the individual IOUs.

BPA solicited the Commissions' views on the proposed allocation of settlement benefits. This was appropriate because the Commissions have traditionally been responsible for establishing retail electric rates for residential consumers of the regional IOUs, including the credit applied to those rates to reflect benefits of the REP as determined by BPA. The Commissions also have a statutory responsibility to the residential consumers of the IOUs in their particular state jurisdiction. Furthermore, because of these responsibilities, a joint recommendation by the Commissions would likely reflect a fair allocation of benefits among the residential consumers of the Northwest states and would enhance the likelihood of BPA delivering the benefits in a way that would work for each state and its consumers.

The Commissions collaborated and submitted a joint recommendation on the proposed allocation of the settlement benefits. They noted that their recommendation reflects many different considerations, including the amount of residential and small farm load eligible for the REP, the historical provision of REP benefits, the REP benefits received in the last five-year period ending June 30, 2001, rate impacts on qualifying customers, and the individual needs and objectives of each state. BPA reviewed the Commissions' recommendation and determined that this proposal was a reasonable approach upon which to take public comment.

Virtually all commenters supported the allocation recommended by the Commissions and proposed by BPA. The reasons for such support included: (1) it is appropriate for BPA to weigh heavily the Commissions' joint recommendation concerning the allocation of benefits; (2) the Commissions are the best arbiters of the settlement among the IOUs; and (3) the proposed allocation establishes access to a level of benefits that recognizes changed market conditions while at the same time addresses the needs and issues important to each of the four states. It is worthy of note that BPA's allocation has received support from diverse customer and interest groups: publicly owned utilities, IOUs, the Commissions, state agencies, and a city commission. BPA concluded that the following allocation amounts would be incorporated into the proposed settlement contracts with the individual IOUs that choose to settle the REP:

	Amount of Settlement (aMW) FY2002-2006	**Amount of Settlement (aMW) FY2007-2011**
Avista Corp. 1/	90	149
Idaho Power Company 1/	120	225
Montana Power Company	24	28
PacifiCorp (Total)	476	590
PacifiCorp (UP&L)	*140*	*140*
PacifiCorp (PP&L – WA) 1/	*83*	*109*
PacifiCorp (UP&L – OR) 1/	*253*	*341*
Portland General Electric	490	560
Puget Sound Energy (PSE)	700	648
Total	1900	2200

1/ BPA also concluded that the allocation of benefits among the states served by these multi-state utilities would be based on the forecasts of the respective state residential and small farm loads at the time the IOU signs its Settlement Agreement.

E. BPA's Section 5(b)/9(c) Policy

As BPA recognized that its existing long-term power sales contracts would soon expire, BPA proposed to establish a policy to guide the agency in making determinations of the net requirements of its utility customers in order to offer Federal power under new contracts. (For the most part, existing power sales contracts expire by October 1, 2001.) A net requirements policy is an important component to BPA's execution and implementation of new power sales contracts. Under section 5(b)(1) of the Northwest Power Act, BPA is obligated to offer a contract to each requesting public body, cooperative, and investor-owned utility to meet each utility's regional firm load net of the resources used by the utility to serve its firm power consumer load. 16 U.S.C. § 839c(b)(1) (1994 & Supp. III 1997). In making this determination, BPA has a corresponding duty to apply the provisions of section 9(c) of the Northwest Power Act, 16 U.S.C. § 839f(c) (1994 & Supp. III 1997), and section 3(d) of the Regional Preference Act, 16 U.S.C. § 837b(d) (1994 & Supp. III 1997).

BPA provided two opportunities for public review and comment in developing its proposed policy. On May 6, 1999, BPA published its initial policy proposal, entitled "Opportunity for Public Comment Regarding Bonneville Power Administration's Subscription Power Sales to Customers and Customer's Sale of Firm Resources," 64 Fed. Reg. 24,376 (1999). BPA held two public meetings to discuss this policy. The first meeting was held on May 27, 1999, in Spokane, Washington. The second meeting was held on June 2, 1999, in Portland, Oregon. On June 3, 1999, the thirty-day comment period was extended by BPA through June 30, 1999.

After reviewing and considering the comments received on the initial policy proposal, particularly those that requested that BPA provide a second round of review and comment, BPA issued a revised policy proposal on October 28, 1999, entitled "Revised Draft Policy Proposal Regarding Subscription Power Sales to Customers and Customer's Sales of Firm Resources," 64 Fed. Reg. 58,039 (1999). BPA reviewed and considered the comments received on the revised policy. On May 24, 2000, BPA issued its final "Policy on Determining Net Requirements of Pacific Northwest Utility Customers under Sections 5(b)(1) and 9(c) of the Northwest Power Act," also called BPA's "Section 5(b)/9(c) Policy." BPA also issued a Section 5(b)/9(c) Policy Record of Decision.

F. IOU Settlement Agreements

After completion of the Administrator's Supplemental ROD, BPA began the development of a prototype Residential Purchase and Sale Agreement (RPSA) and a prototype Settlement Agreement. On May 5, 2000, BPA sent a letter to all interested parties requesting comments on the proposed agreements. BPA's letter included a background document describing the two agreements. BPA also enclosed copies of the draft RPSA and Settlement Agreement. BPA's letter and attachment noted that BPA's Power Subscription Strategy proposed comprehensive settlements of the REP with participating regional IOUs and that IOUs would also have the option of entering into contracts to participate in the REP. The Power Subscription Strategy also noted that public agency customers were eligible to enter RPSAs under the REP.

BPA's letter noted that BPA had prepared a prototype RPSA to implement the REP and that this prototype would be used as the basis for contracting with all eligible parties to apply for benefits under the REP. BPA requested public comment on the following issues: (1) which entities are eligible utilities to request benefits under section 5(c) of the Northwest Power Act; (2) BPA's proposal to implement the in lieu provisions of section 5(c)(5) of the Northwest Power Act through wholesale market purchases; (3) any exceptions to the limitations of section 5(c)(6) that preclude the restriction of exchange sales under section 5(c) below the amounts of power acquired from, or on behalf of, the utility pursuant to section 5(c); and (4) any comments on the terms and conditions of the prototype RPSA agreement.

BPA's letter also described BPA's proposal for comprehensive settlement of the rights of regional IOUs eligible for benefits under the REP. BPA noted that it had prepared a prototype Settlement Agreement for implementing the Subscription Strategy. The prototype provided power sales pursuant to a contract offered under section 5(b) of the Northwest Power Act. The prototype also provided for the payment of monetary benefits. BPA requested public comment on all relevant issues, including the following issues: (1) any comments on the terms and conditions of the prototype Settlement Agreement; and (2) whether the total amount of benefits and the proposed terms and conditions for settling the rights of regional IOUs to request benefits under the REP were reasonable.

BPA's letter noted that BPA's Power Subscription Strategy proposed an allocation of benefits to the region's IOUs that included both physical and monetary components. It further noted that the Administrator's Supplemental ROD for the Power Subscription Strategy proposed to offer the IOUs the equivalent of 1900 aMW of Federal power for the FY 2002-2006 period. Of this amount, at least 1000 aMW would be provided in physical power deliveries. BPA requested that each IOU notify BPA by July 21, 2000, whether they wished to participate in BPA's REP. The IOUs were not required to make an election whether to accept a settlement offer or participate in the REP through an RPSA at that time. Based on each IOU's request to participate in the REP, BPA would prepare a settlement offer for their consideration prior to October 1, 2000. At the time each IOU requested to participate in the REP in July, BPA's letter asked that each IOU identify (1) its preferred mix of physical deliveries and financial settlement; and (2) whether it would prefer a five-year or 10-year offer. BPA would only make a settlement offer including net requirements physical deliveries if the IOU could establish a net requirement for the amount of power requested.

BPA's letter requested public comment on two issues regarding the offer of physical power and financial benefits in settlement of REP rights: (1) whether BPA should require IOUs to take additional power if the combined requests of all the companies for physical deliveries are less than 1000 aMW; and (2) how BPA should limit physical deliveries to each IOU if the companies requested physical deliveries of more than 1000 aMW and such deliveries were more power than BPA was willing to offer.

Comments on all of the issues regarding the prototype agreements were to be submitted through close of business on Friday, June 9, 2000. BPA's letter noted that after receiving public comment on the proposed prototype agreements, BPA would prepare final draft prototypes based on the public comments. These draft prototypes will be published to allow IOUs to determine whether they wish to participate in the REP pursuant to an RPSA or through a settlement offer based on physical or monetary benefits. Once BPA received each IOU's request to participate in the REP, BPA would prepare a settlement offer and an RPSA for each IOU in accordance with the choices made. BPA prepared a ROD addressing the public comments on the proposed REP Settlement Agreements. A separate ROD was also issued which addressed the public comments on the proposed RPSA. BPA offered both an RPSA and a Settlement Agreement to each IOU. .

On July 28, 2000, BPA sent a letter to interested parties regarding a request by Montana Power Company (MPC) to be offered a Settlement Agreement in which the power component would be made under section 5(c) of the Northwest Power Act instead of a sale of requirements power under section 5(b) of the Act. BPA's letter noted that on May 5, 2000, BPA asked for public comment on BPA's proposed contracts for implementing the REP, including a request for comments on a proposed IOU Settlement Agreement. The Settlement Agreement BPA offered for comment on May 5 contained benefits that were comprised of proposed power sales and monetary payments. The power sales proposed under the Settlement Agreement were sales under section 5(b) of the Northwest Power Act. *See* 16 U.S.C. § 839c(c) (1994 & Supp. III 1997). However, as BPA stated in its Power Subscription Strategy, released on December 21, 1998, power sales in its proposal for settling the REP could be based either under section 5(b) or 5(c) of the Northwest Power Act. In the background document included with BPA's May 5 letter, BPA noted that it had not prepared a prototype Settlement Agreement based on a power sale under section 5(c) of the Northwest Power Act, but that it would consider such proposals if they were made.

In a letter dated July 27, 2000, MPC requested that BPA provide a settlement offer including firm power benefits under section 5(c) of the Northwest Power Act. BPA prepared a draft Settlement Agreement reflecting a section 5(c) power sale. The proposed settlement, attached to BPA's July 28, 2000, letter, was very similar to the proposed agreement that BPA issued for public comment with BPA's May 5, 2000, letter. Instead of providing an IOU Firm Power Block Sales Agreement (Block Sales Agreement) for a specified amount of firm power under section 5(b) of the Northwest Power Act, this proposed section 5(c) prototype agreement provided a specified amount of firm power under a Negotiated In Lieu Agreement.

On October 4, 2000, the BPA Administrator issued a decision document entitled "Residential Exchange Program Settlement Agreements With Pacific Northwest Investor-Owned Utilities, Administrator's Record of Decision," which concluded that it was appropriate to offer the REP Settlement Agreements to regional IOUs. The REP

Settlement Agreements were then executed the same month. One of the regional IOUs executing a settlement agreement was PacifiCorp.

G. BPA's 2002 Wholesale Power Rate Case

On August 13, 1999, BPA published a notice of BPA's *2002 Proposed Wholesale Power Rate Adjustment, Public Hearing, and Opportunities for Public Review and Comment.* 64 Fed. Reg. 44,318 (1999). This began a lengthy and complex hearing process that concluded with BPA's *2002 Final Power Rate Proposal, Administrator's Record of Decision*, in May 2000 (May Proposal). 16 U.S.C. § 839e(i). In July 2000, BPA filed its proposed 2002 wholesale power rates with the Federal Energy Regulatory Commission (FERC) for confirmation and approval. 16 U.S.C. § 839e(a)(2). Subsequent to that time, however, during the late spring and summer months, the West Coast power markets suffered price increases and volatility that had not been seen before. By August, it was clear that these market prices were not a short-term phenomenon. This meant that BPA's cost-based rates, which were already below the original market forecast, were even more attractive. Thus, BPA assumed that additional load would be placed on BPA, and BPA would need to purchase additional power to augment the Federal Columbia River Power System (FCRPS) supply. BPA determined that the implications for cost recovery were so serious that a stay of the rate proceeding at FERC was requested. This enabled BPA to review the events that had occurred during the summer months and to determine whether the escalating prices and increased volatility would require remedial action.

Escalating and more volatile market prices had two related effects. First, the specter of higher prices and continued unpredictability caused customers to place as much load as possible on BPA. Second, to meet this increased load obligation, BPA would need to make substantially greater power purchases at substantially higher and more uncertain prices than anticipated in the May Proposal. BPA concluded that the May Proposal, as filed with the FERC, was not adequate to deal with the added costs and financial risks that the high and volatile market prices created for BPA.

During the initial phase of the rate case, BPA's load forecast exceeded BPA's forecast of generation resources by 1,732 average megawatts (aMW). Due to escalating and volatile market prices, BPA estimated that expected loads would exceed the original rate case forecast by an additional 1,518 aMW. Inasmuch as the generating capability of FCRPS was already inadequate to meet the earlier load forecast, BPA would have to purchase to further augment its inventory to serve these additional loads. The cost of power to serve these unanticipated loads was not included in revenue requirements.

The combination of an unanticipated increase in loads and purchase requirements, with higher and more uncertain market prices, greatly diminished the probability that rates proposed in the May Proposal would fully recover generation function costs. Absent a change to the May Proposal, Treasury Payment Probability (TPP) would be reduced to below 70 percent, a level that would fall well short of specific goals and targets. In its judgment, BPA had a serious cost recovery problem that it was obliged to address by reason of statute and Administration policy.

BPA's Amended Proposal rate case was a continuation of the WP-02 rate proceeding. It was being conducted for the discrete purpose of resolving a cost recovery problem brought about by market price trends and load placement changes occurring since the record was closed in the first phase of the proceeding. During the consideration of the Amended Proposal, however, BPA concluded that it was necessary to make additional changes to ensure BPA's cost recovery. BPA then filed a Supplemental Proposal. There were three reasons BPA filed a Supplemental Proposal. First, BPA's forecast for starting rate period reserves had dropped very substantially since the forecast in its Amended Proposal. Second, market prices available for power during the first two years of the rate period were significantly higher than BPA had forecast in the Amended Proposal. Regardless, BPA would have prepared an update to the Amended Proposal to show the impact of these revised forecasts on BPA's proposed rates. The third reason was that, as a result of discussions with the rate case parties, BPA reached a Partial Settlement Agreement with many of those parties. Part of that agreement was that BPA would file a Supplemental Proposal reflecting the Partial Settlement Agreement.

Since BPA filed its Amended Proposal in December 2000, forecasts for run-off for the water year had declined substantially. Water Year forecasts in BPA's 2002 Final Power Rate Proposal (May Proposal) and Amended Proposal assumed average water for both this FY 2001 and for the next five years of the rate period – 102.4 million acre feet (MAF). By contrast, the current year could be the second lowest runoff year on record, with current runoff forecasted at under 60 MAF. These conditions would require BPA to purchase much more power this year than expected to meet loads, at extremely high prices, and to reduce the amount of surplus energy BPA can sell this year. As BPA described in its Amended Proposal, prices in the wholesale electricity market had been extremely volatile and high. BPA had seen these increased market prices during this year. In fact, during one week in January alone, BPA purchased over $50 million in power to meet load. This was putting tremendous pressure on BPA's end-of-year reserves. End-of-year reserves translate into starting rate period reserves. In BPA's May Proposal, starting reserves were estimated to be $842 million on an expected value basis. In BPA's Amended Proposal, starting reserves expected value estimates had increased to $929 million. Then, the expected value of BPA's starting reserves estimate dropped to $309 million. There is still a significant range of uncertainty surrounding this estimation of starting reserves. This is driven by some unknown factors for the rest of this fiscal year around hydro operations related to fish requirements, run-off levels, and the volatility in market prices.

Starting reserves are a key risk mitigation tool in BPA's Supplemental Proposal. A significant drop in starting reserve levels, without other adjustments, reduces Treasury Payment Probability (TPP) for the five-year rate period. Therefore, in order to offset this decline, and maintain a TPP level within the acceptable range, adjustments to other tools need to be made.

Market prices during the rate period are higher in the first years of the rate period, ranging from $200/megawatthour (MWh) to $240/MWh for FY 2002, and then dropping during the last years of the rate period, to a range between $40/MWh and $60/MWh in FY 2006. This compares with a risk-adjusted expected price forecast in the Amended Proposal for the five-year rate period around $48/MWh, where expected prices for individual years did not vary by more than $5/MWh from the $48/MWh average.

Because BPA will be in the market purchasing power to serve load during the next five years, BPA's purchase power costs will fluctuate as market prices change. Because the potential levels of power purchases and prices are so great, BPA needs to concern itself not only with annual or rate period totals, but with the seasonal and semi-annual timing of costs and revenues. In order to maintain TPP at an allowable level, all other things being equal, the expected value for the average rate over the five years will be higher with an average flat rate than with a rate shaped to match the expected market. Therefore, BPA revised the LB CRAC so that its expected revenues closely match the shape of its augmentation costs. In summary, BPA's Supplemental Proposal suggested that BPA's customers could see much higher prices during the October 1, 2001, to September 30, 2006, rate period.

H. Administrator's Call for Rate Mitigation Efforts

On April 9, 2001, the BPA Administrator delivered a speech to the citizens of the Pacific Northwest regarding the potential impact of BPA's proposed rate increase and possible ways to reduce the impact of the increase. The text of the speech follows:

> Last January, I sent out a letter to Northwest citizens that caused some shock waves. That was my intent. I believe it is important to warn of bad news while there is still time to take actions that can lessen the impact. At the time, I said that, if certain conditions persisted, BPA's customers--Pacific Northwest utilities and direct-service industries--could face a significant rate increase for the wholesale power they buy from the Bonneville Power Administration. The figures I cited then were for an average rate increase of 60 percent over the five-year rate period that starts this coming October. I cautioned that the increase could be as high as 90 percent in the first year.
>
> Unfortunately, the situation has worsened. It now appears possible that, without the kinds of action that I am about to call for today, the first-year increase could be 250 percent or more. If that were to occur, it likely would translate into doubling the retail rates in many utility service areas.
>
> An increase of this magnitude would have widespread economic consequences. Already, we are seeing some businesses curtail operations or even close as a result of high energy prices. With such an increase, we'd surely see more businesses close and more job losses, with people

with lower incomes suffering disproportionately. In addition, a weak economy frequently translates into less public support for environmental protection.

I don't believe these consequences are acceptable. More importantly, I don't believe they are inevitable. That's why I am here today to call for some very specific actions and to call on all stakeholders in the Pacific Northwest to own part of the process that will help us avert an economic blow to our region. I believe we can get the rate increase down to a manageable level, but we need to make some tough decisions, and we have little more than 60 days to do this. BPA's rates, which will go into effect in October, should be submitted to the Federal Energy Regulatory Commission in June.

First, let me review what has led us to this point. Some of it you already know. We are experiencing the second worst water year in 72 years of record-keeping. According to a report released by the Northwest Power Planning Council, if the drought persists, the hydropower generating capability in the Northwest from March through August will be 4,700 megawatts below normal over those months--the equivalent power consumed by four Seattles. The implications are ominous since the Northwest relies on hydropower for nearly three-quarters of its electricity.

But the summer drought is only the immediate crisis. We are becoming increasingly concerned about power supply for the coming winter. Canadian reservoirs, which store half the system's water, are extremely low this year, which means we could start next year with less than a full tank. If that were to happen, and especially if we have a second dry year in a row, electricity reliability wouldn't be the only thing at risk. Low reservoir levels also raise concerns for salmon and steelhead next year.

Low water combined with a tight wholesale power market and skyrocketing power prices is a devastating combination. The fiasco in California has helped drive wholesale electricity prices to unprecedented levels. When we completed our new Subscription power contracts last fall, BPA's contractual obligations added up to approximately 11,000 megawatts--about 3,000 megawatts more than our current generating resources can provide on a firm basis. The only way we can meet our obligations is to buy the vast majority of the additional power in a wholesale power market where supplies are tight and prices are sky high. This is what is driving rates up.

This year, due to the high power prices, BPA has not been able to purchase sufficient power to ensure system reliability. Consequently, we have periodically declared power system emergencies. These emergency declarations have allowed us to increase power generation from the river and reduce operations that offer benefits to migrating juvenile fish. The increased generation has reduced the amount of water that is normally stored at this time of year so that it can be used to augment spring and summer river flows. While there may be some impact on fish, by far the major impact on fish is the drought itself, not the emergency power operations. We are continuing to implement all other aspects of the federal measures for fish recovery.

Currently, we are operating the river on an emergency basis, and we can continue some fish spill or flow augmentation only as long as water volume does not dip much below current estimates. The record low runoff is a water volume of 53 million-acre feet. As of last week, the volume forecasts had dropped to 56 million-acre feet, which is 53 percent of the normal runoff. This severely limits our flexibility to do much more than meet power needs.

Beyond the current drought, high power prices are expected to continue until significant new generation and additional conservation measures are put in place. This will take a couple of years at best. And, we can't expect much help from Canada, which also is suffering drought, nor any help from California, which is in the throes of an electricity restructuring crisis.

We must focus instead on what we can control if we expect to minimize the size of the coming wholesale rate increase. The most immediate and direct way to decrease the size of next year's rate increase is quite simply to decrease the amount of power BPA has to buy in the market.

We already have taken a number of extraordinary steps in this direction. We have promoted conservation aggressively and sought voluntary curtailments in power use. We have begun to purchase curtailments from our direct service industrial customers and from irrigators who are served by our utility customers. We have offered innovative incentives for development of conservation and renewables, and we have engaged in beneficial 2-for-1 power exchanges with California. We also are continuing to collaborate with the Corps of Engineers and Bureau of Reclamation to increase the productive capability of the federal power system.

But even these extraordinary measures haven't been enough in the face of the triple whammy of historic low water conditions, an extremely tight power market and enormous volatility in power prices. We now need to up the ante if we are to get the rate increase for the next year down to a manageable level.

We literally are at a crossroads, and the region has essentially two options. Path A is to wait and see where market prices settle in June. Under this scenario, we'd rely on cost recovery mechanisms to kick up rates if prices remain high. We would take no special actions and we wouldn't push or negotiate with our customer groups to secure load reductions. The risk is that, if market prices stay the same, we could expect to see a first year rate increase in the 200 to 300 percent range, and possibly greater.

Then there's Path B, which calls for aggressive and immediate steps to reduce the size of the rate increase by reducing the amount of electricity demand put on BPA. Under this scenario, BPA would not have to buy as large an amount of power in a very expensive wholesale power market. It's a strategy that calls on our customers and other stakeholders to share a sacrifice by reducing their demands for power. It requires significant, and I mean significant, contributions from all customer groups. It could keep the first-year rate increase below 100 percent. I believe Path B is the course we must choose, so let me lay out some of the actions that will move us along this path.

As I discuss this path, let me outline the principles I believe are key to reducing rates. First, rates must be set to cover costs if we are to avoid creating a credit problem, which could lead to refusals to sell to us in the future. We must also cover our costs to ensure we preserve the benefits of the federal hydropower system over the long term, which is essentially the bottom line.

Second, the situation is urgent. We must act quickly because rates must be in effect this coming October 1. As I said earlier, our rate proposal is due in to the Federal Energy Regulatory Commission in June.

Third, our problem is caused by a significant exposure to a volatile market in the first one-to-two years of the rate period. If we are to manage a reduction in the rate increase, we must reduce our exposure to that market by reducing demand for energy, increasing our supply and minimizing the short and long-term damage to the region's economy.

Fourth, contributions to the solution are needed from all customers. We can't play a game a chicken where each party waits for the other to step forward. If that happens, no one will step forward. Each group must contribute if we are to preserve an equitable distribution of the benefits of our hydropower resource.

. . .

Given those principles, let me outline the actions we as a region need to take. We need a three-pronged approach that includes curtailment of power use, conservation--or more efficient use of power--and power buybacks. This needs to happen across all four states, across public and private power, and across all sectors of energy use--industrial, commercial, agricultural and residential. It will take all of us working together if we are to avoid severe economic hardships for the region. Let me be clear; what I am about to suggest requires a great deal of sacrifice, but the alternative is to suffer far more serious consequences. We are beginning negotiations now with our customers. If people don't come to the table with reductions in their demand for electricity, a very large and very damaging rate increase is inevitable.

First, we are calling on our public utility customers to make a contribution to the solution. We need every utility customer to reduce its Subscription purchases from BPA by 5 to 10 percent. BPA's rate increases will spur some of this reduction, but more focused efforts are needed if we are going to achieve significant savings. We are willing to make modest incentive payments to help achieve this, but the incentive payments cannot be large or they will defeat the intended effect.

We are running several demand-side management initiatives including a conservation and renewables discount, a conservation augmentation program and a demand exchange program. In addition, we now are discussing the potential for new programs to provide incentives to our public utility customers to adopt innovative retail rate structures that encourage their consumers to conserve energy.

Second, we are calling on investor-owned utilities to make a contribution. When our new rates go into effect this October, investor-owned utilities--or IOUs--will receive sizable benefits from BPA for their residential and small farm customers as a result of a the residential exchange. Under this program, as it is set out in the Subscription period, 1,900 average megawatts of financial and power benefits are scheduled to go to the IOUs. But, because of dramatic changes in market prices, the estimated value of these benefits has increased enormously since they were negotiated a year ago. By 2002, the value will be 10 times higher than the negotiations intended to capture. As a result, IOUs are in a position to reduce their Subscription demand significantly and still enjoy benefits in excess of anything they have experienced in the 20-year history of the residential exchange.

Third, we are asking our direct service industries--or DSIs--to agree not to take power from us for up to the first two years of the rate period in return for certain limited compensation to the companies and their workers. It is our expectation that the companies would not be able to operate given a potential tripling of our rates anyway. Coming to an agreement now that the plants will not operate would allow BPA to avoid making power purchases, thereby decreasing our rates for all remaining customers.

It is not our intention to drive the aluminum industry out of the region, but we are continuing to encourage the industry to move off of BPA power supplies after the 2006 rate period because we do not have a statutory obligation to continue to serve them. The customers we are obligated to serve--the region's retail electric utilities--need more than our current generation resources can produce. We will work with these companies to help them find a means to operate profitably in the long run without relying on BPA.

Almost all of the DSIs are already shut down until this fall, and their power is being remarketed to support Northwest needs during the current drought. These buydowns played a key role in keeping the lights on this winter and in maintaining reservoir levels higher than they otherwise would have been.

Fourth, I am urging all citizens of the Northwest to heed the call of our governors to reduce electricity consumption by 10 percent through eliminating waste and using electricity more efficiently. There are a number of common sense measures we can all take, and one good place to start right now is to go out and replace conventional light bulbs with compact fluorescents, which consume about 20 percent of the electricity used by regular bulbs for the same amount of light.

These four sets of actions that I have described are urgently needed between now and June if we are to avert grave near-term economic consequences. These are difficult actions. But, with hindsight, we can learn from the problems California experienced and seek to avoid them. We need to do everything we can to avoid power purchases in this incredibly expensive market. We also need to make sure we set rates high enough so we can cover our costs to assure generators get paid when they deliver power on a contractual basis so we don't put our credit at risk.

We also are looking to longer-term solutions that will help lead to lowering the incredible wholesale power supply prices we are currently experiencing. The fundamental problem is supply and demand being out of balance. Prompt infrastructure investments are needed in generating resources, especially gas-fired and wind-powered generation; gas pipeline capacity and storage; electric power transmission facilities; and energy conservation measures.

BPA's [proposed] rates [might] now be set on a six-month basis based on our actual costs. If wholesale power prices can be brought down quickly, through infrastructure investments and other actions, then our rates will come down in the future. The faster these actions can be taken, the quicker our rates can come down.

We already have begun plans to shore up the transmission infrastructure, and we are negotiating to purchase the output from combustion turbines and new renewable resources. We also are increasing our efforts to encourage and procure energy efficiency. We are working to implement these actions quickly, but at best, some actions, such as securing more generation, will take one-to-two years.

That's why I am calling for cooperation and sacrifices for the next two years from all parties BPA serves. If the region cannot or will not take the actions necessary to reduce the rate hike, we have no recourse but to set our rates to recover our costs. BPA does not receive subsidies from taxpayers. We must wholly cover our costs with revenues we receive from sales of power and transmission. We are obligated to repay, with interest, all capital investments that have been made by the federal government in the facilities that are part of the Northwest's federal power system. Already, we have drawn on our financial reserves heavily this winter, and more of the same still may be ahead of us.

Some have suggested that we can simply fail to pay one of our largest creditors--the U.S. Treasury--rather than declare power emergencies or raise rates sharply. While there is no absolute guarantee we will make our full Treasury payment this October, I believe we should use all management tools available to do so. Our ability to pay our debt in full and on time is the best protection the Northwest has to preserve the benefits of the Columbia River hydropower system for the region. There are interests outside the region that want to see the benefits of this system directed toward other purposes. They could take great political advantage of the opportunity that would be presented if BPA did not cover its costs. One consequence could be the loss of cost-based rates for power from the federal system. We have seen how exorbitant market rates can be. If that were to happen, the region would be looking at far higher rate increases than we are now facing.

So, in closing, let me underscore the message. We are on a trajectory that poses grave consequences for the Pacific Northwest, primarily due to extraordinary conditions beyond our control--extremely low water, an extremely tight power supply and extremely high wholesale power prices. We believe the only alternative to a huge rate hike is to reduce our exposure to the market in the first two years of the next five-year rate period by reducing the Subscription demand on BPA. It will take major contributions from all our customers if we are to prevent a triple digit rate increase. And, we will need to make these very difficult decisions very quickly.

> Finally, we believe this proposal, while not an easy one to achieve, fairly balances the sacrifices the region needs and does not unfairly hit one customer group or one state over others. I know putting these proposals into place will be tough, but I believe the consequences of not taking this path will even be tougher.

Thus, the Administrator asked the regional IOUs to contribute to the mitigation of BPA's potentially difficult rate increases. The Administrator's reasoning regarding the amendment to PacifiCorp's REP Settlement Agreement and the separate Financial Settlement Agreement, which help to address this concern, is addressed below.

I. AMENDMENT TO PACIFICORP'S REP SETTLEMENT AGREEMENT

BPA and PacifiCorp have negotiated a letter agreement (Amendment No. 1), which constitutes an amendment to PacifiCorp's Residential Exchange Program Settlement Agreement, Contract No. 01PB-12229 (Settlement Agreement), executed by BPA and PacifiCorp. Since the time of execution of the Parties' Settlement Agreement, BPA and PacifiCorp have agreed that BPA will, rather than deliver firm power to PacifiCorp for the first five years of the Settlement Agreement, make cash payments during the period that begins October 1, 2001, and ends on September 30, 2006. These cash payments will be made under a Financial Settlement Agreement, Contract No. 01PB-10854. Amendment No. 1 removes BPA's obligation to deliver firm power for the first five years of the Settlement Agreement. BPA and PacifiCorp intend to execute Amendment No. 1 and the Financial Settlement Agreement simultaneously.

A number of issues arose during the negotiation of Amendment No. 1 and the Financial Settlement Agreement. The reasoning supporting the resolution of these issues is addressed below.

A. EFFECTIVE DATE

Section 1 of Amendment No. 1 provides that it will take effect on the date signed by the Parties. This allows the amendment to take effect at the beginning of the contract period.

B. AMENDMENT OF SETTLEMENT AGREEMENT

1. Satisfaction of Section 5(c) Obligations

Section 2 of Amendment No. 1 describes a number of changes to the Settlement Agreement. Section 3(a) of the Settlement Agreement is replaced by language providing that BPA, in full and complete satisfaction of its obligations under or arising out of section 5(c) of the Northwest Power Act during the period from July 1, 2001, through September 30, 2011,will provide PacifiCorp three things. First, BPA will provide cash payments for the period from July 1, 2001, through September 30, 2001, pursuant to section 3(d) of the Settlement Agreement. Second, BPA will provide, beginning October 1, 2001, and continuing through September 30, 2006, cash payments under the Financial Settlement Agreement in lieu of firm power deliveries under the Settlement Agreement, plus Monetary Benefit payments under the Settlement Agreement. Third, BPA will provide, beginning October 1, 2006, firm power or Monetary Benefit payments, or both, pursuant to sections 4 and 5 of the Settlement Agreement. Similarly, PacifiCorp agrees that the cash payments, Firm Power or Monetary Benefits, or both, provided under the Settlement Agreement, and the cash payments provided under the Financial Settlement Agreement, satisfy BPA's obligations under section 5(c) of the Northwest Power Act during the period from July 1, 2001, through September 30, 2011. This provision incorporates the substitution of benefits under the Financial Settlement Agreement for the reduction of firm power deliveries under the Settlement Agreement into the satisfaction of BPA's section 5(c) obligation to PacifiCorp.

2. Invalidity

(a) Invalidity of the Settlement Agreement

The Parties have worked diligently to ensure that Amendment No. 1 and the Settlement Agreement are legally sound and will be effective for their respective terms. Some BPA customers, however, have been extremely litigious regarding the implementation of BPA's Power Subscription Strategy. Given this environment, an invalidity provision addresses the possibility, hopefully slight, that a challenge might render the agreements invalid. Section 3(b) of the Settlement Agreement is replaced by new language. This language provides that if the United States Court of Appeals for the Ninth Circuit finally determines that the Settlement Agreement (or payments under section 4 of the Settlement Agreement) is invalid, then PacifiCorp has two options. First, PacifiCorp can provide written notice to BPA within 30 calendar days that the cash payments provided under the Financial Settlement Agreement satisfy all of BPA's obligations under or arising out of section 5(c) of the Northwest Power Act for the period following the court's final determination through September 30, 2006. Second, if PacifiCorp provides no notice, BPA and PacifiCorp agree that the provisions of section 3(a), which establish the satisfaction of BPA's section 5(c) obligations, will be of no further force or effect.

A new section 3(b)(1) of the Settlement Agreement also provides that in the event of the court's above-noted final determination, the Parties intend that the cash payments pursuant to section 3(d) and the Monetary Benefits provided prior to the court's final determination should be retained by PacifiCorp, to the maximum extent permitted by law. Also, the satisfaction of BPA's obligations to PacifiCorp under section 5(c) of the Northwest Power Act prior to the court's final determination should be preserved, to the maximum extent permitted by law. This would avoid a difficult and complicated process of determining a new agreement and retroactively implementing changes to the benefits for that period. Additional difficulties would lie in the ability of PacifiCorp and the state public utility commissions to implement such changes without creating potential economic harm to consumers. In addition, section 3(b)(1) provides that it is severable and would continue in effect in the event that any other provision of the Agreement was found invalid.

(b) Invalidity of the Financial Settlement Agreement

A new section 3(b)(2) of the Settlement Agreement provides that in the event the United States Court of Appeals for the Ninth Circuit finally determines, after all appeals or requests for reconsideration, that the Financial Settlement Agreement (or cash payments under the Financial Settlement Agreement) is invalid, then PacifiCorp has two options. First, PacifiCorp can provide written notice to BPA within 30 calendar days that the Monetary Benefits provided under section 4 of the Settlement Agreement satisfy all of BPA's obligations under or arising out of section 5(c) of the Northwest Power Act for the period following the court's final determination through September 30, 2006. Second, if PacifiCorp provides no notice, BPA and PacifiCorp agree that the provisions of section 3(a), which establish the satisfaction of BPA's section 5(c) obligations, will be of no further force or effect. Section 3(b)(2) also provides that in the event of the court's above-noted final determination, the Parties intend that the cash payments pursuant the Financial Settlement Agreement and the Monetary Benefits provided under the Settlement Agreement provided prior to such final determination will be retained by PacifiCorp, to the maximum extent permitted by law. Also, the satisfaction of BPA's obligations to PacifiCorp under section 5(c) of the Northwest Power Act prior to the court's final determination should be preserved, to the maximum extent permitted by law. As noted previously, this would avoid a difficult and complicated process of determining a new agreement and retroactively implementing changes to the benefits for that period. Also, additional difficulties would lie in the ability of PacifiCorp and the state public utility commissions to implement such changes without creating potential economic harm to consumers.

(c) Negotiation of New Agreement if this Agreement Held Invalid

Section 3(c) of the Settlement Agreement is replaced by new language. This language provides that if the Settlement Agreement (or section 4(a), section 4(c), or section 5 of that Agreement) is finally determined to be invalid and PacifiCorp does not notify BPA that the cash payments under Financial Settlement Agreement satisfy all of BPA's obligations under or arising out of section 5(c) of the Northwest Power Act as described in section 3(b)(1), then both Parties agree to negotiate in good faith a new, mutually acceptable agreement that would, until the end of its term, be in satisfaction of BPA's obligations under or arising out of section 5(c) of the Northwest Power Act. The term of the new agreement would continue for the remaining term of the Settlement Agreement.

3. Settlement Benefits

A new section 4(a)(1) of the Settlement Agreement eliminates BPA's obligation to provide firm power to PacifiCorp during the period from October 1, 2001, through September 30, 2006. This section reduces BPA's obligation to purchase 251 annual average MW of firm power in the wholesale market for a period of five years. BPA has substituted an obligation to make cash payments under the Financial Settlement Agreement. Sections 4(b)(1)(A), 4(b)(1)(B), and 4(b)(1)(C), which related to firm power deliveries under the Settlement Agreement from October 1, 2001, through September 30, 2006, were deleted.

Section 4(a) of Exhibit A of the Settlement Agreement (Contract No. 01PB-12230) is amended to eliminate BPA's obligation to make firm power available to PacifiCorp under its Firm Block Power Sales Agreement during the period from October 1, 2001, through September 30, 2006.

4. Termination of Amendment No. 1

Section 3 of Amendment No. 1 provides that if BPA does not adopt the Partial Stipulation and Settlement Agreement in BPA's WP-02 Wholesale Power Rate proceeding, then PacifiCorp may, upon written notice to BPA prior to September 1, 2001, terminate both Amendment No. 1 and the Financial Settlement Agreement. This provision addresses PacifiCorp's concern that BPA's proposed wholesale power rates may not turn out consistent with a settlement agreement that BPA staff and many customers agreed to in BPA's Supplemental Proposal. In such case, PacifiCorp would not be willing to agree to the terms of Amendment No. 1 and the Financial Settlement Agreement.

II. FINANCIAL BENEFITS SETTLEMENT

The Northwest Power Act establishes a Residential Exchange Program to provide benefits to residential and small farm consumers of Pacific Northwest utilities. Also, BPA implements the REP through the offer, when requested, of a Residential Purchase and Sale Agreement. On October 31, 2000, BPA and PacifiCorp entered into Contract No. 01PB-12229 (the "Settlement Agreement"), which provides, among other things, for BPA to provide PacifiCorp with Firm Power and Monetary Benefits to settle the REP. The term of the Settlement Agreement continues through September 30, 2011. Since the execution of the Settlement Agreement, BPA and PacifiCorp have agreed that BPA will, rather than deliver firm power to PacifiCorp for the first 5 years of the Settlement Agreement, make cash payments to PacifiCorp during the period that begins October 1, 2001, and ends on September 30, 2006. The cash payments in lieu of firm power deliveries under the Settlement Agreement will be as provided for under the Financial Settlement Agreement. The Parties will also simultaneously execute an amendment to the Settlement Agreement that removes BPA's obligation to deliver Firm Power during the first 5 years of the Settlement Agreement.

A number of issues arose during the negotiation of the Financial Benefits Agreement. The reasoning supporting the resolution of these issues is addressed below.

A. TERM

As noted previously, the intent of the Agreement is to provide PacifiCorp cash payments in lieu of firm power deliveries under the Settlement Agreement for the first five years of that agreement. Therefore, the Agreement takes effect on the date signed by the Parties. Performance of the Agreement begins on July 1, 2001, and continues through September 30, 2006, unless terminated prior to that date. Even though cash payments under the Agreement do not start until October 1, 2001, the parties recognized that PacifiCorp may start implementation of the passthrough requirements of the Agreement as early as July 1, 2001.

B. DEFINITIONS

The Parties agreed to certain defined terms in order to implement the Agreement. These terms are generally consistent with the defined terms in the Settlement Agreement.

C. SATISFACTION OF SECTION 5(c) OBLIGATIONS

1. Satisfaction of Section 5(c) Obligations

The purpose of the Agreement is to provide PacifiCorp with financial benefits in order to settle PacifiCorp's rights to participate in the REP during the period from October 1, 2001, through September 30, 2006. Part of the financial benefits are provided in lieu of power under the Settlement Agreement, and part of the financial benefits are the Monetary Benefits PacifiCorp receives under the Settlement Agreement. Therefore, the Agreement provides that BPA will provide PacifiCorp: (1) cash payments for that period (as discussed in greater detail below regarding section 4 of the Agreement); and (2) Monetary Benefit payments during that period under the Settlement Agreement, as amended. These payments will comprise full and complete satisfaction of all of BPA's obligations during the above-noted period under or arising out of the REP, which is established in section 5(c) of the Northwest Power Act. PacifiCorp, in turn, agrees that the foregoing payments and benefits provided under the Agreement and the Settlement Agreement satisfy all of BPA's obligations regarding the REP for the noted period.

2. Invalidity

The Parties have worked diligently to ensure that the Settlement Agreement and this Agreement are legally sound and will be effective for their respective terms. Some BPA customers, however, have been extremely litigious regarding the implementation of BPA's Power Subscription Strategy. Given this environment, an invalidity provision addresses the possibility, hopefully slight, that a challenge might render the agreements invalid. Section 3(b)(1) of the Agreement provides that in such an event, PacifiCorp can make an election. First, PacifiCorp can provide written notice to BPA within 30 days that the Monetary Benefits provided under the Settlement Agreement satisfy all of BPA's obligations under or arising out of section 5(c) of the Northwest Power Act during the period following the court's ruling through September 30, 2006. Alternatively, if PacifiCorp provides no notice, BPA and PacifiCorp agree that the provisions of section 3(a), which establish the satisfaction of BPA's section 5(c) obligations, will be of no further force or effect.

Section 3(b)(1) also provides that in the event of the court's above-noted final determination, the Parties intend that the cash payments pursuant to section 4, and the Monetary Benefits provided prior to the court's such final determination, should be retained by PacifiCorp, to the maximum extent permitted by law. Also, the satisfaction of BPA's obligations to PacifiCorp under section 5(c) of the Northwest Power Act prior to the court's final determination should be preserved, to the maximum extent permitted by law. This would avoid a difficult and complicated process of determining a new agreement and retroactively implementing changes to the benefits for that period. Additional difficulties would lie in the ability of PacifiCorp and the state public utility commissions to implement such changes without creating potential economic harm to consumers. In addition, section 3(b)(1) provides that it is severable and would continue in effect in the event that any other provision of the Agreement was found invalid.

Section 3(b)(2) of the Agreement addresses the potential invalidity of the Settlement Agreement. This provision is very similar to section 3(b)(1). In the event the court finally determined that the Settlement Agreement (or the payment of Monetary Benefits under the Settlement Agreement) was void, then PacifiCorp has two options. First, PacifiCorp could provide written notice to BPA within 30 calendar days that the cash payments provided under section 4 of this Agreement satisfy all of BPA's obligations under section 5(c) of the Northwest Power Act during the period following the court's final determination through September 30, 2006. Alternatively, if PacifiCorp provides no notice, BPA and PacifiCorp agree that the provisions of section 3(a) of the Agreement would be of no further force or effect. Section 3(b)(2) also includes the same provisions noted in the preceding paragraph.

Section 3(b)(3) of the Agreement provides that if the Agreement (or payment under section 4 of the Agreement) were finally determined to be unlawful, void, or unenforceable, and PacifiCorp did not notify BPA that the Monetary Benefits provided under the Settlement Agreement satisfy all of BPA's obligations under or arising out of section 5(c) of the Northwest Power Act as described in section 3(b)(1), then both Parties agree to negotiate in good faith a new, mutually acceptable agreement that would, until the end of its term, be in satisfaction of BPA's obligations under or arising out of section 5(c) of the Northwest Power Act. The term of such new agreement would continue for the remaining term of the Agreement.

D. CASH PAYMENTS

BPA has negotiated cash payments to PacifiCorp for two different time periods. During the first year of the Agreement, from October 1, 2001, through September 30, 2002, BPA has negotiated a cash payment based on two different principles. Under the first principle, PacifiCorp has agreed to reduce BPA's obligation to deliver firm power by 10% (or 25 annual aMW) in exchange for a cash payment of $20 per MWh. This payment is substantially below the market value for a one-year purchase of firm power from the wholesale market and represents PacifiCorp's contribution to the regional effort to reduce BPA's wholesale rate increase. This reduced payment is contingent on BPA's other customers contributing to the regional effort as further described below in the section on load reduction contingency. If the contingencies in the load reduction provisions occur, this payment will increase to $38 per MWh.

The balance of the first year payment for the remaining 226 annual aMW of firm power and the payments for the remaining four years for 251 annual aMW is based on a cash payment of either $38 or $45.49 per MWh depending on the results of settlement discussions among PacifiCorp and BPA's public agency customers. This payment reflects the value to BPA of avoiding a purchase of wholesale firm power for a five-year period.

During the one-month period of negotiation of this Agreement, the market price for five-year purchases of firm power has varied between $100 per MWh and $75 per MWh, reflecting the current high and volatile market prices. If BPA had supplied firm power to PacifiCorp, BPA forecasts that the rate paid by PacifiCorp would average between $28-$38 per MWh depending on market prices and assumptions made about BPA's success in reducing its wholesale rates through the current regional effort. BPA believes that the payment to PacifiCorp is a reasonable payment by BPA to avoid a purchase in the wholesale market and a subsequent sale by BPA to PacifiCorp.

A number of BPA's customers have filed legal challenges of BPA's Settlement Agreements with investor-owned utilities. PacifiCorp has agreed in this Financial Settlement Agreement that it will agree to a reduction in its cash payment to $38 per MWh if any of BPA's publicly-owned and cooperative customers enter into a settlement agreement regarding challenges to the BPA actions that provide benefits to the residential and small farm customers of PacifiCorp. PacifiCorp may choose which customers and which claims it will settle, but agrees to reduce the cash payments from BPA if it settles any claim with any publicly-owned or cooperative customer to any of the following: (1) the Settlement Agreement; (2) this Agreement; (3) the Residential Purchase and Sale Agreement Record of Decision (ROD); (4) the Power Subscription Strategy RODs, including the Residential Exchange Program Settlement ROD; and (5) the application of the 7(b)(2) surcharge to BPA's WP-02 rates.

1. Cash Payment Adjustments Due to Application of Safety Net Cost Recovery Adjustment Clause (SN CRAC) and Dividend Distribution Clause (DDC) to BPA Firm Power Sales

BPA has negotiated one exception to the cash payment it makes to PacifiCorp under this Agreement. BPA's wholesale power rates include an SN CRAC. The SN CRAC is designed to ensure that BPA can cover its costs as soon as possible if BPA fails to meet one of its Treasury payments. If BPA is in a situation where it must impose the SN CRAC under its wholesale power rates, BPA will reduce its monthly payments to PacifiCorp under this Agreement. BPA's monthly payments would be reduced in the same amount as the increase in rates to BPA's preference customers under the SN CRAC for the amount of firm power that BPA has converted to cash payments under the Agreement. This provision ensures that PacifiCorp's residential and small farm customers share in the resolution of any emergency that threatens BPA's ability to recover its costs.

BPA's wholesale rates also include a DDC. The DDC is designed to return money to BPA's wholesale power customers if market and other conditions result in BPA's cash reserves reaching certain levels. BPA has agreed that it will make an offsetting adjustment to PacifiCorp's monthly payments if BPA has made payments to its firm power customers under the DDC. These increased payments are only made after DDC payments made to firm power customers and are limited to the amount of any reduction in payments due to imposition of the SN CRAC.

(a) Adjustment to Cash Payments Resulting from SN CRAC and SN CRAC Balancing Account

This section of the Agreement calculates the reduction in the monthly payment to PacifiCorp under the Agreement in the event that BPA imposes an SN CRAC on its firm power customers. BPA records the amount of any such reductions in an SN CRAC Account.

(b) DDC Balancing Account

This section determines if BPA has made DDC payments to its firm power customers. BPA records the amount it would have paid a preference customer for 226 aMW of power in Contract Year 2002 and 251 aMW in each year of Contract Years 2003-2006. BPA records such amount in a DDC Account.

(c) Adjustment to Cash Payments Resulting from Amounts in SN CRAC Account and DDC Account

There are three situations where BPA increases the monthly payment to PacifiCorp to reflect reduced payments from imposition of an SN CRAC. The first situation occurs when BPA has imposed an SN CRAC and then makes a DDC payment at a later date. BPA has agreed that it will increase the cash payment under this Agreement within nine months of the first DDC payment for a period of six months. The increased payments are designed to return any reduction in payments recorded in the SN CRAC account up to the amounts recorded in the DDC Account.

The second situation occurs when BPA imposes an SN CRAC after BPA has made DDC payments at an earlier date. BPA has agreed that it will increase the cash payment under this Agreement within nine months of the SN CRAC reduction for a period of six months. The increased payments are designed to return any reduction in payments recorded in the SN CRAC Account up to the amounts recorded in the DDC Account.

The third situation occurs when BPA has increased PacifiCorp's payment for a six-month period. BPA agrees to increase the monthly payments for the next six month period as necessary to bring the balance in the SN CRAC Account or the DDC Account to zero, whichever is smaller. BPA agrees that it will make payments for the remainder of any six-month period that extends beyond the end of the Agreement, if necessary.

2. Payment Provisions

This section of the Agreement provides that BPA will pay PacifiCorp the monthly cash payments as determined in sections 4(a), 4(b), and 4(c) within 30 days of the end of the calendar month for which cash payments are due (Due Date). After the Due Date, a late payment charge is calculated at a prescribed rate. This section also provides that BPA will pay by electronic funds transfer using PacifiCorp's established procedures.

3. Load Reduction Contingency

When BPA proposed that its customers all contribute to BPA's rate reduction efforts, a number of customers and other interested stakeholders requested that BPA include a provision that ensured that any single customer would not be the only customer modifying its contract to reduce its obligation on BPA. BPA agreed to include a load reduction contingency provision that operated to terminate the customer's obligation to BPA if certain contingencies occurred. BPA has offered to include this provision in all of its rate reduction contracts where customers are taking actions that are valued below their market value. Under the Financial Settlement Agreement, BPA's payment to PacifiCorp will increase from \$20 to \$38 per MWh if any of the contingencies occur on the effective date for the particular contingency. These contingency provisions only apply to payments during the period from October 1, 2001, until September 30, 2002. Any contingencies that are effective after that date will have no effect on payments to PacifiCorp.

The first contingency is whether BPA adopts the proposed rate case settlement entered into by the Joint Customer Group and BPA staff. If the Administrator elects to not adopt that settlement in his final decisions in Docket No. WP-02, the load reduction contingency occurs and the payments to PacifiCorp will increase effective October 1, 2001. Under such settlement proposal, BPA would implement a Load Based Cost Recovery Adjustment Clause (LB CRAC) that assumes that BPA will purchase from the wholesale market any remaining amounts of power needed to augment BPA's system to serve its Subscription obligations.

The second contingency is whether BPA achieves a sufficient amount of rate reduction agreements with its public agency, investor-owned utility and direct service industrial customers during the first six-month period of the LB CRAC calculation. The second contingency measures the amount of purchases BPA makes from the market in the LB CRAC calculation excluding purchases from BPA's public agency, investor-owned utility and direct service industrial customers during the period from April 10, 2001, through the calculation of the LB CRAC in late June. If BPA does not achieve approximately 1450 aMW over the initial six-month period in reductions of market purchases, the load reduction contingency occurs and payments to PacifiCorp will increase effective on October 1. This provision assures any individual customer that they are not the only customer participating.

The third contingency is whether BPA achieves a sufficient amount of rate reduction agreements with its public agency, investor-owned utility and direct service industrial customers during the second six-month period of the LB CRAC calculation. The third contingency measures the amount of purchases BPA makes from the market in the LB CRAC calculation excluding purchases from BPA's public agency, investor-owned utility and direct service industrial customers during the period from April 10, 2001, through the calculation of the LB CRAC in late June and extensions of purchases with such customers entered into prior to April 10, 2001. If BPA does not achieve approximately 1250 aMW over the second six-month period in reductions of market purchases, the load reduction contingency occurs and payments to PacifiCorp will increase effective on April 1. This provision assures any individual customer that they are not the only customer participating during this period.

The fourth contingency measures the end of the load reduction emergency by examining the amount of direct service industrial load BPA forecasts to serve in its calculation of the LB CRAC. If the forecast amount of direct service industrial load exceeds 400 aMW per month over the six month period of a LB CRAC calculation, the load reduction contingency occurs and payments to PacifiCorp will increase at the start of the six month period included in the calculation of the LB CRAC.

The fifth contingency measures the end of the load reduction emergency by examining the actual amount of direct service industrial load served by BPA. Once BPA starts serving more than 400 aMW per month during any six-month period, the load reduction contingency occurs and payments to PacifiCorp will increase at the start of the month following the determination.

4. No Other Adjustments to Cash Payments

Section 4(f) of the Agreement clarifies that except as provided in sections 4(a), 4(b), 4(c), and 4(e), there are no other adjustments to the cash payment amounts under the Agreement.

E. PASSTHROUGH OF BENEFITS

Section 5(c)(3) of the Northwest Power Act provides that the benefits of the REP are to be passed through directly to a utility's residential loads within a State. 16 U.S.C. § 839c(c)(3). Similarly, the Parties provide that the benefits from the Settlement Agreement and the Agreement be passed through in such a manner. Section 5 of the Agreement therefore provides that, except as otherwise provided in the Agreement, cash payment amounts received by PacifiCorp from BPA under the Agreement must be passed through, in full, to each residential and small farm consumer, as either (1) monetary payments, or (2) as otherwise directed by the applicable State regulatory authority. BPA has audit rights, as provided in section 6 of the Agreement to ensure that, even if benefits are passed through as directed by the applicable state regulatory authority, BPA can require that benefits only be passed through to eligible Residential Load. Section 5(b) of the Agreement ensures that cash benefits under the Agreement must be distributed to PacifiCorp's Residential Load in a timely manner. This is accomplished by providing that the amount of benefits held in an account will not exceed the expected receipt of monetary payments from BPA under the Agreement over the next 180 days. If the annual monetary payment is less than $600,000, section 5(b) permits PacifiCorp to distribute benefits on a less frequent basis provided that distributions are made at least once each contract year. Section 5(c) of the Agreement provides that the benefits will be passed through consistent with procedures developed by PacifiCorp's State regulatory authority(s). Cash payments under the Agreement will be identified on PacifiCorp's books of account in order that such benefits can be easily tracked. In addition, funds will be held in an interest bearing account, and will be maintained as restricted funds, unavailable for the operating or working capital needs of PacifiCorp. Also, benefits will not be pooled with other monies of PacifiCorp for short-term investment purposes. These provisions ensure that benefits will be provided only to PacifiCorp's residential and small farm consumers. Section 5(d) provides that cash benefits under this Agreement can be used for the buydown of residential and small farm loads. This allows PacifiCorp's residential and small farm consumers to receive the benefits of the Settlement and also allows PacifiCorp to assist the region in reducing its market purchases that lead to higher rates.

F. AUDIT RIGHTS

Section 6 of the Agreement establishes audit rights that are virtual identical to the audit rights in the Settlement Agreement. Basically, BPA retains the right to audit PacifiCorp at BPA's expense to determine whether the benefits provided to PacifiCorp under the Agreement were provided only to PacifiCorp's eligible Residential Load. BPA retains the right to take action consistent with the results of the audit to require the passthrough of benefits to eligible Residential Load. BPA's right to conduct audits of PacifiCorp with respect to a Contract Year expires 60 months after the end of the Contract Year. As long as BPA has the right to audit PacifiCorp under the Agreement, PacifiCorp will maintain all relevant records.

G. ASSIGNMENT

Section 7 of the Agreement addresses the assignment of the benefits of the Agreement. This section reflects the need for flexibility in the provision of benefits to PacifiCorp's residential and small farm customers in light of the uncertainty of the energy industry regarding deregulation or other efforts that could restructure state retail electric service. These provisions are virtually identical to the assignment provisions in the Settlement Agreement. Section 7(a) requires PacifiCorp to assign benefits to BPA if a Qualified Entity serves Residential Load formerly served by PacifiCorp (unless BPA has approved an agency agreement for such Qualified Entity), or BPA has approved a state program for the passthrough of benefits by a distribution utility.

Section 7(b) of the Agreement provides that the Agreement is binding on any successors and assigns of the Parties, but that neither Party may otherwise transfer or assign this Agreement without the other Party's written consent. Such consent cannot be unreasonably withheld, provided that PacifiCorp agrees it will assign benefits under this Agreement subject to the following terms and conditions: (1) PacifiCorp will quantify an amount of Residential Load each month served by Qualified Entities that would have been eligible to receive benefits if served by PacifiCorp, and provide written notice of such amount to BPA; (2) PacifiCorp will assign to BPA during the month following such notice a share of the total benefits, whether or not PacifiCorp continues to serve such Residential Load. The Residential Load of PacifiCorp will not include Residential Load receiving benefits over a new distribution system; (3) If the passthrough of benefits is made to consumers with PacifiCorp acting as agent, then PacifiCorp will retain the cash payments assigned to BPA and use such cash payments to provide benefits to individual residential and small farm consumers.

Section 7(c) of the Agreement provides that PacifiCorp may continue to pass through benefits to individual residential and small farm consumers under this Agreement not served by PacifiCorp if (i) PacifiCorp is acting as the agent under an agreement entered into between PacifiCorp and a Qualified Entity which has been approved by PacifiCorp's applicable state regulatory authority and BPA; or (ii) BPA has approved a program developed by the applicable state regulatory authority providing for the passthrough of benefits received by PacifiCorp under the Agreement to all its residential and small farm consumers acting in its capacity as a distribution utility.

Section 7(d) of the Agreement provides that if a Qualified Entity eligible to purchase firm power under section 5(b) of the Northwest Power Act acquires all or a portion of the distribution system serving the Residential Load of PacifiCorp, PacifiCorp will assign a share of the total benefits to BPA for the remaining term of the Agreement.

H. CONSERVATION AND RENEWABLES DISCOUNT

The rates contained in BPA's May Proposal include a Conservation and Renewables Discount (C&R Discount). The C&R Discount is designed to encourage the development of conservation and renewable energy resources. Section 8 of the Agreement addresses how the C&R Discount will apply to the cash benefits provided to PacifiCorp. Subject to the terms specified in BPA's applicable Wholesale Power Rate Schedules, including GRSPs, BPA will pay PacifiCorp an amount equal to the C&R Discount for 251 aMW for each Contract Year during the October 1, 2001, through September 30, 2006, period, unless PacifiCorp has notified BPA's Power Business Line (PBL) before August 1, 2001, that it will not participate in the C&R Discount. This is to ensure that PacifiCorp's residential and small farm consumers will retain the benefits they would have received if PacifiCorp had provided power benefits instead of cash benefits. Where PacifiCorp is willing to assist BPA's rate mitigation efforts by receiving cash benefits instead of power, PacifiCorp should not be penalized for such actions.

To retain the full amount of the C&R Discount, PacifiCorp must satisfy all obligations associated with the C&R Discount as specified in BPA's applicable Wholesale Power Rate Schedules, including GRSPs, and the C&R Discount implementation manual. PacifiCorp will reimburse BPA for any amount it received but for which it did not satisfy such obligations.

I. GOVERNING LAW AND DISPUTE RESOLUTION

Section 9 of the Agreement addresses the law governing the Agreement and the manner in which disputes under the Agreement will be resolved. This section is virtually identical to the governing law and dispute resolution section of the Settlement Agreement. In summary, the Agreement will be interpreted consistent with and governed by Federal law. Final actions subject to section 9(e) of the Northwest Power Act are not subject to binding arbitration and shall remain within the exclusive jurisdiction of the United States Ninth Circuit Court of Appeals. Any dispute regarding any rights of the Parties under any BPA policy, including the implementation of such policy, shall not be subject to arbitration under this Agreement. Other contract disputes or contract issues between the Parties arising out of this Agreement will be subject to binding arbitration. The Parties will make a good faith effort to resolve such disputes before initiating arbitration proceedings. During arbitration, the Parties will continue performance under this Agreement pending resolution of the dispute, unless to do so would be impossible or impracticable.

J. NOTICE PROVIDED TO RESIDENTIAL AND SMALL FARM CUSTOMERS

Section 10 of the Agreement provides that PacifiCorp will ensure that any entity that issues customer bills to PacifiCorp's residential and small farm consumers will provide written notice on such customer bills that their benefits are "Federal Columbia River Benefits supplied by BPA."

K. STANDARD PROVISIONS

Section 11 of the Agreement includes a number of standard contract provisions. These provisions are virtually identical to those in the Settlement Agreement. These provisions include a requirement for a written instrument to amend the Agreement; conditions governing the exchange of information and the confidentiality of such information; a provision that Agreement constitutes the entire agreement between the Parties; a provision that incorporates the exhibits into the Agreement by reference; a provision that no other person is a direct or indirect legal beneficiary of, or has any direct or indirect cause of action or claim in connection with the Agreement; and a provision providing that any waiver at any time by either Party to the Agreement of its rights under the Agreement will with respect to any default or any other matter arising in connection with this Agreement shall not be considered a waiver with respect to any subsequent default or matter.

L. TERMINATION OF AGREEMENT

Section 12 of the Agreement address termination of the Agreement. Basically, if BPA does not adopt the Partial Stipulation and Settlement Agreement in the WP-02 Wholesale Power Rate proceeding, then PacifiCorp may, prior to September 1, 2001, and upon written notice to BPA, terminate the Agreement and Amendment No. 1 to the Settlement Agreement.

M. SIGNATURES

Section 13 provides that each signatory represents that he or she is authorized to enter into this Agreement on behalf of the Party for whom he or she signs.

CONCLUSION

The BPA Administrator has delegated the authority to execute Amendment No. 1 to the Settlement Agreement, and the Financial Settlement Agreement, to the BPA Account Executives for the respective investor-owned utilities. I have reviewed and evaluated the record compiled by BPA on the foregoing issues regarding BPA's Amendment No. 1 to the Settlement Agreement, and the Financial Settlement Agreement. Based upon the record compiled in this proceeding, the decisions expressed herein, and all requirements of law, I hereby adopt Amendment No. 1 to the Settlement Agreement, and the Financial Settlement Agreement. The evaluations and decisions used in the development of Amendment No. 1 to the Settlement Agreement, and the Financial Settlement Agreement, are consistent with the environmental analysis conducted for BPA's 1998 Power Subscription Strategy, BPA's Power Subscription Strategy NEPA ROD, BPA's Business Plan EIS and BPA's Business Plan ROD.

Issued at Portland, Oregon, this 23rd day of May, 2001.

/s/ Mark E. Miller

Account Executive

PR 42 01

FOR IMMEDIATE RELEASE:
THURSDAY, May 24, 2001

CONTACT: Ed Mosey, BPA (503) 230-5131
Jan Mitchell, PacifiCorp (503) 813-7281

PacifiCorp reduces its take of federal power

Helps region through energy crisis – Move ensures BPA benefits continue for PacifiCorp's residential customers

PORTLAND, Ore. – Efforts to reduce a potential triple-digit increase in BPA's wholesale electricity rates are beginning to pay off. PacifiCorp and the Bonneville Power Administration today announced the first agreement by an investor-owned utility to reduce load (electricity demand) on BPA for the five-year rate period beginning this October. Under the agreement, PacifiCorp has released BPA from its commitment to sell the company 251 average megawatts each year for the next five years.

"PacifiCorp is the first investor-owned utility to step up in a big way to help the region ensure economic stability," BPA's acting administrator, Steve Wright, said. "This is a very important step toward reducing the rate increase, and we are optimistic that other investor-owned utilities in the Northwest will make comparable commitments."

"This is good news for our customers, for BPA and the region," said Matthew Wright, senior vice president of PacifiCorp. "With this agreement, we're doing our part to help address the impact of the extremely volatile power market on the region's economy. At the same time, our residential and small farm customers will receive a significant increase in benefits from the BPA system compared to the last five years. We appreciate the support we've received from utility regulators in Oregon, Idaho and Washington in completing this arrangement."

-more-

Previously, BPA had agreed to provide 251 average megawatts of firm power for PacifiCorp's residential and small farm customers. Under the new agreement, BPA will instead make a cash payment to PacifiCorp that will maintain benefits to the company's residential and small farm customers. In effect, PacifiCorp has agreed to a cash settlement under BPA's residential exchange program. The arrangement helps BPA avoid power purchases in an expensive market, which would have driven BPA rates up significantly higher.

"This BPA/PacifiCorp agreement will help bring some needed stability to the regional power picture and will work to keep rate increases down for customers of both entities," said Roy Hemmingway, chairman of the Oregon Public Utility Commission.

Roger Hamilton, OPUC commissioner, concurred, "This agreement represents a willingness of BPA and PacifiCorp to give and take to arrive at the best deal for their customers under the circumstances of dramatic increases in wholesale prices."

In keeping with BPA's call for a 10 percent reduction in power demand on BPA, PacifiCorp has agreed to a reduction in its first year cash benefits financially equivalent to BPA's offerings to other utilities willing to reduce loads. BPA is still hoping that the remaining five Northwest investor-owned utilities will reduce their portions of BPA power by 10 percent. It also is urging its 129 public utility customers to collectively match this 10 percent load reduction. The goal is to keep loads down for the next two years so that BPA does not have to buy power in the expensive wholesale market, which could result in far higher electricity rates. BPA expects that within two years sufficient new generation will have come on line so that market prices stabilize.

"Negotiations are ongoing with all our customer groups," Wright said. "We hope that our recent load reduction agreements with several aluminum companies and now with PacifiCorp will serve as a catalyst for more agreements with other customers – and soon."

On April 9, BPA announced that the region's federal electricity system is headed for wholesale rate increases of 250 percent or more beginning October 1 unless BPA customers – the region's retail utilities and large industries – make commitments within the next 60 days to reduce energy use. BPA said that it is about 2,500 average megawatts short of meeting all the demand of its customers on October 1 when new power sales contracts take effect.

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Northwest Power Planning Council | **NewsRelease**

May 25, 2001

For immediate release

Contact: *Larry Cassidy, Chairman, 360-693-6951*
John Harrison, Information Officer, 503-22-5161

Power Planning Council analysis:
Region's response to crisis improves power supply,
But at a cost to employment and the environment

PORTLAND -- Emergency measures including industrial power curtailments, reduced water spills at dams and temporary generators are easing the Northwest's electricity shortage, but the crisis is not over, according to the latest analysis by the Northwest Power Planning Council.

Since 1999, the Council has been studying the Northwest and West Coast electricity supply and issuing periodic updates. The latest version of the analysis, which incorporates weather, water and power data through late April, shows that the current power supply, and the outlook for the future, is affected by a complex array of emergency and longer-term efforts. Briefly:

- Demand for power has declined significantly in recent months, but this is largely as the result of industrial cutbacks that have cost the region thousands of jobs.
- Federal dams on the Snake and Columbia rivers have generated additional power this spring by withholding water that would have been spilled to help juvenile salmon and steelhead migrate to the ocean. As a result, some reduction in the survival of fish migrating in the river -- those not transported downstream in barges -- is anticipated.
- Temporary generators have boosted the region's power supply, but these produce more air pollutants than other power plants.
- New natural gas-fired power plants in the Northwest will boost the West Coast power supply when they begin operating this summer and fall, but it is not clear that all of that power will be available to meet Northwest needs.
- The Northwest has had some success with new energy conservation efforts and continued emphasis could produce much more savings..
- The region's system of high-voltage transmission lines is stressed by high demand and the addition of new power plants.

"The crisis is not over, but the situation -- at least for the summer -- has improved," Council Chairman Larry Cassidy said. "The sum of these efforts is that we think the region's power supply will be more reliable this year, and prices may be lower, but everyone should realize that much of the improved outlook comes by way of emergency actions that have cut jobs, curtailed fish operations at the dams, and compromised air quality. Short-term fixes are appropriate in times of crisis, but do not provide long-term, sustainable solutions for the region, which is our ultimate goal."

More than 1,900 megawatts of power, nearly enough for the cities of Portland and Seattle combined, will come online this year, and more is anticipated next year. In addition, the Bonneville Power Administration, the region's largest power supplier, has signed agreements with some of its customers to reduce their demand for power, and more agreements are expected. Many electric utilities in the region are doing the same thing.

-- More --

"It is critical that Bonneville and other regional utilities continue to negotiate these agreements, as load reductions will help reduce the cost of power and also lower future rate increases," Cassidy said.

Cassidy noted that 2001 remains an extremely dry year and that hydropower generation in the region remains far below average. In late April, the Council recommended the Bonneville Power Administration and U.S. Army Corps of Engineers spill water at John Day, The Dalles and Bonneville dams to help salmon and steelhead migrate, as long as reliability of the region's power supply would not be jeopardized. That is still the Council's position, Cassidy said.

"While the improved power supply may mean that more water can be spilled for fish, the reliability of the power system is critical. Even though conditions have improved, unanticipated power plant outages or increased demand for power could change the picture. So we must continue to be judicious about how our water and power are used," Cassidy said.

The Council's analysis suggests that the probability of a power shortfall next winter has been reduced from about 20 percent to 17 percent, but that is still more than three times the electricity industry standard.

"The region needs to continue improving energy efficiency and building the cleanest generating plants possible to meet future demand for power," Cassidy said.

Here are some brief details of the latest analysis:

- The analysis incorporates approximately 1,000 additional megawatts of load reduction across the summer months.
- The analysis incorporates approximately 500 megawatts of additional thermal generation across the summer and winter.
- The region should be able to meet load across the summer with some deviations from Biological Opinion hydropower operations early in the late spring and early summer, absent unanticipated power plant outages.
- It should be possible to store some hydro energy this summer to improve reliability next winter.
- The probability of having insufficient electricity to meet needs next winter drops to 17 percent, or under 12 percent with additional water storage in Canada.
- Factors that could worsen the outlook include:
    - New resources that do not come on line as anticipated;
    - Extended power plant outages that were not expected;
    - Expected load reductions that do not occur;
    - Generating resources located in the region are not fully available to meet Northwest demands.
    - Major transmission system problems.
- Factors that could improve the outlook include:
    - Increased precipitation over the rest of the year.
    - More new power plants.
    - More voluntary conservation.

For more information:

Public Affairs Division
851 S.W. Sixth Avenue, Suite 1100
Portland, OR 97204-1248

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

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PR 44 01

FOR IMMEDIATE RELEASE:
FRIDAY, May 25, 2001

CONTACT: Mike Hansen, BPA (503) 230-5131
Mick Shutt, Clark Public Utilities (360) 992-3238

One of region's largest PUDs steps up to reduce load

VANCOUVER, Wash. – The Bonneville Power Administration today announced that it has signed the first public utility load reduction agreement. Under the agreement, Clark Public Utilities will reduce its share of BPA power by 29.5 average megawatts for one year.

Steve Wright, acting BPA administrator, had praise for Clark, saying, "Clark is taking the lead among public utilities to help the region ensure economic stability. This is a very important step toward reducing the rate increase, and we hope that other public utilities will follow Clark's lead."

Wayne W. Nelson, Clark's CEO/general manager, said he was pleased to finalize the agreement with BPA. "It is very important that all of BPA's customers come together to help solve this problem," Nelson said. "If all customer groups contribute to the load reduction effort, we can have a huge impact on the cost of electricity for consumers in Clark county and throughout the Pacific Northwest."

The agreement was signed today by Nelson and Wright during a ceremony at Clark's headquarters in Vancouver, Wash.

Beginning in October, 295 of Clark's 530 average megawatt load will be served by BPA. As a result of today's signing, BPA will serve 29.5 fewer average megawatts of that load for one year. BPA will buy back the 29.5 average megawatts at a price roughly equivalent to its current preference rate.

-more-

BPA's goal is to find approximately 600 additional average megawatts of load reduction from its other 128 public utility customers. The goal is to keep loads down for the next two years so that BPA does not have to buy power in the expensive wholesale market, which could result in far higher electricity rates. BPA expects that within two years sufficient new generation will have come on line so that market prices stabilize.

"Negotiations are ongoing with all our customer groups," said Wright. "We hope that our recent load reduction agreements with several aluminum companies, PacifiCorp and now Clark will serve as catalysts to firming up additional agreements – and soon."

On April 9, BPA announced that the region's federal electricity system is headed for wholesale rate increases of 250 percent or more beginning October 1 unless customers – the region's retail utilities and large industries – make commitments to reduce energy use within the next 60 days

###

Insley, Gary - PTS-5

From: Roadman, Val - PL
Sent: Friday, May 25, 2001 9:54 AM
To: BROWN, BRENDA; BUSSE, PATTY; CICARELLI, ANDRES; Conley, Maureen; GOMEZ, GAILYNN; HANSEN, JOSEPH; HIRSCH, JON; O'SULLIVAN, KEVIN; PATRICK, TIMOTHY; RICKMAN, JANET; SCHIMMELS, NANCY; STEGE, GERALD; ADELMAN, ELEANOR; ANDERSON, ROBERT; BERMEJO, SARAH; GREENE, SHANNON; HOLLAND, MARILYN; MESA, PHILIP; PYRCH, KAREN; QUINATA, ANGELINA; RICHARDSON, CAROLYN; ROCKWOOD, THERESA; ROGHAIR, WALLACE; ROSSUS, ALEXANDER; SHINTANI, ANN; TANAGI, CAROLYN; VOLK, MICHELLE; WALKER, SUSAN; CLARK, HARRY; HANLON, DOUGLAS; HANSEN, MARY; HOBSON, CLAIRE; INSLEY, GARY; KLIPPSTEIN, JANET; MURRAY, DANA; WEDLUND JR, SPENCER
Cc: DeKlyen, Tom - PL; Dowty, Phyllis M - PL
Subject: FW: Council News Conference - Summer electric Reliability

Importance: High

-----Original Message-----
From: DeKlyen, Tom - PL
Sent: Friday, May 25, 2001 9:16 AM
To: Norman, Paul - P; Burns, Allen - PS-6; Delwiche, Gregory K - PG-5; MacKay, Bruce E - PGS; Whitney, Carolyn A - PL; Lamb, Therese B - PGP; CLARKE JR., STUART; ELIZALDE, John; EVANS, ELIZABETH; FITZSIMMONS, DAVID; FORMAN JR, CHARLES; LEBENS, JOHN; ONEAL, Paul; PYRCH, KAREN; REICH, GEORGE; ROCKWOOD, THERESA; WATTS, RUTH; WYKOFF, ANGELA; AHO, RODNEY; Beede, C.T. - PSE/Missoula; BLOYER, DANIEL; HUSTAD, KENNETH; ITAMI, RICHARD; KING, Larry; RETTENMUND, FREDERIC; SCHIMMELS, NANCY; TETNOWSKI, SONYA; THOMPSON, GARRY; UHRICH, JUDY; ANDERSON, BRENDA; BERWAGER, SYDNEY; DRAPER, ANNE; INSLEY, GARY; KITCHEN, Lawrence; LAMB, WILLIAM; LARSON, TERRY; LEATHLEY, KIMBERLY; LINN, YOUNG; MILLER, MARK; MILLS, DAVID; OLIVER, STEPHEN; WILSON, SCOTT; BALL, CRYSTAL; CUSTER, Cindy; EVANS, BARTON; HUNT, KAREN; Hustad, Carol; Kuntz, Gail; MORGADO, NICOLE; MORROW, ANNE; Reller, Mark; SEIFERT, ROGER; STIER, JEFFREY; SWEDO, ROBERT; TAVES, JOHN; WILLIAMS, JOHN; DOWTY, PHYLLIS; LEGARDE, LORENA; ROADMAN, VALERIE; ROEHM, JENNY; ALLISON, ANDREW; BERGER, MICHAEL; FOX, ROY; HACKER, KATHRYN; WELLSCHLAGER, JOHN; BOSS, YVONNE; ROSS, HOPE; EASTMAN, Darrell; SHANK, ROBERT; SMITH, JOHN; TAWNEY, PATRICIA
Cc: Larson, Cheryl - P; Palmer, Linda L - PS-6; Newton, Tiffany - PG-5; Hagen, Lola R - PGS-5; Atterbury, Laura M - PL-6; ERVAST, Yolanda; MONTAGUE, KAY; MOORE, LISA; PHELPS, JESSI; BOME, SUZANNE; WILSON, SARAH; CAGE, CANDACE; JEE, ROSE; POLENSKE, JUDITH; DEMARCO, CHRISTINA; HAGE, BONNIE; JAMES, LORENA; JONES, SHERON; WELCH, SHERYL
Subject: Council News Conference - Summer electric Reliability
Importance: High

The Northwest Power Planning Council will hold a news conference at 1 p.m. today to announce its analysis of summer electric reliability.

The analysis will say that, in general,

- reliability looks better now than earlier this year
- it looks better because of short-term extraordinary steps taken and **still needed** [load reduction and new generation.
- These short-term steps are not without consequences--for example, emergency hydro operations and probable air-quality issues (since most of the new gen is diesel)
- the electricity crisis is not over

The analysis is not complete, but tentatively, the Council is concluding that

- electricity supplies will be especially tight in May and June because thermal plants are down
- supplies look better in July and August
- because supplies look better than previously thought for July and August, under most conditions the Council expects to be able to store water in Arrow Reservoir for next winter, which is the first priority
- because supplies look better than previously thought, there may be some flexibility in the power system

Evans, Bart - KR-7C

From: Hustad, Carol S - KR/Spokane
Sent: Monday, June 18, 2001 9:58 AM
To: Evans, Bart - KR-7C
Subject: FW: [Fwd: Draft letter to BPA]

-----Original Message-----
From: Hunt, Karen - KR-7
Sent: Wednesday, May 23, 2001 12:29 PM
To: Hustad, Carol S - KR/Spokane
Subject: RE: [Fwd: Draft letter to BPA]

Carol: Please thank Tom for sharing. This is a good letter and we appreciate it. Steve is out of town until late this afternoon. I'd like to get his comments, but don't want to slow it down. I've made two changes in the second paragraph - so please forward them to Tom. Thanks, Karen

-----Original Message-----
From: Hustad, Carol S - KR/Spokane
Sent: Wednesday, May 23, 2001 11:18 AM
To: Hunt, Karen - KR-7
Cc: Hage, Bonnie - KR-7
Subject: FW: [Fwd: Draft letter to BPA]
Importance: High

Here it is!

-----Original Message-----
From: Tom Karier [mailto:Tom.Karier@mail.ewu edu]
Sent: Wednesday, May 23, 2001 10:58 AM
To: Carol Hustad
Subject: [Fwd: Draft letter to BPA]

What do you think of this?

DRAFT LETTER TO STEVE WRIGHT

Dear Steve,

We are writing in support of your plan to limit BPA rate increases. With hydro production down, with prices for wholesale power at unprecedented levels, and with new generation not coming on line fast enough to moderate prices in the short-term, we understand the need to act. Curtailments of aluminum company operations and cuts in utility purchases of federal power will impose significant costs, but a four-fold increase in BPA rates will do even greater harm to Northwest households and businesses.

It is imperative that the reductions in purchases of BPA power are ~~fairly~~ shared among customers and that we minimize the impacts of those reductions. We support a 10 percent reduction in purchases by all utilities – both private and public. ~~As you've said, this is an all-or-nothing game.~~ <u>This is certainly strong medicine for the region</u> and the only way for it to succeed is if all ~~utilities~~ <u>customer groups</u> pledge a comparable reduction.

We also strongly support your recent agreement with Alcoa regarding plant closures, and believe that agreement should serve as the template for your agreements with other aluminum companies. We also endorse compensating aluminum workers for their lost wages and benefits during the periods of plant closures.

One of the most beneficial actions we all can take to limit utility exposure to the wholesale market is to promote energy conservation over the coming months. We look forward to working with you to launch a campaign to encourage citizens and businesses to save energy.

If there is any other way we can help in your efforts to limit rate increases, please let us know.

Sincerely,

Governors of Northwest States

Evans, Bart - KR-7C

From: Hustad, Carol S - KR/Spokane
Sent: Monday, June 18, 2001 9:58 AM
To: Evans, Bart - KR-7C
Subject: FW: [Fwd: Draft letter to BPA]

Importance: High

Draft letter to BPA

-----Original Message-----
From: Hunt, Karen - KR-7
Sent: Wednesday, May 23, 2001 1:08 PM
To: Hustad, Carol S - KR/Spokane
Subject: FW: [Fwd: Draft letter to BPA]
Importance: High

Are her changes in here?

Bonnie

-----Original Message-----
From: Hustad, Carol S - KR/Spokane
Sent: Wednesday, May 23, 2001 11:18 AM
To: Hunt, Karen - KR-7
Cc: Hage, Bonnie - KR-7
Subject: FW: [Fwd: Draft letter to BPA]
Importance: High

Here it is!

-----Original Message-----
From: Tom Karier [mailto:Tom.Karier@mail.ewu.edu]
Sent: Wednesday, May 23, 2001 10:58 AM
To: Carol Hustad
Subject: [Fwd: Draft letter to BPA]

What do you think of this?

Evans, Bart - KR-7C

From: Grist, Charlie [CGrist@nwppc.org]
Sent: Tuesday, May 22, 2001 10:46 AM
To: Grace, Stan; Kempton, Jim; Karier, Tom
Cc: Curt Smitch (E-mail); Bob Nichols (E-mail); Michael Bogert (E-mail); Colin Yost (E-mail)
Subject: Draft letter to BPA

Rate Mitigation.doc

Gentlemen:

After being briefed by Steve Wright on his rate mitigation strategy, Governor Kitzhaber suggested to Steve, that he would like to show support for the effort by sending a letter. Governor Kitzhaber would like it if the all four governors could sign on. Here is a draft of such a letter for your consideration.

Eric is on vacation, so I agreed to collect comments, edits and other changes from each of you. I assume we can work this like we did with the previous attempt at a 4-governor letter. Please let me know, by close of business Wednesday, if your governors are inclined to sign on and what changes the letter needs.

Charlie Grist
503 229-5171

<<Rate Mitigation.doc>>

Bonneville Power Administration

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BONNEVILLE POWER ADMINISTRATION

BPA News Shorts

For energy and fish related developments within the region

May 30, 2001

Load reduction commitments at 55 percent of goal

Following its call for the region to reduce demand in order to lower the overall rate increase that will take effect Oct. 1, the Bonneville Power Administration announced today that the load-reduction count rose from 25 percent to 55 percent of the 1,900 average megawatt goal this week, as large public and investor-owned utilities and another aluminum company turned in their pledges. However, some of the load reduction commitments are contingent on other utilities stepping up to the plate. Four weeks remain for customers to get make their commitments and reduce BPA's fall rate increase. *(See individual items on this subject below.)*

Pacificorp first private utility to cut its BPA load

The Bonneville Power Administration and PacifiCorp jointly announced on May 25 that the investor-owned utility has released BPA from its commitment to sell the IOU 251 average megawatts a year for the next five years. Instead, BPA will make a cash payment to PacifiCorp that will maintain benefits to the company's residential and small farm customers. In keeping with BPA's call for a 10-percent reduction in demand on BPA, PacifiCorp will reduce its first-year cash benefits equivalent to BPA's offerings to other utilities willing to reduce loads. "PacifiCorp is the first investor-owned utility to step up in a big way to help the region ensure economic stability," said BPA Acting Administrator Steve Wright. "We are optimistic that other investor utilities will make comparable commitments." See the PacifiCorp/BPA press release.

Clark becomes first public utility to pledge load reduction

Clark Public Utilities has agreed to reduce its load on BPA by 29.5 average megawatts for a year, starting Oct. 1. It is the first large publicly owned utility to respond to BPA's load reduction request. "Clark is taking the lead among public utilities to help the region ensure economic stability. This is a very important step toward reducing the rate increase, and we hope that other public utilities will follow Clark's lead," said Steve Wright, BPA acting administrator, in a May 25 ceremony at Clark headquarters

Attachment 20

in Vancouver, Wash. "It is very important that all of BPA's customer groups come together to help solve this problem," responded Wayne W. Nelson, Clark's general manager. "If all customer groups contribute...we can have a huge impact on the cost of electricity for consumers." See the joint Clark/BPA press release for more information.

CFAC inks load reduction deal

As reported earlier, Columbia Falls Aluminum Company, located near Kalispell, Mont., and BPA have agreed on a curtailment of the plant's power supply from BPA for up to two years. The pact covers most of the 171 megawatts CFAC would purchase from BPA under a contract commencing Oct. 1, 2001. "This agreement provides a significant portion of the load reduction BPA needs to avoid very large rate increases this fall," said Steve Wright, acting administrator of BPA. BPA will fund affected workers' compensation while the potlines are idle. This is intended to help keep a workforce in the area so that the plant can restart when conditions allow, and to cushion the impact on the local economy. See BPA's press release for more information.

BPA considers rate adjustments every six months

The Bonneville Power Administration released a Draft Supplemental Record of Decision (ROD) on May 25 signaling that it may decide to include an adjustment to its wholesale base electricity rates every six months starting in October of this year. If adopted, the adjustment would be triggered by the cost of buying power in the extraordinarily expensive spot market.

The document does not contain actual rate adjustment numbers, but contains a formula and affords those participating in BPA's supplemental rate case an opportunity to provide comments. One decision BPA is considering in the draft supplemental ROD is a rejection of a proposal by aluminum companies for a tiered rate.

The preliminary percentage adjustments will be announced on June 6. Between June 6 and June 20, BPA will work with customers to achieve additional load reductions aimed at lowering the overall rate increase. The BPA administrator will issue the final Supplemental ROD on June 20. The final rate adjustment numbers will be released on June 29.

Rate case decision schedule

The draft power rate structure includes a load-based Cost Recovery Adjustment Clause, which is an adjustment to base rates. So there are actually two parallel decision paths. Here are the steps:

June 5: Rate case parties file legal briefs on the Draft Supplemental ROD.

June 6: BPA will hold a customer technical workshop with the preliminary numbers for the first six-month CRAC in draft form. The numbers will depend on customers' load-reduction commitments to that point and the state of the power market.

June 6 - 22: BPA will work with customers to achieve additional load reductions to minimize the rate increase.

June 20: The administrator will publish his decisions in the Final Supplemental ROD. This marks the

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end of the rate case, which has lasted three years. The supplemental record is then submitted to the Federal Energy Regulatory Commission for approval.

June 22: Deadline for customers to turn in their final load commitments to BPA. It is the last chance for customers to reduce their loads and the corresponding BPA costs for the first six-month period.

June 29: Given the new contract information and the state of the market, BPA will announce the final rate for the first six-months of the rate period.

Spill extended cautiously

The Bonneville Power Administration extended spill slightly to help juvenile fish pass dams, based on the Northwest Power Planning Council's new analysis. That analysis indicates that, while conditions are still tight this summer, the region's reliability picture is somewhat improved. This provides a little more flexibility in fish operations. As a result, BPA and the federal agencies have made an interim decision to add a small amount of spill at John Day and McNary dams. (Bonneville and The Dalles dams have already been spilling.) The spill started at 6 p.m. Friday, May 25. It will be 30 percent over 12 hours. There will be a re-evaluation of spill this week as the agencies expect to have a better handle on the Council's new analysis by then.

Acting Administrator Steve Wright stressed that BPA is still managing to both the short-term and long-term reliability standards, hence the cautious moves on spill. Biological benefits for the weekend's spill are supported by National Marine Fisheries Service analysis which indicates this is the peak of the juvenile migration. Also, the biological assessments indicate there are a number of fish in the John Day and McNary areas.

CAISO acknowledges BPA didn't manipulate market

The president of the California Independent System Operator last week sent a letter to BPA saying that the data supports BPA's claims that it did not seek to manipulate the California market to secure higher profits. BPA presented information to the CASIO to refute a recent CAISO filing with the Federal Energy Regulatory Commission that said BPA was among those power marketers that reaped excessive profits from the California energy crisis. CAISO conceded that flaws in the design of California's restructured electricity market were partly responsible for many of BPA's higher priced sales to California. Some other sales were based on offers made by CAISO staff that simply equaled the prevailing market price.

BPA plans 160 miles of new fiber-optic line

Starting in early June, the Bonneville Power Administration's Transmission Business Line will add about 160 miles of fiber-optic cable to its 230-kilovolt lines from Noxon to Kalispell across northwest MontanaThe link will upgrade transmission grid control and communication, and will improve generation controls for Hungry Horse and Libby dams to comply with North American Electric Reliability Council standards.

"The tough part is replacing an existing ground wire with an optical ground wire on a 20-mile double-circuit section. This construction will be done while one circuit is still energized," said Project Manager

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Frank Weintraub. A contractor will install the other 140 miles of fiber optic cable.

Power Planning Council releases preliminary winter analysis

While analysis for winter conditions is still incomplete, some preliminary analysis from the Northwest Power Planning Council suggests the probability of a power shortfall next winter has been reduced from about 20 percent to 17 percent (still more than three times the electricity industry standard). Given improvement in the summer outlook, the Council says it should be possible to store some hydro energy this summer to improve reliability next winter. If 1,500 megawatt months can be stored this year, it would reduce the probability of a shortfall to 12 percent or less. The Council pointed out that would require reductions in spill. The report also says that more than 1,900 megawatts of power (mostly gas-fired generation), will come on line this year, and more is anticipated next year. However, it is not clear that all of that power will be available to meet Northwest needs.

Factors that could worsen the outlook include:

- New resources that do not come on line as anticipated.
- Extended power plant outages that were not expected.
- Expected load reductions that do not occur.
- Generating resources located in the region are not fully available to meet Northwest demands.
- Major transmission system problems.

Factors that could improve the outlook include:

- Increased precipitation over the rest of the year.
- More new power plants.
- More voluntary conservation.

Tribal press release errs

The Columbia River Inter-Tribal Fish Commission reported in a press release issued Thursday, May 24, that BPA is selling power to California while fish die in the Columbia River, and that "evidence is piling up that BPA's self-declared emergency and reliability threat are not only dissipating but may have disappeared entirely."

To clarify the facts:

- BPA is not selling power to California except as required under long-term contracts, and, in the last two years, it has taken every legal opportunity to terminate these contracts or convert them to energy exchanges. BPA helps California only in ways that do not hurt Northwest reliability or fish.
- Flows may be increased out of Grand Coulee Dam because streamflows are so low. These short-term operations could result in some surplus power, and if so, it could be sold to California. However, the flow operations would be specifically to benefit fish.
- The streamflow forecast still stands at about 57 million-acre-feet, second worst on record for the Columbia River Basin.

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Folksinger honored on 60th anniversary of his work

Sixty years ago this month, folksinger and songwriter Woody Guthrie wrote 26 songs for the Bonneville Power Administration. BPA hired Guthrie for one month to produce music it would use in a film, "The Columbia." In a tribute at its Portland Headquarters May 24, BPA Acting Administrator Steve Wright unveiled a landscape tribute and the agency named its entrance "The Woody Guthrie Circle." For more information, view the BPA press release.

BPA wins "Family Friendly" award

In a ceremony held at the Oregon Museum of Science and Industry this month, the Bonneville Power Administration won the *2001 Families in Good Company* award in the "government employer" category. The statewide award honors Oregon employers who demonstrate community leadership in assisting employees in negotiating work and family responsibilities. BPA was selected from 42 companies and agencies for its many programs supporting families and children, health, education, community service and employee development. The agency will carry the "family-friendly" designation for the next two years. Portland General Electric, Children First for Oregon, Oregon Public Broadcasting, Oregon Business, Oregon AFL-CIO, Oregon Commission for Children & Families, *The Oregonian,* and several other private and public organizations sponsored the award.

BPA moves 75-ton locomotive

The Bonneville Power Administration provided equipment and manpower to help move the historic Baldwin #104 steam locomotive and its tender car from Simpson Park in North Bend, Ore., to the new Oregon Coast Historical Railway museum in Coos Bayon May 22. BPA brought "Big Bertha," its 250-ton, 80-wheel rigging trailer normally used to transport 500 kilovolt transformers, to haul the train. "This is a true community effort, not only for the BPA employees but also for the residents of Coos Bay and North Bend," said Eugene Resource Manager Adelmo de la Cruz. For details, check out BPA's press release.

Weather/Streamflows for the week

The weather in the Columbia River Basin for the week that ended May 23 was colder than normal the first four days and warmer than normal the last three days. Light precipitation fell in Canada and Montana on May 19 and the entire basin was dry the rest of the week. Natural stream flows at The Dalles increased from the previous week due to snowmelt.

Precipitation (above The Dalles Dam):

- 81 percent of average (May 1-22)
- 68 percent of average (Oct. 1 - May 22)

Reservoir status: Federal reservoirs were 40 percent full, compared to 45 percent of full capacity at this time last year. Natural streamflows (for the week ending May 23)

- Grand Coulee: 163,900 cubic feet per second (cfs); 56 percent of average
- Lower Granite: 82,100 cfs; 67 percent of average
- The Dalles: 276,700 cfs; 62 percent of average

External sources of snowpack, precipitation, volume and "final observed data": NW River Forecast Center, National Weather Service, Natural Resources Conservation Service.

News Shorts is edited by Barbara Canaday
For more information, please contact;
Ed Mosey at 503-230-5359 or
Mike Hansen at 503-230-4328

News Shorts archive page

Media Center Home

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JOURNAL

A MONTHLY PUBLICATION OF THE BONNEVILLE POWER ADMINISTRATION

June 2001

UTILITIES, DSIs AGREE TO CUT LOADS

Fewer than four weeks remain for BPA customers to make their commitments and reduce the agency's fall rate increase. As of Memorial Day, the region was more than half way to the load reductions needed to keep BPA's wholesale rate increase down to double digits. But, some of the agreements are contingent on meeting the entire target, so realizing these savings will depend on commitments from remaining customers. Here are some of the first signers.

Clark Public Utilities of Vancouver, Wash., committed to reducing its BPA load by 10 percent. "It is very important that all of BPA's customer groups come together to help solve this problem," said Wayne W. Nelson, Clark's general manager. "If all customer groups contribute...we can have a huge impact on the cost of electricity for consumers."

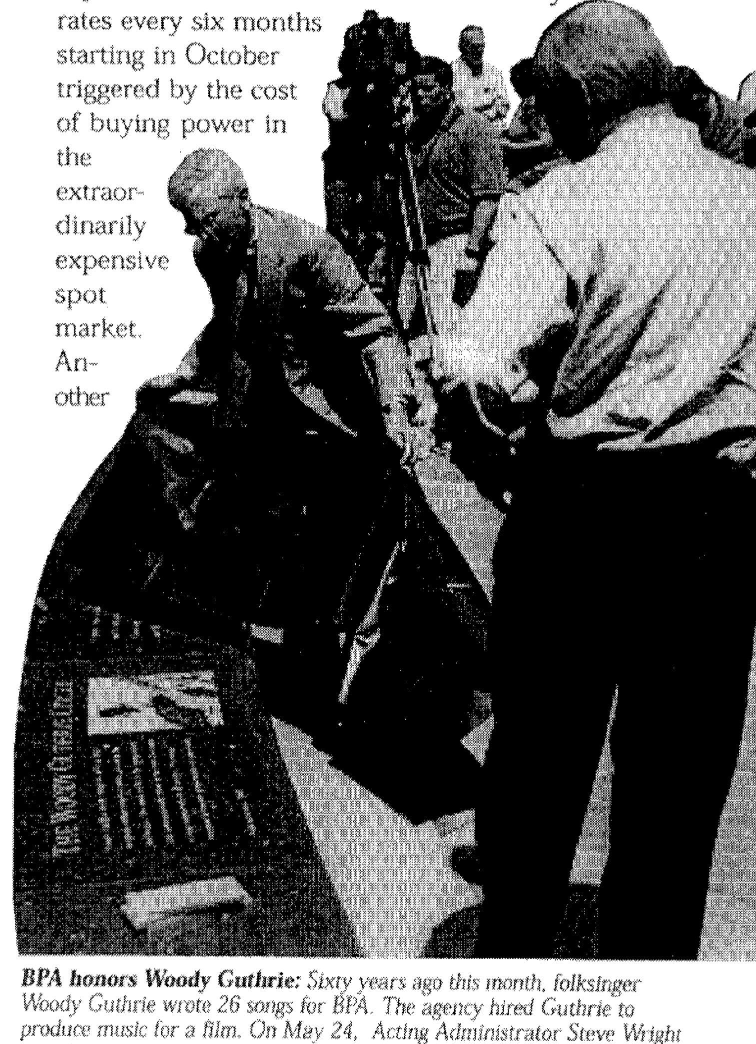
PacifiCorp, a Portland-based investor-owned utility, released BPA from its commitment to sell it 251 average megawatts a year for the next five years. Instead, BPA will make a cash payment to PacifiCorp that will maintain benefits to the company's residential and small farm customers. PacifiCorp will reduce its first-year cash benefits equivalent to BPA's offerings to other utilities to reduce loads. "We're doing our part to help address the impact of the extremely volatile power market on the region's economy," said Matthew Wright, a senior vice president of PacifiCorp. "At the same time, our residential and small-farm customers will receive a significant increase in benefits from the BPA system compared to the last five years."

ALCOA will curtail operations at its Ferndale (Intalco) plant, near Bellingham, Wash., by more than 400 megawatts for up to two years and compensate workers in the interim.

Columbia Falls Aluminum Company near Kalispell, Mont., will curtail most of the 171 megawatts it would purchase from BPA starting Oct. 1, 2001. "I commend both Alcoa and CFAC for making these commitments," said BPA Acting Administrator Steve Wright. "These agreements protect aluminum workers while holding down rates, thereby preserving many thousands of jobs in other industries throughout the region."

RATE CASE NEARS CONCLUSION

BPA released a Draft Supplemental Record of Decision on May 25. If adopted, it would include an adjustment of its wholesale base electricity rates every six months starting in October triggered by the cost of buying power in the extraordinarily expensive spot market. Another



BPA honors Woody Guthrie: *Sixty years ago this month, folksinger Woody Guthrie wrote 26 songs for BPA. The agency hired Guthrie to produce music for a film. On May 24, Acting Administrator Steve Wright unveiled a landscape tribute and named BPA's entrance "The Woody Guthrie Circle."*

BONNEVILLE POWER ADMINISTRATION

decision BPA is considering in the draft supplemental ROD is rejection of a proposal by aluminum companies for a tiered rate.

The draft supplemental ROD does not contain actual rate adjustment numbers, but contains a formula and affords those participating in BPA's supplemental rate case an opportunity to provide comments. BPA rates staff will announce preliminary percentage adjustments on June 6. Between June 6 and June 20, BPA will work with customers to achieve additional load reductions to achieve a lower overall increase. The BPA administrator will issue the final supplemental Rod on June 20. The final rate adjustment numbers will be released on June 29.

NW ACTIONS AVERT POWER CRISIS

The Northwest's power situation has eased somewhat for this summer thanks to the region's extraordinary short-term measures — industrial power curtailments, reduced water spills at dams and temporary generators. That was the finding of the Northwest Power Planning Council in late May. The council pointed out that these measures have had their own consequences. Industrial cutbacks have cost jobs. "Some reduction" (the council put it at 2 percent) in fish survival is expected. And, temporary generators, primarily diesel, add to air pollutants. Neither water nor market conditions have improved, the council said.

While analysis for winter conditions is still incomplete, preliminary work from the council suggests the probability of a power shortfall next winter has been reduced from about 20 percent to 17 percent. This is still more than three times the electricity industry standard.

SPILL HELPS MOST IN MAY

Most of the endangered or threatened young salmon that swim downstream through the Columbia River system do so in late April through early June. Therefore, biological benefits of spilling water past the dams (rather than through the turbines) is greatest during this time. Given that fact, BPA began a limited spill of 300 megwatt-months at Bonneville and The Dalles dams on May 16. After the Northwest Power Planning Council announced the success of the region's emergency power measures (see preceding story), the spill was cautiously continued through June 1 and expanded to add small amounts of spill at John Day and McNary dams. Federal, state and tribal fish and power managers continue to meet weekly to consider their next steps. The Columbia River streamflow forecast for this water year still stands at about 57 million-acre-feet, second worst on record.

BPA ADDS MORE FISH PROJECTS

BPA will fund 11 "high priority" projects to provide immediate aid to endangered salmon and steelhead in the Columbia Basin at about $15 million. Another four projects have received provisional approval and, if implemented, would add approximately $4 million to the budget. The projects, solicited by BPA and the Northwest Power Planning Council, can be implemented this year to begin providing immediate biological benefits to salmon and steelhead listed under the Endangered Species Act. These projects are in addition to the fish and wildlife projects already approved through the Northwest Power Planning Council's Fish and Wildlife Program, for which BPA has budgeted $127 million this year. They are also in addition to fish passage improvements at federal dams, the fish transportation program and other fish and wildlife efforts funded by BPA.

BPA also has received and is evaluating 60 proposals for actions to address adverse impacts on fish from emergency hydro operations this year.

SALES TO CALIFORNIA: ONLY WHEN IT DOESN'T HURT THE NORTHWEST

BPA is acutely aware of California's difficult power supply problem. BPA wants to provide what help it can to California as long as it does not harm the Northwest's ability to meet its own loads or worsen the effects of the drought on endangered fish.

BPA is not regularly selling power to California except as required under long-term contracts. Where contract terms allow, BPA has terminated these contracts or converted them to energy exchanges.

BPA does make short-term sales to California when there is water in the river that cannot be stored. BPA sold about 1,000 megawatts of electricity to California one weekend in early May when BPA needed to move more water out of Lake Roosevelt to meet minimum flow requirements in the Columbia River. That created a short-term surplus that BPA was able to sell on the open market.

At times, flows may be increased out of Grand Coulee Dam at the request of Northwest tribes because streamflows are so low. These short-term operations may result in some surplus power, and, if so, it may be sold to California. However, any such flow operations would be specifically to benefit fish.

BPA also will exchange energy with California as opportunities arise as long as California is able to return energy to the Northwest in a timely fashion so that Northwest ratepayers and rivers are not harmed.

BPA IN THE NATIONAL ENERGY POLICY

"The Administration should review the Bonneville Power Administration's capital and financing requirements in the context of its membership in a regional RTO (regional transmission organization), and if additional Treasury financing appears warranted or necessary in the future, the Administration should seek an increase in BPA's borrowing authority at that time." That's the sole specific reference to BPA in the president's National Energy Policy, released May 17. It refers to concern that BPA will exhaust its line of credit with the U.S. Treasury well before completing needed transmission and hydro efficiency improvements in the Federal Columbia River Power System. "Just having this mentioned in the president's plan is a big deal," Acting Administrator Steve Wright said in response. "Access to capital...is critical." The report further calls for federal utilities (including BPA) to determine whether transmission expansions are needed to remove constraints from the electric grid.

COLD DRINKS FOR LESS JUICE

So far, more than 60 utilities are participating in a BPA program to install a power control device known as a VendingMi$er on cold drink vending machines. Vending machines run around the clock. This device powers down all electrical components of the machine during inactive periods; a motion sensor detects people approaching and turns it back on. Tests performed by Coca Cola and Pepsi Cola show customers still get ice-cold drinks. Energy use is cut an average 46 percent. BPA expects to save enough energy to power up to 15,000 homes.

PUTTING DAMS IN A NEW LIGHT

BPA, the U.S. Army Corps of Engineers and the Bureau of Reclamation are installing energy efficient lighting and other conservation measures at Northwest federal dams. The project could save enough energy to serve as many as 2,400 households. Each of the region's federal dams has several galleries with a hundred or more 100-watt light fixtures that are always on. Replacing them with compact fluorescent lights on timers or occupancy sensors will produce big savings.

NUCLEAR PLANT REFUELS

The Columbia Generating Station nuclear plant began a refueling outage at midnight on May 18. Energy Northwest is trying for a record 29-day, 22-hour outage and is scheduled to return the plant to service on June 17. BPA arranged for power supplies to replace the 1,150-megawatt plant while it is off line. Originally, the plant had been scheduled for a mid-April outage, which was delayed to accommodate the region's power needs.

NORTHERN PIKEMINNOW SEASON OPENS

BPA will pay $4 to $6 per northern pikeminnow caught in the Columbia River this season. Since the fish eat young salmon and steelhead, controlling their numbers helps protect endangered fish. The sport-reward program is designed to control, not eradicate, the predators. Since 1990, sport-reward anglers have removed more than 1.5 million northern pikeminnows. Biologists estimate the program has cut predation on young salmon by about 25 percent. For details, see www.pikeminnow.org

PUBLIC INVOLVEMENT

STATUS REPORTS

Blackfeet Wind Project EIS. Mont. — To acquire 36-66 megawatts of electricity from the proposed wind project.

Coeur d'Alene Tribe (CDA) Trout Production Facility Project EA. Idaho — To fund design, construction, operation and maintenance of a facility to provide off-site mitigation for losses on the mainstem Columbia River.

Condon Wind Project EIS. Ore. — To acquire about 50 megawatts of electricity from the proposed Condon Wind Project.The draft EIS is available (#3376).

Fish and Wildlife Implementation Plan EIS. Regionwide — To examine potential impacts of implementing one of the fish and wildlife policy directions being considered in regional processes. Draft EIS is available (#0312).

Grande Ronde and Imnaha Spring Chinook Project EA. Ore. — To build egg incubation and juvenile rearing facilities next to the Lostine and Imnaha rivers and to modify the Gumboot adult collection facility and the Lookingglass Hatchery in partnership with the Nez Perce Tribe, Oregon Dept. of Fish and Wildlife and the Confederated Tribes of the Umatilla Indian Reservation.

Johnson Creek Artificial Propagation Enhancement EA. Idaho — Develop native chinook salmon broodstock for rearing of acclimated smolts to preserve and recover the population.

Kangley-Echo Lake Transmission Line Project EIS. Wash. — To build a 500-kV transmission line in King County to connect an existing transmission line near Kangley to Echo Lake Substation.

NEW! Maiden Wind Project EIS. Wash. — To acquire 150 to 494 megawatts of power from the proposed wind project.

McNary-John Day Transmission Line Project EIS. Ore. and Wash. — To build a new 500-kV transmission line from McNary Substation to John Day Substation.

NEW! Mercer Ranch Power Generation Project EIS. Wash. — To integrate an 850-megawatt natural-gas-fired combustion turbine 11 miles west of Paterson with BPA's transmission grid.

Resource Contingency Program EIS SA. Wash. — SA-02, Chehalis Generation Facility, and a ROD on Electrical Interconnection of the Chehalis Generation Facility are available.

Santiam-Bethel Transmission Line Project EA. Ore. — To rebuild a 17-mile section of the Santiam-Chemawa line to double-circuit to accommodate a new 230-kV transmission line from the Santiam Substation to a Portland General Electric line that goes to PGE's Bethel Substation.

Schultz-Hanford Area Transmission Line Project EIS. Wash. — To build a new 500-kV line to relieve constraints on several electrical lines, provide more operational flexibility to meet endangered salmon obligations and maintain transmission capacity to import and export energy.

NEW! Starbuck Power Project EIS. Wash. — To integrate power from the proposed project into the transmission grid.

Umatilla Generating Project EIS. Ore. — To integrate electrical power from a new 550-megawatt natural gas-fired combined-cycle combustion turbine generation plant proposed by the Umatilla Generating Co., LP.

Wallula-McNary Transmission Line and Wallula Power Project EIS. Ore. and Wash. — To build 35 miles of transmission line from a proposed gas-fired power generation project in Wallula, Wash., to McNary Substation, Ore.

Watershed Management EIS SA. Wash. — Chumstick Creek Culvert Replacement Projects. (SA-51)

White Sturgeon Mitigation and Restoration in the Columbia and Snake Rivers Upstream From Bonneville Dam EA. Ore., Wash. and Idaho. — To restore and mitigate for documented lost white sturgeon productivity caused by development and operation of the hydropower system using intensive fisheries management and modified hydro system operation.

Wildlife Management EIS SA. Wash. — Western Pond Turtle Recovery - Columbia River Gorge. (SA-15)

Wholesale Power Rates Amended Proposal. Regionwide — Draft Supplemental ROD is available. See story.

CALENDAR OF EVENTS

Wallula-McNary Transmission Line and Wallula Power Project. Scoping meeting. June 7, 4-8 p.m., McNary Fire Station, 305 Willamette St., McNary, Ore.

Condon Wind Project. Draft EIS comment meeting. **June 26,** 4-7 p.m., Gilliam County Courthouse, Circuit Court Rm., 2215 Oregon St., Condon, Ore.

Maiden Wind Project. Scoping meeting. **June 26,** 4-7 p.m., Prosser Senior Citizen Center, 1231 Dudley Ave., Prosser, Wash.

Conservation or Crisis? A Northwest Choice. Conference sponsored by BPA and NewsData. **Sept. 24-26,** DoubleTree Hotel, Jantzen Beach, 909 N. Hayden Island Dr., Portland, Ore. Contact Jennifer Eskil (509) 527-6232 for info.

CLOSE OF COMMENT

McNary-John Day Transmission Project. Scoping. **June 18**

Wallula-McNary Power Line and Wallula Power Project. Scoping. **July 13**

Maiden Wind Project. Scoping. **July 13**

Condon Wind Project. Scoping. **July 16**

Unless otherwise noted, documents cited are being prepared. Indicates a new document is available. Call to order new documents or to be added to the mail list(s) of project(s) of interest to you. Process Abbreviations: **EA** – Environmental Assessment, **EIS** – Environmental Impact Statement, **FONSI** – Finding of No Significant Impact, **ROD** – Record of Decision, **SA** – Supplement Analysis.

FOR MORE INFORMATION OR TO GET INVOLVED: The *Journal* is a monthly newsletter of the Bonneville Power Administration for customers and interested publics. To order documents , call: 800-622-4520 or (503) 230-7334 (Portland). For questions/comments or to be added to a mail list, call: (503) 230-3478 (Portland) or 800-622-4519. Written comments may be sent to: BPA, P.O. Box 12999, Portland, OR 97212. Public Involvement, Internet, E-mail address comment@BPA.gov, BPA home page:http://www.bpa.gov

DOE/BP-3385 May 31, 2001 7M

bpanews

PR 46 01

FOR IMMEDIATE RELEASE:
TUESDAY, June 5, 2001

CONTACT: Ed Mosey or Mike Hansen, (503) 230-5131

MEDIA ADVISORY

Administrator will report on regional efforts to hold down power rates

PORTLAND, Ore. – The Bonneville Power Administration will report Wednesday on regional efforts to reduce electricity demand and hold down a wholesale rate increase scheduled for Oct. 1. BPA Acting Administrator Steve Wright will conduct a media briefing beginning at 9:30 a.m. in the BPA Headquarters first-floor conference room.

BPA and the region's utilities and industries have been pursuing a plan to keep the upcoming wholesale rate increase below 100 percent. Economic growth, increases in energy consumption and a lack of new generating resources have left the region short of energy. BPA, which supplies about 46 percent of the total electricity used in the Northwest, does not have sufficient supply to meet all the load brought to it by its customers.

This shortage has forced BPA into the market to purchase power for the next five years. Sky-high prices there could drive the wholesale rate up 250 percent or more. In order to avoid this, BPA has called on its customers to reduce their take from BPA by at least 10 percent. Commitments are due by June 22.

BPA must submit a final rate adjustment to the Federal Energy Regulatory Commission by the end of June. The status report Wednesday will tell utilities and industries how much further they must reduce their take from BPA to avoid a triple-digit rate increase. See the BPA Web site "Media Center" for more information.

Telephone access is available to reporters at (800) 442-5794, passcode: 77841

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Administrator will report on regional efforts
to hold down power rates

Click here for other BPA news releases

Bonneville Power Administration
FOR IMMEDIATE RELEASE: TUESDAY, June 5, 2001
PR 46 01

CONTACTS: Ed Mosey or Mike Hansen , BPA (503) 230-5131

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Attachment 8

More utilities, industries must reduce power purchases
from BPA to hold rates down

Click here for other BPA news releases

Bonneville Power Administration
FOR IMMEDIATE RELEASE: WEDNESDAY, JUNE 6, 2001
PR 47 01

CONTACTS: Ed Mosey or Mike Hansen , BPA (503) 230-5131

PORTLAND, Ore. – The Pacific Northwest has reached the halfway point in its effort to hold the Bonneville Power Administration's Oct. 1 rate increase below 100 percent, BPA acting Administrator Steve Wright said Wednesday.

"If we stopped where we are today with about 1,200 megawatts of load reductions, the rate increase would be more than 150 percent in year one," said Wright. "On the other hand, if we push ahead and get another 1,200 megawatts, we can reduce the rate hike below 75 percent. We need those utilities and industries that have not yet taken action to step up to the plate."

Wright said BPA wholesale customers have 16 days left to make commitments to reduce their purchases from BPA. The goal is for all customer groups to reduce their overall purchases by 2,400 megawatts. To date, the aluminum industry has been the biggest contributor to the load reduction effort, having met 75 percent of its share of the load reduction target.

Public and private utilities so far have contributed 11percent and 25 percent, respectively, of their share. In addition, the private utilities are also negotiating long-term agreements to reduce their purchases from BPA.

Wright noted that some customers can cancel their load reduction commitments if enough other customers do not sign up. That increases the urgency for the region to achieve the additional commitments.

"We could actually lose some of the progress we have made on load and rate reduction unless the rest of our customers make load reduction commitments in the next two weeks," Wright said.

BPA is scheduled to issue its final decision June 20. That rate structure will be submitted to the Federal Energy Regulatory Commission for approval. The rate could include adjustments every six months based on market conditions. The driving factor is the amount of power BPA must purchase in the market to meet the demands of its customers. Market prices have been at all-time highs but recently have been declining.

BPA supplies about 46 percent of the region's power. BPA needs about

Attachment 10

3,700 average megawatts of additional supply to meet all of its customers' loads in the six months starting Oct. 1. So far, the agency has purchased 1,300 megawatts, and utilities and industries have reduced their demand on BPA by 1,200 megawatts. That leaves 1,200 to go.

"The more BPA needs to buy, the higher the market price will be because the sellers respond to higher demand by raising prices," Wright explained. "On the other hand, less demand will ultimately cause prices to fall. Absent unforeseen factors, market prices could even decline in the months ahead if the region avoids purchases."

Wright emphasized that a rate increase of 150 percent or more would deal a harsh blow to the Northwest's economy.

"The wholesale customers of BPA can and should do their part by reducing their loads. We have two weeks left to get the job done, and I remain confident that the region can reassert control of its energy destiny," Wright said.

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Attachment 10

June 6, 2001 Press Conference

This is the electronic version of the press packet that was available at Bonneville Power Administration headquarters building for the June 6, 2001 press conference.

Related BPA news releases:

June 6, 2001 (PR 47 01) More utilities, industries must reduce power purchases from BPA to hold rates down

June 5, 2001 (PR 46 01) Administrator will report on regional efforts to hold down power rates

May 17, 2001 (PR 37 01) Looking at dams in a new light -- Federal agencies team up to find energy savings

May 7, 2001 (PR 30 01) BPA launches region-wide VendingMi$er conservation program

May 4, 2001 (PR 29 01) Wind farm blows into mid-Columbia

April 4, 2001 (PR 21 01) BPA, utilities offer free coupons for compact fluorescent light bulbs

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***keeping Current* publications:**

June 2001 -- Bringing power to the people: BPA's plan to assure reliable electric transmission in the Northwest

May 2001 -- Taking on the energy crisis: Providing tools for conservation and load reduction

April 2001 -- Working together to keep the lights on and costs down

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Other materials:

Biography of Acting Administrator Stephen J. Wright

Letter from four Northwest governors supporting BPA's load-reduction efforts

Attachment 9

BPA Facts (information about the Bonneville Power Administration)

Chart 1 (Load Reduction)

Chart 2 (Load Reduction and Buy Back)

Chart 3 (Buy Back from IOUs)

Chart 4 (Load Reduction Heroes)

(*Many of the above files are in Adobe PDF format. You will need an Adobe acrobat reader. If you do not have one, click here to download it for free.)

Page updated June 6, 2001 by BPA Communications, (503) 230-5131.

AMENDED RESIDENTIAL EXCHANGE PROGRAM SETTLEMENT AGREEMENT WITH PUGET SOUND ENERGY

ADMINISTRATOR'S RECORD OF DECISION

Bonneville Power Administration
U.S. Department of Energy

June 6, 2001

INTRODUCTION

This Record of Decision addresses the development of an Amended Settlement Agreement between Puget Sound Energy (Puget) and the Bonneville Power Administration (BPA), which replaces in its entirety Puget's Residential Exchange Program Settlement Agreement, Contract No. 01PB-12162 (Settlement Agreement). The Amended Settlement Agreement provides financial benefits to the residential and small farm consumers of Puget through a settlement of Puget's participation in the Residential Exchange Program (REP) for the period from July 1, 2001, through September 30, 2006, and provides a combination of power and monetary benefits to such consumers through a settlement of Puget's participation in the Residential Exchange Program (REP) for the period from July 1, 2006, through September 30, 2011. 16 U.S.C. § 839c(c). In order to fully understand the proposed Amended Settlement Agreement with Puget, it is helpful to understand BPA's initial development of the REP Settlements with regional investor-owned utilities (IOUs). A review of such development follows.

BACKGROUND

BPA was created in 1937 to market electric power generated at Bonneville Dam, and to construct and operate facilities for the transmission of power. 16 U.S.C. § 832-832l (1994 & Supp. III 1997). Since that time, Congress has directed BPA to market power generated at additional facilities. *Id.* § 838f. Currently, BPA markets power generated at thirty Federal hydroelectric projects, and several non-Federal projects. BPA also owns and operates approximately 80 percent of the Pacific Northwest's high-voltage transmission system. In 1974, BPA became a self-financed agency that no longer receives annual appropriations. *Id.* § 838i. BPA's rates must therefore produce sufficient revenues repay all Federal investments in the power and transmission systems, and to carry out BPA's additional statutory objectives. *See id.* §§ 832f, 838g, 838i, and 839e(a).

In the 1970's, threats of insufficient resources to meet the region's electricity demands led to passage of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act). 16 U.S.C. § 839, *et seq.* (1994 & Supp. III 1997). In that Act, Congress, among other things, directed BPA to offer new power sales contracts to its customers. *Id.* §§ 839c, 839c(g). While Congress provided that BPA's public agency customers (preference customers) and investor-owned utility customers (IOUs) had a statutory right for service from BPA to meet their net requirements loads, Congress did not provide such a right to BPA's direct service industrial customers (DSIs). BPA was provided the authority, but not the obligation, to serve the DSIs' firm loads after the expiration of their power sales contracts in 2001. *See id.* §§ 839c(b)(1), 839d. Congress also established the Residential Exchange Program, which, as discussed in greater detail below, provides Pacific Northwest utilities a form of access to the benefits of low-cost Federal power. *Id.* § 839c(c).

A. The Residential Exchange Program (REP)

Section 5(c) of the Northwest Power Act established the REP. *Id.* § 839c(c). Under the REP, a Pacific Northwest electric utility (either a publicly owned utility, an IOU or other entity authorized by state law to serve residential and small farm loads) may offer to sell power to BPA at the utility's average system cost (ASC). *Id.* § 839c(c)(1). BPA purchases such power and, in exchange, sells an equivalent amount of power to the utility at BPA's PF Exchange rate. *Id.* The amount of the power exchanged equals the utility's residential and small farm load. *Id.* In past practice, no actual power sales have taken place. Instead, BPA provided monetary benefits to the utility based on the difference between the utility's ASC and the applicable PF Exchange rate multiplied by the utility's residential load. These monetary benefits must be passed through directly to the utility's residential and small farm consumers. *Id.* § 839c(c)(3). While REP benefits have previously been monetary, the Northwest Power Act also provides for the sale of actual power to exchanging utilities in specific circumstances. Pursuant to section 5(c)(5) of the Northwest Power Act, in lieu of purchasing any amount of electric power offered by an exchanging utility, the Administrator may acquire an equivalent amount of electric power from other sources to replace power sold to the utility as part of an exchange sale. *Id.* § 839c(c)(5). However, the cost of the acquisition must be less than the cost of purchasing the electric power offered by the utility. *Id.* In these circumstances, BPA acquires power from an in lieu resource and sells actual power to the exchanging utility.

Each exchanging utility's ASC is determined by the Administrator according to the 1984 ASC Methodology, an administrative rule developed by BPA in consultation with its customers and other regional parties. A utility's ASC is the sum of a utility's production and transmission-related costs (Contract System Costs) divided by the utility's system load (Contract System Load). A utility's system load is the firm energy load used to establish retail rates. BPA's current ASC Methodology was established in 1984. BPA has recognized, however, that the ASC Methodology can be revised. BPA's current ASC Methodology uses a "jurisdictional approach" in determining utilities' ASCs, which relies upon cost data approved by state public utility commissions (in the case of IOUs) and utility governing bodies (in the case of public utilities) for retail ratemaking. These data provide the starting point for BPA's determination of the ASC of each utility participating in the REP. Costs that have not been approved for retail rates are not considered for inclusion in Contract System Costs.

The schedule for filing and reviewing a utility's ASC is established in the 1984 ASC Methodology, which provides that "not later than five working days after filing for a jurisdictional rate change or otherwise commencing a rate change proceeding, the utility shall file a preliminary Appendix 1, setting forth the costs proposed by the utility and shall deliver to BPA all information initially provided to the state commission." The filing includes all testimony and exhibits filed in the retail rate proceeding. Not later than 20 days following the effective date of new rate schedules in a jurisdiction, the utility must file a revised Appendix 1 reflecting costs as approved by the state commission or utility governing body. BPA then has 210 days to review the filing and issue a report signed by the Administrator. During this review process, BPA ensures that the costs and loads conform to the rules and requirements of the ASC Methodology, as well as the applicable provisions of the Northwest Power Act. BPA makes adjustments as necessary.

The REP has traditionally been implemented through Residential Purchase and Sale Agreements (RPSAs), which were executed in 1981. Between 1981 and the present, Residential Exchange Termination Agreements have been negotiated with all of the previously active exchanging utilities except Montana Power Company (MPC). MPC continues to be in "deemer" status. When a utility's ASC is less than the PF Exchange Program rate, the utility may elect to deem its ASC equal to the PF Exchange Program rate. By doing so, it avoids making actual monetary payments to BPA. The amount that the utility would otherwise pay BPA is tracked in a "deemer account." At such time as the utility's ASC is higher than BPA's PF Exchange rate, benefits that would otherwise be paid to the utility act as a credit against the negative "deemer balance." Only after the "positive benefits" have completely offset the "negative balance," bringing the negative "deemer account" to zero, would the utility again receive actual monetary payments from BPA under an existing or new RPSA. The issue of deemer balances with IOUs is currently in dispute. Regional utilities are eligible to participate in the REP again beginning July 1, 2001, except for those utilities that have previously executed settlement agreements for terms extending beyond July 1, 2001.

B. The Comprehensive Review of the Northwest Energy System

In early 1996, the governors of Idaho, Montana, Oregon and Washington convened the Comprehensive Review of the Northwest Energy System to seize opportunities and moderate risks presented by the transition of the region's power system to a more competitive electricity market. *See* Comprehensive Review of the Northwest Energy System, Final Report, December 12, 1996 (Final Report). The governors appointed a 20-member Steering Committee that was broadly representative of the various stakeholders in the power system to study that system and make recommendations about its transformation. *Id.* Each governor had a representative on the Steering Committee to make certain the public was educated about and involved in the Comprehensive Review. *Id.* In establishing the review, the governors stated:

The goal of this review is to develop, through a public process, recommendations for changes in the institutional structure of the region's electric utility industry. These changes should be designed to protect the region's natural resources and distribute equitably the costs and benefits of a more competitive marketplace, while at the same tine assuring the region of an adequate, efficient, economical and reliable power system.

Id. In 1996, the Steering Committee held 30 daylong meetings. *Id.* In addition, almost 400 people were involved in more than 100 meetings of various work groups reporting to the Steering Committee. *Id.* Hundreds of citizens attended the 10 public hearings that were held throughout the region on the Committee's draft report. *Id.* More than 700 written comments were received. *Id.* The Final Report was the product of that work. *Id.*

The Final Report noted that the electricity industry in the United States is in the midst of significant restructuring. *Id.* This restructuring is the product of many factors, including national policy to promote a competitive electricity generation market and state initiatives in California, New York, New England, Wisconsin and elsewhere to open retail electricity markets to competition. *Id.* This transformation is moving the industry away from the regulated monopoly structure of the past 75 years. *Id.* Today the region is served by individual utilities, many of which control everything from the power plant to the delivery of power to the region's homes or businesses. *Id.* In the future, the region may have a choice among power suppliers that deliver their product over transmission and distribution systems that are operated independently as common carriers. *Id.* There is much to be gained in this transition. *Id.* Broad competition in the electricity industry that extends to all consumers could result in lower prices and more choices about the sources, variety and quality of their electrical service. *Id.*

The Final Report also noted that there are risks inherent in the transition to more competitive electricity services. *Id.* Merely declaring that a market should become competitive will not necessarily achieve the full benefits of competition or ensure that they will be broadly shared. *Id.* It is entirely possible to have deregulation without true competition. *Id.* Similarly, the reliability of the region's power supply could be compromised if care is not taken to ensure that competitive pressures do not override the incentives for reliable operation. *Id.* How competition is structured is important. *Id.* It is also important to recognize the limitations of competition. *Id.* Competitive markets respond to consumer demands, but they do not necessarily accomplish other important public policy objectives. *Id.* The Northwest has a long tradition of energy policies that support environmental protection, energy-efficiency, renewable resources, affordable services to rural and low-income consumers, and fish and wildlife restoration. *Id.* These public policy objectives remain important and relevant. *Id.* The Final Report states that given the enormous economic and environmental implications of energy, these public policy objectives need to be incorporated in the rules and structures of a competitive energy market. *Id.*

The Final Report stated that, in some respects, the transition to a competitive electricity industry is more complicated in the Northwest because of the presence of BPA. *Id.* BPA is a major factor in the region's power industry, supplying, on average, 40 percent of the power sold in the region and controlling more than half the region's high-voltage transmission. *Id.* BPA benefits from the fact that it markets most of the region's low-cost hydroelectric power. *Id.* It is hampered by the fact that it has high fixed costs, including the cost of past investments in nuclear power and the majority of the costs for salmon recovery. *Id.* As a wholesale power supplier, BPA is already fully exposed to competition and is struggling to reduce its costs so that it can compete in the market. *Id.* The transition to a competitive electricity industry raises many issues for the BPA and the region. *Id.* In the near term, how can BPA continue to meet its financial and environmental obligations in the face of intense competitive pressure? *Id.* In the longer-term, when market prices rise and some of BPA's debt obligations have been retired, how can the Northwest retain the economic benefits of its low-cost hydroelectric power when the rest of the country is paying market prices? *Id.* And finally, what is the appropriate role of a Federal agency in a competitive market? *Id.*

The Final Report noted that while participants on the Comprehensive Review Steering Committee represented, by design, many divergent interests, they were fundamentally interconnected through one unifying value. *Id.* Collectively, they share an abiding interest in the stewardship of a great regional resource -- the Columbia River and its tributaries. *Id.* The river is the link that brought all the parties together and unites them in a single, overriding goal. *Id.* That goal is to protect and enhance the assets of this great natural resource for the people of the Pacific Northwest. *Id.*

The Final Report stated that the Federal power system in the Pacific Northwest has conferred significant benefits on the region for more than 50 years. *Id.* The availability of inexpensive electricity at cost has supported strong economic growth and helped provide for other uses of the Columbia River, such as irrigation, flood control and navigation. *Id.* The renewable and non-polluting hydropower system has helped maintain a high quality environment in the region. *Id.* But while the power system has produced significant benefits, these benefits came at a substantial cost to the fish and wildlife resources of the Columbia River basin. *Id.* Salmon and steelhead populations had been reduced to historic lows, and many runs were about to be listed under the Federal Endangered Species Act. *Id.* Resident fish and wildlife populations had also been affected. *Id.* Native Americans and fishery-dependent communities, businesses and recreationists had suffered substantial losses due in significant part to construction and operation of the power system. *Id.* The region's ability to sustain its core industries, support conservation and renewable resources, and restore salmon runs would be clearly threatened if the region cannot reach a consensus regional position to bring to the national electricity restructuring debate. *Id.* Without a sustainable and financially healthy power system, funding for fish and wildlife restoration could be jeopardized. *Id.*

The Final Report noted that the Governors of Idaho, Montana, Oregon and Washington, in their charge to the Comprehensive Review, and the Steering Committee in their deliberations, recognized that the electricity industry is changing, whether the region likes it or not. *Id.* The Comprehensive Review was not an initiation of change, but a response to change. *Id.* It was an effort to shape that change, to the extent shaping is possible, to ensure that the potential benefits of competition are achieved and equitably shared, environmental goals are met, and the benefits of the hydroelectric system are preserved for the Northwest. *Id.* The region's ability to shape the change in the Northwest electricity industry depends on its ability to develop a regional consensus. *Id.* If the Comprehensive Review failed to result in a consensus for regional action, the electricity industry would still be restructured. *Id.* A return to the historical industry structure is not an option. *Id.* Many of the comments received during the public hearing process on the Steering Committee's draft recommendations made it clear that this was not a widely appreciated fact. *Id.*

The Final Report summarized the Steering Committee's goals and proposals. The Steering Committee's goals for Federal power marketing were to: (1) align the benefits and risks of access to existing Federal power; (2) ensure repayment of the debt to the U.S. Treasury with a greater probability than currently exists while not compromising the security or tax-exempt status of BPA's third-party debt; and (3) retain the long-term benefits of the system for the region. *Id.* The recommendation was also intended to be consistent with emerging competitive markets and regional transmission solutions. *Id.* The mechanism proposed to accomplish these goals was a subscription system for purchasing specified amounts of power at cost with incentives for customers to take longer-term subscriptions. *Id.* Public utility customers with small loads would be able to subscribe under contracts that would accommodate minor load growth. *Id.* Subscriptions would be available first to regional customers a specified multiparty priority order, starting with preference customers, then the DSIs and the residential and small farm customers of the IOUs participating in the REP, followed by other regional customers. *Id.* Non-regional customers could subscribe after in-region customers. *Id.* Within each phase of the subscription process, longer-term contracts would have priority over shorter-term contracts if the system were oversubscribed. *Id.*

With regard to the REP, the Final Report noted that as a result of the Northwest Power Act, Northwest utilities have the right to sell to BPA an amount of power equal to that required to serve their residential and small farm customers at the utilities' average system costs and receive an equal amount of power at BPA's average system cost. *Id.* In reality, this is an accounting transaction. *Id.* No power is actually delivered. *Id.* This was intended to be a mechanism to share the benefits of the low-cost Federal hydropower system with the residential and small farm customers of the region's IOUs. *Id.* As a result of decisions made by BPA in its 1996 rate case, those benefits were reduced. *Id.* The Steering Committee acknowledged that the residential and small farm consumers of exchanging IOUs would be adversely affected by the reduction of exchange benefits. *Id.* Congress intervened for one year to stabilize the exchange benefits. *Id.* However, on October 1, 1997, there would be rate increases to the residential and small farm customers of the exchanging utilities. *Id.* The Steering Committee encouraged the parties to continue settlement discussions and to explore other paths to ensure that residential and small farm loads receive an equitable share of Federal benefits. *Id.*

C. BPA's Power Subscription Strategy

The concept of power subscription came from the Comprehensive Review of the Northwest Energy System, which, as noted above, was convened by the governors of Idaho, Montana, Oregon, and Washington to assist the Northwest through the transition to competitive electricity markets. The goal of the review was to develop recommendations for changes in the region's electric utility industry through an open public process involving a broad cross-section of regional interests. In December 1996, after over a year of intense study, as noted above, the Comprehensive Review Steering Committee released its Final Report. The Final Report recommended that BPA capture and deliver the low-cost benefits of the Federal hydropower system to Northwest energy customers through a subscription-based power sales approach. In early 1997, the

Governor's representatives formed a Transition Board to monitor, guide, and evaluate progress on these recommendations.

Public process is integral to BPA's decisionmaking. With the changing marketplace for electric power, there is considerable regional interest in defining how and to whom the region's Federal power should be sold. The public was involved at several levels during the development of BPA's Power Subscription Strategy. In addition to the public meetings held specifically on Subscription, BPA sought input from a wide range of interested and affected groups and individuals. BPA collaborated with Northwest Tribes, interest groups, Congressional members, the Department of Energy (DOE), the Administration, and BPA's customers to resolve issues, understand commercial interests, and develop strong business relationships.

In early 1997, BPA and the Pacific Northwest Utilities Conference Committee (PNUCC) invited 2800 interested parties throughout the Pacific Northwest to help further define Subscription. The collaborative effort to design a Subscription contract process began with a public kickoff meeting on March 11, 1997. At this meeting, a BPA/customer design team presented a proposed work plan, including a description of the environmental coverage for Subscription. An important element of the work plan was the formation of a Subscription Work Group. The Work Group, which normally met in Portland twice a month from March 1997 through September 1998, was open to the public. On average, 40-45 participants--representing customers, customer associations, Tribes, State governments, public interest groups, and BPA--attended. Three subgroups formed to more intensely pursue the resolution of issues involving business relationships, products and services, and implementation.

Over 18 months, BPA, its customers and other interested parties discussed and clarified many Subscription issues. During this time, BPA and the public confirmed goals, defined issues, developed an implementation process for offering Subscription, and developed proposed product and pricing principles. The following is a chronology of events.

On March 11, 1997, a public meeting was held in Portland to kick off the Federal Power Marketing Subscription development process. The following topics were discussed at this meeting: the role of the Regional Review Transition Board in the Subscription process; the Draft Work Plan that was developed to guide the development process; the issues that relate to the Subscription process that need to be addressed; and the National Environmental Policy Act (NEPA) strategy for this effort. The Work Plan identified a "self-selected" work group to lead this effort (anyone eligible to participate).

On March 18, 1997, a "Federal Power Marketing Subscription" web site was established at BPA to help disseminate information about the Subscription Process.

On March 19, 1997, the Federal Power Subscription Work Group held its first meeting in Portland, Oregon. The Work Group held a total of 33 meetings (approximately two per month), ending on September 22, 1998.

On September 9, 1997, a Progress Report was presented to the Transition Board.

On November 25, 1997, an update meeting for stakeholders was held in Spokane to discuss progress to date and next steps. A summary of the meeting, along with the meeting handout/slide presentation and concerns/issues raised, was posted to the web site.

In January 1998, an article entitled "*Subscription Process Underway*" was published in the BPA Journal, (January 1998).

On April 30, 1998, BPA's Power Business Line (PBL) established a web site to disseminate information about a customer group's Slice of the System Proposal. The Subscription Work Group evaluated the Slice proposal, and the proposal as modified by BPA continued to be developed in a subgroup through January 1999. BPA's pricing of the Slice product was part of BPA's initial power rate proposal and was also included in BPA's 2002 Final Power Rate Proposal, Administrator's Record of Decision (ROD), WP-02-A-02.

In June 1998, as part of the Issues '98 process, BPA published Issues '98 Fact Sheet #3: Power Markets, Revenues, and Subscription. Issues '98 (June/Oct. 1998). The fact sheet discussed implementation approaches being considered by the Subscription Work Group so participants in the Issues '98 process could comment. As part of Issues '98 BPA conducted a series of meetings around the region. Issues related to Subscription were key topics in the discussions at those meetings. The public comment period for Issues '98 closed June 26, 1998.

On June 8, 1998, BPA's PBL established a web site to disseminate information about development of the power rates that would be used in the Subscription contracts beginning October 1, 2001. Preliminary discussions regarding development of the power rates occurred in a series of informal public meetings and continued in workshops before BPA's initial proposal was published in early 1999.

On June 18, 1998, the third Subscription public meeting was held in Spokane to present, discuss, and collect comments on the various components related to Subscription. The meeting slide presentation and summary of the meeting were posted to the web site.

On September 18, 1998, BPA released its Power Subscription Strategy Proposal for public comment. Accompanying the proposal was a press release entitled "Spreading Federal Power Benefits" and a Keeping Current publication entitled "Getting Power to the People of the Northwest, BPA's Power Subscription Proposal for the 21st Century." Keeping Current (Sept. 1998). On September 25th, an electronic version of the BPA Power Product Catalog was posted to the web site.

On September 22, 1998, the Federal Power Subscription Work Group held its final meeting in Portland, Oregon.

Subscription issues were discussed at the "Columbia River Power and Benefits" conference on September 29, 1998, in Portland, Oregon. Over 250 people attended. Conference notes were posted to BPA's web site.

On September 30, 1998, BPA's Energy Efficiency organization established a web site to help disseminate information on the proposal for a Conservation and Renewable Discount. Development of the discount continued in a series of meetings through January 1999. Development of the discount was part of BPA's initial power rate proposal and was also included in BPA's 2002 Final Power Rate Proposal, Administrator's ROD, WP-02-A-02.

The public was invited to participate in two comment meetings on the Subscription Proposal; one in Spokane, Washington, on October 8, 1998; the other in Portland, Oregon, on October 14.

BPA developed the Power Subscription Strategy Proposal after considering the efforts of the Subscription Work Group, public comments on Subscription, and the broad information from Issues '98. The Proposal incorporated the information received from customers, Tribes, fish and wildlife interest groups, industries and other constituents. It laid out BPA's strategy for retaining the benefits of the Federal Columbia River Power System (FCRPS) for the Pacific Northwest after 2001. The comment period on the proposal closed October 23, 1998, although all comments received after that date were considered in the Power Subscription Strategy ROD and the NEPA ROD.

During the spring and summer of 1998, BPA conducted extensive public meetings with all interested parties regarding the development of BPA's Power Subscription Strategy. At the conclusion of these lengthy discussions, on September 18, 1998, BPA released a Power Subscription Strategy Proposal for public review. During the comment period BPA received nearly 200 responses to the proposal comprising nearly 600 pages of comments. After review and analysis of these comments, BPA published its final Power Subscription Strategy on December 21, 1998. *See* Power Subscription Strategy, and Power Subscription Strategy, Administrator's ROD. At the same time, the Administrator published a National Environmental Policy Act (NEPA) ROD that contained an environmental analysis for the Power Subscription Strategy. This NEPA ROD was tiered to BPA's Business Plan ROD (August 15, 1995) for the Business Plan Environmental Impact Statement (DOE/EIS-0183, June 1995). The purpose of the Subscription Strategy is to enable the people of the Pacific Northwest to share the benefits of the FCRPS after 2001 while retaining those benefits within the region for future generations.

The Subscription Strategy also addresses how those who receive the benefits of the region's low-cost Federal power should share a corresponding measure of the risks. The Subscription Strategy seeks to implement the subscription concept created by the Comprehensive Review in 1996 through contracts for the sale of power and the distribution of Federal power benefits in the deregulated wholesale electricity market. The success of the Subscription process is fundamental to BPA's overall business purpose to provide public benefits to the Northwest through commercially successful businesses.

The Subscription Strategy is premised on BPA's partnership with the people of the Pacific Northwest. BPA is dedicated to reflecting their values, to providing them benefits and to expanding and spreading the value of the Columbia River throughout the region. In this respect, the Strategy had four goals:

> Spread the benefits of the FCRPS as broadly as possible, with special attention given to the residential and rural customers of the region;
>
> Avoid rate increases through a creative and businesslike response to markets and additional aggressive cost reductions;
>
> Allow BPA to fulfill its fish and wildlife obligations while assuring a high probability of U.S. Treasury payment; and
>
> Provide market incentives for the development of conservation and renewables as part of a broader BPA leadership role in the regional effort to capture the value of these and other emerging technologies.

The Power Subscription Strategy describes BPA decisions on a number of issues. These include the availability of Federal power, the approach BPA will use in selling power by contract with its customers, the products from which customers can choose, and frameworks for pricing and contracts. The Power Subscription Strategy discussed some issues that would not be finally decided in the Strategy. Most of these issues were decided in BPA's 2002 power rate case, although some were decided in other forums, such as the transmission rate case, which concluded recently. For example, while the Strategy documents BPA's intention to implement a rate discount for conservation and renewable resources, the final design of that discount was developed in BPA's 2002 power rate case. Other issues to be decided in the 2002 power rate case include the design and application of the CRAC, which rates apply to which sales, and the design of the Low Density Discount (LDD). Customers raised issues regarding the application of other customers' non-Federal resources to serve regional load. These resource issues involve factual determinations under section 3(d) of the Act of August 31, 1964, P.L. 88-552 (Regional Preference Act), and section 9(c) of the Northwest Power Act, 16 U.S.C. § 839f(c) (1994 & Supp. III 1997), which BPA could not address in the Power Subscription Strategy and which were not made a part of the decisions in the Subscription Strategy ROD.

While BPA's Power Subscription Strategy did not establish any rates or rate designs, rate design approaches identified in the Power Subscription Strategy were part of BPA's initial power rate proposal, which was published in 1999. The comments received during the Subscription public process regarding the various rate-related issues were addressed in BPA's 2002 power rate case, which included extensive opportunities for public involvement.

BPA's Power Subscription Strategy provided a framework for the 2002 power rate case and Subscription power sales contract negotiations. The Subscription window was to remain open 120 days after the 2002 Final Power Rate Proposal, Administrator's ROD, was signed by the BPA Administrator, providing relatively certain information to potential purchasers regarding rates.

One element the Power Subscription Strategy proposal was a settlement of the REP for regional IOUs for the post-2001 period. The Power Subscription Strategy proposed that IOUs may agree to a settlement of the REP in which they would be able to receive benefits equivalent to a purchase of a specified amount of power under Subscription for their residential and small farm consumers at a rate expected to be approximately equivalent to the PF Preference rate. Under the proposed settlement, residential and small farm loads of the IOUs would be assured access to the equivalent of 1,800 aMW of Federal power for the FY 2002-2006 period and 2,200 aMW of Federal power for the FY 2007-2011 period.

The Power Subscription Strategy noted that BPA would set the physical and financial components of the Subscription amount, by year, in the negotiated Subscription settlement contracts. Any cash payment would reflect the difference between the market price of power forecasted in the rate case and the rate used to make such Subscription sales. The actual power deliveries for these loads would be in equal hourly amounts over the period.

The Power Subscription Strategy proposed that BPA would offer five-year and 10-year Subscription settlement contracts for the IOUs. Under both contracts, the Subscription Strategy proposed that BPA would offer and guarantee 1,800 aMW of power and/or financial benefits for the FY 2002-2006 period. At least 1,000 aMW would be met with actual BPA power deliveries. The remainder could be provided through either a financial arrangement or additional power deliveries, depending on which approach was most cost-effective for BPA. The IOUs' settlement of rights to request REP benefits under section 5(c) of the Northwest Power Act would be in effect until the end of the contract term. *See* 16 U.S.C. § 839c(c) (1994 & Supp. III 1997).

Under the 10-year settlement contract, in addition to the benefits provided during the first five years, BPA proposed to offer and guarantee 2,200 aMW of power or financial benefits for the FY2007-2011 period. BPA intended for this 2,200 aMW to be comprised solely of power deliveries. The IOUs' settlement of rights to request REP benefits under section 5(c) would be in effect until the end of the 10-year term of the contract. In the event of reduction of Federal system capability and/or the recall of power to serve its public preference customers during the terms of the five-year and 10-year contracts, BPA would either provide monetary compensation or purchase power to guarantee power deliveries.

In summary, residential and small farm loads of the IOUs could receive benefits from the Federal system through one of two ways. An IOU could participate in the established

REP or it could participate in a settlement of the REP through Subscription. If an IOU chose to request REP benefits under section 5(c), then the Subscription settlement amount for all the IOUs would be reduced by the amount that would have gone to the exchanging utility.

D. Power Subscription Strategy Supplemental ROD

As noted above, on December 21, 1998, the BPA Administrator issued a Power Subscription Strategy and accompanying ROD, which set the agency's PBL on a course to establish power rates and offer power sales contracts in anticipation of the expiration of current contracts and rates on September 30, 2001. The Strategy and ROD were the culmination of many public processes that came together to form the framework to equitably distribute in the Pacific Northwest the electric power generated by the FCRPS.

BPA's 1998 Power Subscription Strategy served to guide BPA in accomplishing its goals. After adoption of the Strategy, however, developments occurred that prompted BPA to seek, in some instances, additional comment from customers and constituents on new issues. The Strategy contemplated further public processes to implement its goals. BPA's 2002 power rate case, ongoing since August 1999, was completed on May 8, 2000. BPA and its customers continued discussions on power products and power sales contract prototypes, and the Slice of System product was further defined. In a December 2, 1999, letter, BPA sought comment from customers and constituents on some of these new issues, specifically, the length of the Subscription window for power sales contract offers, the actions required of new small utilities during this window to qualify for firm power service, and new developments with respect to General Transfer Agreements. Other issues arose independently, such as new large single loads (NLSL) under the Northwest Power Act, duration of the new power sales contracts, and a new contract clause regarding corporate citizenship. BPA also undertook a comment process on the amount and allocation of power and financial benefits to provide the IOUs on behalf of their residential and small farm consumers. On November 17, 1999, BPA sent a letter to all interested parties requesting comments on two specific issues: (1) whether the amount of the proposed IOU settlement should be increased by 100 aMW from 1800 aMW to 1900 aMW for the FY 2002-2006 period; and (2) the manner in which the settlement amount should be allocated among the individual IOUs.

1. Total Amount of IOU Settlement Benefits

BPA's intent in the Power Subscription Strategy was to spread the benefits of the FCRPS as broadly as possible, with special attention given to the residential and rural customers of the region. The Subscription Strategy enabled the benefits of the FCRPS to flow throughout the region, whether currently served by publicly owned or privately owned utilities.

The Power Subscription Strategy provided that residential and small farm loads of the IOUs, through settlement of the REP, would be provided access to the equivalent of 1800 aMW of Federal power for the FY 2002-2006 period. At least 1000 aMW of the 1800 aMW would be served with actual BPA power deliveries. The remainder would be provided through either a financial arrangement or additional power deliveries depending on which approach was most cost-effective for BPA.

The four Pacific Northwest state utility commissions (Commissions), in a letter dated July 23, 1999, requested that BPA increase the amount of the settlement from 1800 aMW to 1900 aMW for the FY 2002-2006 period. This request was made in order for the Commissions to arrive at a joint recommendation for allocating the settlement benefits among the IOUs for both the FY 2002-2006 and FY 2007-2011 periods. Many parties supported this increase for many reasons, including: (1) the increase is a wise policy decision and it helps to ensure that the regional interest in the system and preserving the system as a valuable benefit in the Northwest will be shared as broadly as possible among the region's voters; (2) the increase is appropriate in order for BPA to achieve the stated Subscription Strategy goal to "spread the benefits of the Federal Columbia River Power System as broadly as possible, with special attention given to the residential and rural customers of the region," *see* Power Subscription Strategy at 5; (3) the increase creates a fair and reasonable settlement to the REP for the IOUs; (4) the increase to the settlement staves off contentious issues surrounding the traditional REP as well as provides a fair allocation of power to the IOUs; and (5) the increase will help ensure an appropriate sharing of benefits of Federal power among the residential ratepayers in the Northwest.

After review of the comments, BPA found the arguments for increasing the IOU settlement amount by 100 aMW to be compelling. BPA determined that the conditions surrounding the proposed increase to the proposed Subscription settlement of the REP were expected to be met. Therefore, BPA increased the amount of total benefits for the proposed settlements of the REP with regional IOUs from 1800 aMW to 1900 aMW.

2. Allocation of Settlement Benefits Among IOUs

In the Power Subscription Strategy, BPA noted its intent to request comments from interested parties regarding the amounts of Subscription settlement benefits that should be provided to individual IOUs. BPA also noted that the Commissions indicated that they would collaborate on an allocation recommendation. After review of all comments, BPA would determine the appropriate amounts to be allocated to the individual IOUs.

BPA solicited the Commissions' views on the proposed allocation of settlement benefits. This was appropriate because the Commissions have traditionally been responsible for establishing retail electric rates for residential consumers of the regional IOUs, including the credit applied to those rates to reflect benefits of the REP as determined by BPA. The Commissions also have a statutory responsibility to the residential consumers of the IOUs in their particular state jurisdiction. Furthermore, because of these responsibilities, a joint recommendation by the Commissions would likely reflect a fair allocation of benefits among the residential consumers of the Northwest states and would enhance the likelihood of BPA delivering the benefits in a way that would work for each state and its consumers.

The Commissions collaborated and submitted a joint recommendation on the proposed allocation of the settlement benefits. They noted that their recommendation reflects many different considerations, including the amount of residential and small farm load eligible for the REP, the historical provision of REP benefits, the REP benefits received in the last five-year period ending June 30, 2001, rate impacts on qualifying customers, and the individual needs and objectives of each state. BPA reviewed the Commissions' recommendation and determined that this proposal was a reasonable approach upon which to take public comment.

Virtually all commenters supported the allocation recommended by the Commissions and proposed by BPA. The reasons for such support included: (1) it is appropriate for BPA to weigh heavily the Commissions' joint recommendation concerning the allocation of benefits; (2) the Commissions are the best arbiters of the settlement among the IOUs; and (3) the proposed allocation establishes access to a level of benefits that recognizes changed market conditions while at the same time addresses the needs and issues important to each of the four states. It is worthy of note that BPA's allocation has received support from diverse customer and interest groups: publicly owned utilities, IOUs, the Commissions, state agencies, and a city commission. BPA concluded that the following allocation amounts would be incorporated into the proposed settlement contracts with the individual IOUs that choose to settle the REP:

	Amount of Settlement (aMW) FY2002-2006	Amount of Settlement (aMW) FY2007-2011
Avista Corp. 1/	90	149
Idaho Power Company 1/	120	225
Montana Power Company	24	28
PacifiCorp (Total)	476	590
PacifiCorp (UP&L)	*140*	*140*
PacifiCorp (PP&L – WA) 1/	*83*	*109*
PacifiCorp (UP&L – OR) 1/	*253*	*341*
Portland General Electric	490	560
Puget Sound Energy (PSE)	700	648
Total	1900	2200

1/ BPA also concluded that the allocation of benefits among the states served by these multi-state utilities would be based on the forecasts of the respective state residential and small farm loads at the time the IOU signs its Settlement Agreement.

E. BPA's Section 5(b)/9(c) Policy

As BPA recognized that its existing long-term power sales contracts would soon expire, BPA proposed to establish a policy to guide the agency in making determinations of the net requirements of its utility customers in order to offer Federal power under new contracts. (For the most part, existing power sales contracts expire by October 1, 2001.) A net requirements policy is an important component to BPA's execution and implementation of new power sales contracts. Under section 5(b)(1) of the Northwest Power Act, BPA is obligated to offer a contract to each requesting public body, cooperative, and investor-owned utility to meet each utility's regional firm load net of the resources used by the utility to serve its firm power consumer load. 16 U.S.C. § 839c(b)(1) (1994 & Supp. III 1997). In making this determination, BPA has a corresponding duty to apply the provisions of section 9(c) of the Northwest Power Act, 16 U.S.C. § 839f(c) (1994 & Supp. III 1997), and section 3(d) of the Regional Preference Act, 16 U.S.C. § 837b(d) (1994 & Supp. III 1997).

BPA provided two opportunities for public review and comment in developing its proposed policy. On May 6, 1999, BPA published its initial policy proposal, entitled "Opportunity for Public Comment Regarding Bonneville Power Administration's Subscription Power Sales to Customers and Customer's Sale of Firm Resources," 64 Fed. Reg. 24,376 (1999). BPA held two public meetings to discuss this policy. The first meeting was held on May 27, 1999, in Spokane, Washington. The second meeting was held on June 2, 1999, in Portland, Oregon. On June 3, 1999, the thirty-day comment period was extended by BPA through June 30, 1999.

After reviewing and considering the comments received on the initial policy proposal, particularly those that requested that BPA provide a second round of review and comment, BPA issued a revised policy proposal on October 28, 1999, entitled "Revised Draft Policy Proposal Regarding Subscription Power Sales to Customers and Customer's Sales of Firm Resources," 64 Fed. Reg. 58,039 (1999). BPA reviewed and considered the comments received on the revised policy. On May 24, 2000, BPA issued its final "Policy on Determining Net Requirements of Pacific Northwest Utility Customers under Sections 5(b)(1) and 9(c) of the Northwest Power Act," also called BPA's "Section 5(b)/9(c) Policy." BPA also issued a Section 5(b)/9(c) Policy Record of Decision.

F. IOU Settlement Agreements

After completion of the Administrator's Supplemental ROD, BPA began the development of a prototype Residential Purchase and Sale Agreement (RPSA) and a prototype Settlement Agreement. On May 5, 2000, BPA sent a letter to all interested parties requesting comments on the proposed agreements. BPA's letter included a background document describing the two agreements. BPA also enclosed copies of the draft RPSA and Settlement Agreement. BPA's letter and attachment noted that BPA's Power Subscription Strategy proposed comprehensive settlements of the REP with participating regional IOUs and that IOUs would also have the option of entering into contracts to participate in the REP. The Power Subscription Strategy also noted that public agency customers were eligible to enter RPSAs under the REP.

BPA's letter noted that BPA had prepared a prototype RPSA to implement the REP and that this prototype would be used as the basis for contracting with all eligible parties to apply for benefits under the REP. BPA requested public comment on the following issues: (1) which entities are eligible utilities to request benefits under section 5(c) of the Northwest Power Act; (2) BPA's proposal to implement the in lieu provisions of section 5(c)(5) of the Northwest Power Act through wholesale market purchases; (3) any exceptions to the limitations of section 5(c)(6) that preclude the restriction of exchange sales under section 5(c) below the amounts of power acquired from, or on behalf of, the utility pursuant to section 5(c); and (4) any comments on the terms and conditions of the prototype RPSA agreement.

BPA's letter also described BPA's proposal for comprehensive settlement of the rights of regional IOUs eligible for benefits under the REP. BPA noted that it had prepared a prototype Settlement Agreement for implementing the Subscription Strategy. The prototype provided power sales pursuant to a contract offered under section 5(b) of the Northwest Power Act. The prototype also provided for the payment of monetary benefits. BPA requested public comment on all relevant issues, including the following issues: (1) any comments on the terms and conditions of the prototype Settlement Agreement; and (2) whether the total amount of benefits and the proposed terms and conditions for settling the rights of regional IOUs to request benefits under the REP were reasonable.

BPA's letter noted that BPA's Power Subscription Strategy proposed an allocation of benefits to the region's IOUs that included both physical and monetary components. It further noted that the Administrator's Supplemental ROD for the Power Subscription Strategy proposed to offer the IOUs the equivalent of 1900 aMW of Federal power for the FY 2002-2006 period. Of this amount, at least 1000 aMW would be provided in physical power deliveries. BPA requested that each IOU notify BPA by July 21, 2000, whether they wished to participate in BPA's REP. The IOUs were not required to make an election whether to accept a settlement offer or participate in the REP through an RPSA at that time. Based on each IOU's request to participate in the REP, BPA would prepare a settlement offer for their consideration prior to October 1, 2000. At the time each IOU requested to participate in the REP in July, BPA's letter asked that each IOU identify (1) its preferred mix of physical deliveries and financial settlement; and (2) whether it would prefer a five-year or 10-year offer. BPA would only make a settlement offer including net requirements physical deliveries if the IOU could establish a net requirement for the amount of power requested.

BPA's letter requested public comment on two issues regarding the offer of physical power and financial benefits in settlement of REP rights: (1) whether BPA should require IOUs to take additional power if the combined requests of all the companies for physical deliveries are less than 1000 aMW; and (2) how BPA should limit physical deliveries to each IOU if the companies requested physical deliveries of more than 1000 aMW and such deliveries were more power than BPA was willing to offer.

Comments on all of the issues regarding the prototype agreements were to be submitted through close of business on Friday, June 9, 2000. BPA's letter noted that after receiving public comment on the proposed prototype agreements, BPA would prepare final draft prototypes based on the public comments. These draft prototypes will be published to allow IOUs to determine whether they wish to participate in the REP pursuant to an RPSA or through a settlement offer based on physical or monetary benefits. Once BPA received each IOU's request to participate in the REP, BPA would prepare a settlement offer and an RPSA for each IOU in accordance with the choices made. BPA prepared a ROD addressing the public comments on the proposed REP Settlement Agreements. A separate ROD was also issued which addressed the public comments on the proposed RPSA. BPA offered both an RPSA and a Settlement Agreement to each IOU. .

On July 28, 2000, BPA sent a letter to interested parties regarding a request by Montana Power Company (MPC) to be offered a Settlement Agreement in which the power component would be made under section 5(c) of the Northwest Power Act instead of a sale of requirements power under section 5(b) of the Act. BPA's letter noted that on May 5, 2000, BPA asked for public comment on BPA's proposed contracts for implementing the REP, including a request for comments on a proposed IOU Settlement Agreement. The Settlement Agreement BPA offered for comment on May 5 contained benefits that were comprised of proposed power sales and monetary payments. The power sales proposed under the Settlement Agreement were sales under section 5(b) of the Northwest Power Act. *See* 16 U.S.C. § 839c(c) (1994 & Supp. III 1997). However, as BPA stated in its Power Subscription Strategy, released on December 21, 1998, power sales in its proposal for settling the REP could be based either under section 5(b) or 5(c) of the Northwest Power Act. In the background document included with BPA's May 5 letter, BPA noted that it had not prepared a prototype Settlement Agreement based on a power sale under section 5(c) of the Northwest Power Act, but that it would consider such proposals if they were made.

In a letter dated July 27, 2000, MPC requested that BPA provide a settlement offer including firm power benefits under section 5(c) of the Northwest Power Act. BPA prepared a draft Settlement Agreement reflecting a section 5(c) power sale. The proposed settlement, attached to BPA's July 28, 2000, letter, was very similar to the proposed agreement that BPA issued for public comment with BPA's May 5, 2000, letter. Instead of providing an IOU Firm Power Block Sales Agreement (Block Sales Agreement) for a specified amount of firm power under section 5(b) of the Northwest Power Act, this proposed section 5(c) prototype agreement provided a specified amount of firm power under a Negotiated In Lieu Agreement.

On October 4, 2000, the BPA Administrator issued a decision document entitled "Residential Exchange Program Settlement Agreements With Pacific Northwest Investor-Owned Utilities, Administrator's Record of Decision," which concluded that it was appropriate to offer the REP Settlement Agreements to regional IOUs. The REP Settlement Agreements were then executed the same month. One of the regional IOUs executing a settlement agreement was Puget.

G. BPA's 2002 Wholesale Power Rate Case

On August 13, 1999, BPA published a notice of BPA's *2002 Proposed Wholesale Power Rate Adjustment, Public Hearing, and Opportunities for Public Review and Comment.* 64 Fed. Reg. 44,318 (1999). This began a lengthy and complex hearing process that concluded with BPA's *2002 Final Power Rate Proposal, Administrator's Record of Decision*, in May 2000 (May Proposal). 16 U.S.C. § 839e(i). In July, 2000, BPA filed its proposed 2002 wholesale power rates with the Federal Energy Regulatory Commission (FERC) for confirmation and approval. 16 U.S.C. § 839e(a)(2). Subsequent to that time, however, during the late spring and summer months, the West Coast power markets suffered price increases and volatility that had not been seen before. By August, it was clear that these market prices were not a short-term phenomenon. This meant that BPA's cost-based rates, which were already below the original market forecast, were even more attractive. Thus, BPA assumed that additional load would be placed on BPA, and BPA would need to purchase additional power to augment the Federal Columbia River Power System (FCRPS) supply. BPA determined that the implications for cost recovery were so serious that a stay of the rate proceeding at FERC was requested. This enabled BPA to review the events that had occurred during the summer months and to determine whether the escalating prices and increased volatility would require remedial action.

Escalating and more volatile market prices had two related effects. First, the specter of higher prices and continued unpredictability caused customers to place as much load as possible on BPA. Second, to meet this increased load obligation, BPA would need to make substantially greater power purchases at substantially higher and more uncertain prices than anticipated in the May Proposal. BPA concluded that the May Proposal, as filed with the FERC, was not adequate to deal with the added costs and financial risks that the high and volatile market prices created for BPA.

During the initial phase of the rate case, BPA's load forecast exceeded BPA's forecast of generation resources by 1,732 average megawatts (aMW). Due to escalating and volatile market prices, BPA estimated that expected loads would exceed the original rate case forecast by an additional 1,518 aMW. Inasmuch as the generating capability of FCRPS was already inadequate to meet the earlier load forecast, BPA would have to purchase to further augment its inventory to serve these additional loads. The cost of power to serve these unanticipated loads was not included in revenue requirements.

The combination of an unanticipated increase in loads and purchase requirements, with higher and more uncertain market prices, greatly diminished the probability that rates proposed in the May Proposal would fully recover generation function costs. Absent a change to the May Proposal, Treasury Payment Probability (TPP) would be reduced to below 70 percent, a level that would fall well short of specific goals and targets. In its judgment, BPA had a serious cost recovery problem that it was obliged to address by reason of statute and Administration policy.

BPA's Amended Proposal rate case was a continuation of the WP-02 rate proceeding. It was being conducted for the discrete purpose of resolving a cost recovery problem brought about by market price trends and load placement changes occurring since the record was closed in the first phase of the proceeding. During the consideration of the Amended Proposal, however, BPA concluded that it was necessary to make additional changes to ensure BPA's cost recovery. BPA then filed a Supplemental Proposal. There were three reasons BPA filed a Supplemental Proposal. First, BPA's forecast for starting rate period reserves had dropped very substantially since the forecast in its Amended Proposal. Second, market prices available for power during the first two years of the rate period were significantly higher than BPA had forecast in the Amended Proposal. Regardless, BPA would have prepared an update to the Amended Proposal to show the impact of these revised forecasts on BPA's proposed rates. The third reason was that, as a result of discussions with the rate case parties, BPA reached a Partial Settlement Agreement with many of those parties. Part of that agreement was that BPA would file a Supplemental Proposal reflecting the Partial Settlement Agreement.

Since BPA filed its Amended Proposal in December 2000, forecasts for run-off for the water year had declined substantially. Water Year forecasts in BPA's 2002 Final Power Rate Proposal (May Proposal) and Amended Proposal assumed average water for both this FY 2001 and for the next five years of the rate period – 102.4 million acre feet (MAF). By contrast, the current year could be the second lowest runoff year on record, with current runoff forecasted at under 60 MAF. These conditions would require BPA to purchase much more power this year than expected to meet loads, at extremely high prices, and to reduce the amount of surplus energy BPA can sell this year. As BPA described in its Amended Proposal, prices in the wholesale electricity market had been extremely volatile and high. BPA had seen these increased market prices during this year. In fact, during one week in January alone, BPA purchased over $50 million in power to meet load. This was putting tremendous pressure on BPA's end-of-year reserves. End-of-year reserves translate into starting rate period reserves. In BPA's May Proposal, starting reserves were estimated to be $842 million on an expected value basis. In BPA's Amended Proposal, starting reserves expected value estimates had increased to $929 million. Then, the expected value of BPA's starting reserves estimate dropped to $309 million. There is still a significant range of uncertainty surrounding this estimation of starting reserves. This is driven by some unknown factors for the rest of this fiscal year around hydro operations related to fish requirements, run-off levels, and the volatility in market prices.

Starting reserves are a key risk mitigation tool in BPA's Supplemental Proposal. A significant drop in starting reserve levels, without other adjustments, reduces Treasury Payment Probability (TPP) for the five-year rate period. Therefore, in order to offset this decline, and maintain a TPP level within the acceptable range, adjustments to other tools need to be made.

Market prices during the rate period are higher in the first years of the rate period, ranging from $200/megawatthour (MWh) to $240/MWh for FY 2002, and then dropping during the last years of the rate period, to a range between $40/MWh and $60/MWh in FY 2006. This compares with a risk-adjusted expected price forecast in the Amended Proposal for the five-year rate period around $48/MWh, where expected prices for individual years did not vary by more than $5/MWh from the $48/MWh average.

Because BPA will be in the market purchasing power to serve load during the next five years, BPA's purchase power costs will fluctuate as market prices change. Because the potential levels of power purchases and prices are so great, BPA needs to concern itself not only with annual or rate period totals, but with the seasonal and semi-annual timing of costs and revenues. In order to maintain TPP at an allowable level, all other things being equal, the expected value for the average rate over the five years will be higher with an average flat rate than with a rate shaped to match the expected market. Therefore, BPA revised the LB CRAC so that its expected revenues closely match the shape of its augmentation costs. In summary, BPA's Supplemental Proposal suggested that BPA's customers could see much higher prices during the October 1, 2001, to September 30, 2006, rate period.

H. Administrator's Call for Rate Mitigation Efforts

On April 9, 2001, the BPA Administrator delivered a speech to the citizens of the Pacific Northwest regarding the potential impact of BPA's proposed rate increase and possible ways to reduce the impact of the increase. The text of the speech follows:

Last January, I sent out a letter to Northwest citizens that caused some shock waves. That was my intent. I believe it is important to warn of bad news while there is still time to take actions that can lessen the impact. At the time, I said that, if certain conditions persisted, BPA's customers--Pacific Northwest utilities and direct-service industries--could face a significant rate increase for the wholesale power they buy from the Bonneville Power Administration. The figures I cited then were for an average rate increase of 60 percent over the five-year rate period that starts this coming October. I cautioned that the increase could be as high as 90 percent in the first year.

Unfortunately, the situation has worsened. It now appears possible that, without the kinds of action that I am about to call for today, the first-year increase could be 250 percent or more. If that were to occur, it likely would translate into doubling the retail rates in many utility service areas.

An increase of this magnitude would have widespread economic consequences. Already, we are seeing some businesses curtail operations or even close as a result of high energy prices. With such an increase, we'd surely see more businesses close and more job losses, with people with lower incomes suffering disproportionately. In addition, a weak economy frequently translates into less public support for environmental protection.

I don't believe these consequences are acceptable. More importantly, I don't believe they are inevitable. That's why I am here today to call for some very specific actions and to call on all stakeholders in the Pacific Northwest to own part of the process that will help us avert an economic blow to our region. I believe we can get the rate increase down to a manageable level, but we need to make some tough decisions, and we have little more than 60 days to do this. BPA's rates, which will go into effect in October, should be submitted to the Federal Energy Regulatory Commission in June.

First, let me review what has led us to this point. Some of it you already know. We are experiencing the second worst water year in 72 years of record-keeping. According to a report released by the Northwest Power Planning Council, if the drought persists, the hydropower generating capability in the Northwest from March through August will be 4,700 megawatts below normal over those months--the equivalent power consumed by four Seattles. The implications are ominous since the Northwest relies on hydropower for nearly three-quarters of its electricity.

But the summer drought is only the immediate crisis. We are becoming increasingly concerned about power supply for the coming winter. Canadian reservoirs, which store half the system's water, are extremely low this year, which means we could start next year with less than a full tank. If that were to happen, and especially if we have a second dry year in a row, electricity reliability wouldn't be the only thing at risk. Low reservoir levels also raise concerns for salmon and steelhead next year.

Low water combined with a tight wholesale power market and skyrocketing power prices is a devastating combination. The fiasco in California has helped drive wholesale electricity prices to unprecedented levels. When we completed our new Subscription power contracts last fall, BPA's contractual obligations added up to approximately 11,000 megawatts--about 3,000 megawatts more than our current generating resources can provide on a firm basis. The only way we can meet our obligations is to buy the vast majority of the additional power in a wholesale power market where supplies are tight and prices are sky high. This is what is driving rates up.

This year, due to the high power prices, BPA has not been able to purchase sufficient power to ensure system reliability. Consequently, we have periodically declared power system emergencies. These emergency declarations have allowed us to increase power generation from the river and reduce operations that offer benefits to migrating juvenile fish. The increased generation has reduced the amount of water that is normally stored at this time of year so that it can be used to augment spring and summer river flows. While there may be some impact on fish, by far the major impact on fish is the drought itself, not the emergency power operations. We are continuing to implement all other aspects of the federal measures for fish recovery.

Currently, we are operating the river on an emergency basis, and we can continue some fish spill or flow augmentation only as long as water volume does not dip much below current estimates. The record low runoff is a water volume of 53 million-acre feet. As of last week, the volume forecasts had dropped to 56 million-acre feet, which is 53 percent of the normal runoff. This severely limits our flexibility to do much more than meet power needs.

Beyond the current drought, high power prices are expected to continue until significant new generation and additional conservation measures are put in place. This will take a couple of years at best. And, we can't expect much help from Canada, which also is suffering drought, nor any help from California, which is in the throes of an electricity restructuring crisis.

We must focus instead on what we can control if we expect to minimize the size of the coming wholesale rate increase. The most immediate and direct way to decrease the size of next year's rate increase is quite simply to decrease the amount of power BPA has to buy in the market.

We already have taken a number of extraordinary steps in this direction. We have promoted conservation aggressively and sought voluntary curtailments in power use. We have begun to purchase curtailments from our direct service industrial customers and from irrigators who are served by our utility customers. We have offered innovative incentives for development of conservation and renewables, and we have engaged in beneficial 2-for-1 power exchanges with California. We also are continuing to collaborate with the Corps of Engineers and Bureau of Reclamation to increase the productive capability of the federal power system.

But even these extraordinary measures haven't been enough in the face of the triple whammy of historic low water conditions, an extremely tight power market and enormous volatility in power prices. We now need to up the ante if we are to get the rate increase for the next year down to a manageable level.

We literally are at a crossroads, and the region has essentially two options. Path A is to wait and see where market prices settle in June. Under this scenario, we'd rely on cost recovery mechanisms to kick up rates if prices remain high. We would take no special actions and we wouldn't push or negotiate with our customer groups to secure load reductions. The risk is that, if market prices stay the same, we could expect to see a first year rate increase in the 200 to 300 percent range, and possibly greater.

Then there's Path B, which calls for aggressive and immediate steps to reduce the size of the rate increase by reducing the amount of electricity demand put on BPA. Under this scenario, BPA would not have to buy as large an amount of power in a very expensive wholesale power market. It's a strategy that calls on our customers and other stakeholders to share a sacrifice by reducing their demands for power. It requires significant, and I mean significant, contributions from all customer groups. It could keep the first-year rate increase below 100 percent. I believe Path B is the course we must choose, so let me lay out some of the actions that will move us along this path.

As I discuss this path, let me outline the principles I believe are key to reducing rates. First, rates must be set to cover costs if we are to avoid creating a credit problem, which could lead to refusals to sell to us in the future. We must also cover our costs to ensure we preserve the benefits of the federal hydropower system over the long term, which is essentially the bottom line.

Second, the situation is urgent. We must act quickly because rates must be in effect this coming October 1. As I said earlier, our rate proposal is due in to the Federal Energy Regulatory Commission in June.

Third, our problem is caused by a significant exposure to a volatile market in the first one-to-two years of the rate period. If we are to manage a reduction in the rate increase, we must reduce our exposure to that market by reducing demand for energy, increasing our supply and minimizing the short and long-term damage to the region's economy.

Fourth, contributions to the solution are needed from all customers. We can't play a game a chicken where each party waits for the other to step forward. If that happens, no one will step forward. Each group must contribute if we are to preserve an equitable distribution of the benefits of our hydropower resource.

. . .

Given those principles, let me outline the actions we as a region need to take. We need a three-pronged approach that includes curtailment of power use, conservation--or more efficient use of power--and power buybacks. This needs to happen across all four states, across public and private power, and across all sectors of energy use--industrial, commercial, agricultural and residential. It will take all of us working together if we are to avoid severe economic hardships for the region. Let me be clear; what I am about to suggest requires a great deal of sacrifice, but the alternative is to suffer far more serious consequences. We are beginning negotiations now with our customers. If people don't come to the table with reductions in their demand for electricity, a very large and very damaging rate increase is inevitable.

First, we are calling on our public utility customers to make a contribution to the solution. We need every utility customer to reduce its Subscription purchases from BPA by 5 to 10 percent. BPA's rate increases will spur some of this reduction, but more focused efforts are needed if we are going to achieve significant savings. We are willing to make modest incentive payments to help achieve this, but the incentive payments cannot be large or they will defeat the intended effect.

We are running several demand-side management initiatives including a conservation and renewables discount, a conservation augmentation program and a demand exchange program. In addition, we now are discussing the potential for new programs to provide incentives to our public utility customers to adopt innovative retail rate structures that encourage their consumers to conserve energy.

Second, we are calling on investor-owned utilities to make a contribution. When our new rates go into effect this October, investor-owned utilities--or IOUs--will receive sizable benefits from BPA for their residential and small farm customers as a result of a the residential exchange. Under this program, as it is set out in the Subscription period, 1,900 average megawatts of financial and power benefits are scheduled to go to the IOUs. But, because of dramatic changes in market prices, the estimated value of these benefits has increased enormously since they were negotiated a year ago. By 2002, the value will be 10 times higher than the negotiations intended to capture. As a result, IOUs are in a position to reduce their Subscription demand significantly and still enjoy benefits in excess of anything they have experienced in the 20-year history of the residential exchange.

Third, we are asking our direct service industries--or DSIs--to agree not to take power from us for up to the first two years of the rate period in return for certain limited compensation to the companies and their workers. It is our expectation that the companies would not be able to operate given a potential tripling of our rates anyway. Coming to an agreement now that the plants will not operate would allow BPA to avoid making power purchases, thereby decreasing our rates for all remaining customers.

It is not our intention to drive the aluminum industry out of the region, but we are continuing to encourage the industry to move off of BPA power supplies after the 2006 rate period because we do not have a statutory obligation to continue to serve them. The customers we are obligated to serve--the region's retail electric utilities--need more than our current generation resources can produce. We will work with these companies to help them find a means to operate profitably in the long run without relying on BPA.

Almost all of the DSIs are already shut down until this fall, and their power is being remarketed to support Northwest needs during the current drought. These buydowns played a key role in keeping the lights on this winter and in maintaining reservoir levels higher than they otherwise would have been.

Fourth, I am urging all citizens of the Northwest to heed the call of our governors to reduce electricity consumption by 10 percent through eliminating waste and using electricity more efficiently. There are a number of common sense measures we can all take, and one good place to start right now is to go out and replace conventional light bulbs with compact fluorescents, which consume about 20 percent of the electricity used by regular bulbs for the same amount of light.

These four sets of actions that I have described are urgently needed between now and June if we are to avert grave near-term economic consequences. These are difficult actions. But, with hindsight, we can learn from the problems California experienced and seek to avoid them. We need to do everything we can to avoid power purchases in this incredibly expensive market. We also need to make sure we set rates high enough so we can cover our costs to assure generators get paid when they deliver power on a contractual basis so we don't put our credit at risk.

We also are looking to longer-term solutions that will help lead to lowering the incredible wholesale power supply prices we are currently experiencing. The fundamental problem is supply and demand being out of balance. Prompt infrastructure investments are needed in generating resources, especially gas-fired and wind-powered generation; gas pipeline capacity and storage; electric power transmission facilities; and energy conservation measures.

BPA's [proposed] rates [may] now be set on a six-month basis based on our actual costs. If wholesale power prices can be brought down quickly, through infrastructure investments and other actions, then our rates will come down in the future. The faster these actions can be taken, the quicker our rates can come down.

We already have begun plans to shore up the transmission infrastructure, and we are negotiating to purchase the output from combustion turbines and new renewable resources. We also are increasing our efforts to encourage and procure energy efficiency. We are working to implement these actions quickly, but at best, some actions, such as securing more generation, will take one-to-two years.

That's why I am calling for cooperation and sacrifices for the next two years from all parties BPA serves. If the region cannot or will not take the actions necessary to reduce the rate hike, we have no recourse but to set our rates to recover our costs. BPA does not receive subsidies from taxpayers. We must wholly cover our costs with revenues we receive from sales of power and transmission. We are obligated to repay, with interest, all capital investments that have been made by the federal government in the facilities that are part of the Northwest's federal power system. Already, we have drawn on our financial reserves heavily this winter, and more of the same still may be ahead of us.

Some have suggested that we can simply fail to pay one of our largest creditors--the U.S. Treasury--rather than declare power emergencies or raise rates sharply. While there is no absolute guarantee we will make our full Treasury payment this October, I believe we should use all management tools available to do so. Our ability to pay our debt in full

> and on time is the best protection the Northwest has to preserve the benefits of the Columbia River hydropower system for the region. There are interests outside the region that want to see the benefits of this system directed toward other purposes. They could take great political advantage of the opportunity that would be presented if BPA did not cover its costs. One consequence could be the loss of cost-based rates for power from the federal system. We have seen how exorbitant market rates can be. If that were to happen, the region would be looking at far higher rate increases than we are now facing.
>
> So, in closing, let me underscore the message. We are on a trajectory that poses grave consequences for the Pacific Northwest, primarily due to extraordinary conditions beyond our control--extremely low water, an extremely tight power supply and extremely high wholesale power prices. We believe the only alternative to a huge rate hike is to reduce our exposure to the market in the first two years of the next five-year rate period by reducing the Subscription demand on BPA. It will take major contributions from all our customers if we are to prevent a triple digit rate increase. And, we will need to make these very difficult decisions very quickly.
>
> Finally, we believe this proposal, while not an easy one to achieve, fairly balances the sacrifices the region needs and does not unfairly hit one customer group or one state over others. I know putting these proposals into place will be tough, but I believe the consequences of not taking this path will even be tougher.

Thus, the Administrator asked the regional IOUs to contribute to the mitigation of BPA's potentially difficult rate increases. The Administrator's reasoning regarding Puget's Amended Settlement Agreement, which helps to address this concern, is addressed below.

PUGET'S AMENDED SETTLEMENT AGREEMENT

The Northwest Power Act establishes a Residential Exchange Program to provide benefits to residential and small farm consumers of Pacific Northwest utilities. Also, BPA implements the REP through the offer, when requested, of a Residential Purchase and Sale Agreement. On October 31, 2000, BPA and Puget entered into Contract No. 01PB-12162 (the "Settlement Agreement"), for the purpose of settling the their dispute over implementation of rights and obligations for the REP under the Northwest Power Act, and such Settlement Agreement provides, among other things, for BPA to provide Puget with Firm Power and Monetary Benefits to settle the REP. The term of the Settlement Agreement continues through September 30, 2006.

Since the execution of the Settlement Agreement, BPA and Puget have agreed that BPA will, rather than deliver Firm Power to Puget for the first 5 years of the Settlement Agreement, make cash payments to Puget during the period that begins October 1, 2001, and ends on September 30, 2006. BPA plans to use the Firm Power not sold to Puget to meet deficits in resources necessary to meet loads of publicly-owned and cooperative customers in its firm load obligations in the Pacific Northwest. BPA and Puget have also agreed to extend the term of the settlement under the Amended Settlement Agreement (Agreement) through the period from October 1, 2006, through September 30, 2011, on the same terms and conditions as are in the corresponding Residential Exchange Settlement Agreements and Firm Power Block Sales Agreements for other investor-owned utilities for such period.

BPA and Puget acknowledge that issues have been raised regarding the Settlement Agreement and they wish to affirm their intent to settle their obligations during the period from July 1, 2001, through September 30, 2011, under or arising out of section 5(c) of the Northwest Power Act. BPA and Puget desire to enter into the Amended Settlement Agreement in order to supersede the Settlement Agreement in its entirety for the purpose of replacing the delivery of Firm Power by BPA to Puget with cash payments during the period that begins October 1, 2001, and ends on September 30, 2006; extending the term of the Settlement Agreement until September 30, 2011; and affirming their intent to settle their rights and obligations during the period from July 1, 2001, through September 30, 2011, under or arising out of section 5(c) of the Northwest Power Act.

A number of issues arose during the negotiation of the Amended Settlement Agreement. The reasoning supporting the resolution of these issues is addressed below.

1. TERM

As noted previously, the intent of the Amended Settlement Agreement is to provide Puget cash payments in lieu of firm power deliveries under the Settlement Agreement for the first five years of that agreement. Therefore, the Amended Settlement Agreement takes effect on the date signed by the Parties. Performance of the Agreement begins on July 1, 2001, and continues through September 30, 2011, unless terminated prior to that date.

2. DEFINITIONS

The Parties agreed to certain defined terms in order to implement the Agreement. These terms are generally consistent with the defined terms in the Settlement Agreement.

3. EFFECT ON EXISTING AGREEMENTS AND SECTION 5(c) OBLIGATIONS

(a) Existing Settlement Agreement

BPA and Puget determined that the most efficient way to effect the shift from power to cash benefits for the first five-year period and to extend the term of the Agreement to ten years was to develop a new amended agreement. Therefore, the Amended Settlement Agreement replaces and supersedes in its entirety the Settlement Agreement, including the Firm Power Block Sales Agreement, executed by BPA and Puget (RL only), Contract No. 12168.

(b) Satisfaction of Section 5(c) Obligations

The purpose of the Agreement is for BPA to provide Puget with power and financial benefits in order to effect full and complete satisfaction of all of its obligations during the period from July 1, 2001, through September 30, 2011, under or arising out of section 5(c) of the Northwest Power Act. Section 3(b) notes that BPA will provide to Puget: (1) cash payments for the period that begins July 1, 2001, and ends on September 30, 2001; (2) beginning October 1, 2001, through September 30, 2006, cash payments and Monetary Benefits; and (3) beginning October 1, 2006, through September 30, 2011, Firm Power or Monetary Benefit payments, or both. In turn, Puget agrees that the cash payments, Firm Power or Monetary Benefits, or both, provided under the Agreement satisfy all of BPA's obligations during the period from July 1, 2001, through September 30, 2011, under or arising out of section 5(c) of the Northwest Power Act.

(c) Invalidity

BPA and Puget have worked diligently to ensure that the Settlement Agreement and this Agreement are legally sound and will be effective for their respective terms. Some BPA customers, however, have been extremely litigious regarding the implementation of BPA's Power Subscription Strategy. Given this environment, an invalidity provision addresses the possibility, hopefully slight, that a challenge might render the agreements invalid. Section 3(c) of the Agreement provides that in the event the United States Court of Appeals for the Ninth Circuit finally determines that the Agreement (or specified sections of the Agreement) is unlawful, void, or unenforceable, then the satisfaction of section 5(c) rights and responsibilities noted previously is no longer valid. BPA and Puget also agree that the cash payments, the Firm Power, and the Monetary Benefits provided prior to the court's final determination will be retained by Puget, and that the satisfaction of BPA's obligations to Puget under section 5(c) of the Northwest Power Act prior to such final determination will be preserved, to the maximum extent permitted by law. This would avoid a difficult and complicated process of determining a new agreement and retroactively implementing changes to the benefits for that period. Additional difficulties would lie in the ability of Puget and the state public utility commissions to implement such changes without creating potential economic harm to consumers. If cash payments, Firm Power and Monetary Benefits are not retained by Puget, then the satisfaction of BPA's obligations does not occur. These provisions are also severable in the event that there is a determination that any other provision of this Agreement (or the exhibits) is unlawful, void, or unenforceable.

(d) Negotiation of New Agreement if the Agreement is Held Invalid

Section 3(d) of the Agreement provides that if the Agreement (or payment under specified sections of the Agreement) were finally determined to be unlawful, void, or unenforceable, then both BPA and Puget agree to negotiate in good faith a new, mutually acceptable agreement that would, until the end of its term, be in satisfaction of BPA's obligations under or arising out of section 5(c) of the Northwest Power Act. The term of such new agreement would continue for the remaining term of the Agreement.

(e) Payments by BPA for July 1, 2001, through September 30, 2001

There was a three month gap between the end of the previous RPSA settlements, June 30, 2001, and the beginning of the new Subscription contract period, October 1, 2001. BPA and Puget previously negotiated fixed settlement payments for this three month period. These payments are reaffirmed here.

4. SETTLEMENT BENEFITS

BPA has negotiated cash payments to Puget for two different time periods. During the first year of the Agreement, from October 1, 2001, through September 30, 2002, BPA has negotiated a cash payment based on two different principles. Under the first principle, Puget has agreed to reduce BPA's obligation to deliver firm power by 10% (or 37 annual aMW) in exchange for a cash payment of $20 per MWh. This payment is substantially below the market value for a one-year purchase of firm power from the wholesale market and represents Puget's contribution to the regional effort to reduce BPA's wholesale rate increase. This reduced payment is contingent on BPA's other customers contributing to the regional effort as further described below in the section on load reduction contingency. If the contingencies in the load reduction provisions occur, this payment will increase to $38 per MWh.

Under the second principle, the balance of the first year payment for the remaining 331 annual aMW of firm power and the payments for the remaining four years for 368 annual aMW is based on a cash payment of either $38 or $45.49 per MWh depending on the results of settlement discussions among Puget and BPA's public agency customers. This payment reflects the value to BPA of avoiding a purchase of wholesale firm power for a five-year period.

During the one-month period of negotiation of this Agreement, the market price for five year purchases of firm power has varied between $100 per MWh and $65 per MWh, reflecting the current high and volatile market prices. If BPA had supplied firm power to Puget, BPA forecasts that the rate paid by Puget would average between $25-$38 per MWh depending on market prices and assumptions made about BPA's success in reducing its wholesale rates through the current regional effort. BPA believes that the payment to Puget is a reasonable payment by BPA to avoid a purchase in the wholesale market and a subsequent sale by BPA to Puget.

Monetary Benefits are continuing to be provided to Puget during the first five-year period in the same manner as such benefits were previously provided in the Settlement Agreement between BPA and Puget.

BPA and Puget are also extending the Agreement for the period from September 30, 2006, through September 30, 2011. Previously, Puget was the only IOU to have chosen a five-year settlement term instead of a 10-year settlement term. During the negotiations to provide Puget cash benefits instead of Firm Power in order to help reduce BPA's proposed wholesale power rates, BPA and Puget also reviewed the term of the Agreement. BPA and Puget believed it was appropriate to provide Puget the same term of the Agreement that other IOUs have taken in the Settlement Agreements. The benefits provided to Puget for the second five-year period may be provided in Firm Power, Monetary Benefits, or both. These benefits are provided under the same terms and conditions that benefits are provided to the other IOUs for the October 1, 2006, through September 30, 2011, contract period. These benefits are discussed in greater detail in the "Residential Exchange Program Settlement Agreements with Investor-Owned Utilities, Administrator's Record of Decision," October 2000.

(a) Total Benefits

(1) October 1, 2001, through September 30, 2006

Section 4(a)(1) of the Agreement provides that BPA will provide Puget a total benefit comprised of cash payments and Monetary Benefits. Monetary Benefits are established in the same manner and amount as in Puget's original Settlement Agreement.

(2) October 1, 2006, through September 30, 2011

Section 4(a)(2) of the Agreement provides that BPA will provide Puget a total benefit comprised of Firm Power and Monetary Benefits, both of which are expressed in annual aMW. This total benefit is 648 aMW. These benefits are the amount BPA originally offered Puget under its Settlement Agreement. *See* Residential Exchange Program Settlement Agreements with Pacific Northwest Investor-Owned Utilities, Administrator's Record of Decision.

(b) Cash Payments and Firm Power Sale Portion of Total Benefits

(1) Cash Payments

Section 4(b) of the Agreement provides that BPA will make specified monthly cash payments to Puget as described above.

(A) October 1, 2001, through September 30, 2002

During the period that begins October 1, 2001, and continues through September 30, 2002, BPA will pay Puget monthly amounts of $9,722,140. However, if one or more load reduction contingency provisions in section 4(b)(1)(D) have occurred, then the total monthly payment is increased to $10,208,320.

(B) October 1, 2002, through September 30, 2006

During the period that begins October 1, 2002, and continues through September 30, 2006, BPA will pay Puget monthly amounts equal to $12,671,749. This Base Payment amount (which is $12,706,466 during a leap year) is the monthly amount subject to reduction by the Reduction of Risk Discount. A number of BPA's customers have filed legal challenges of BPA's Settlement Agreements with investor-owned utilities. If, by December 1, 2001: (i) Puget, after the date of execution of this Agreement, enters into a settlement agreement with one or more of BPA's publicly-owned utility and cooperative customers (the sufficiency of such group to be solely determined by Puget) waiving and dismissing legal challenges to this Agreement; or (ii) if Puget has entered into a Settlement Agreement described in (i) above and fails to dismiss its legal challenges, if any, to: (a) the RPSA Record of Decision (ROD); (b) the Power Subscription Strategy RODs, including the Residential Exchange Program Settlement ROD; and (c) the application of the 7(b)(2) surcharge to BPA's WP-02 rates; or (iii) legislation having the effect of the legislation described in Exhibit C is enacted prior to December 1, 2001, then the Base Payment is reduced by the Reduction of Risk Discount to the Net Payment amount of $10,208,320 ($10,236,288 during a leap year).

(C) Cash Payment Adjustments Due to Application of Safety Net Cost Recovery Adjustment Clause (SN CRAC) and Dividend Distribution Clause (DDC) to BPA Firm Power Sales

BPA has negotiated one exception to the cash payment it makes to Puget under this Agreement. BPA's wholesale power rates include an SN CRAC. The SN CRAC is designed to ensure that BPA can cover its costs as soon as possible if BPA fails to meet one of its Treasury payments. If BPA is in a situation where it must impose the SN CRAC under its wholesale power rates, BPA will reduce its monthly payments to Puget under this Agreement. BPA's monthly payments would be reduced in the same amount as the increase in rates to BPA's preference customers under the SN CRAC for the amount of firm power that BPA has converted to cash payments under the Agreement. This provision ensures that Puget's residential and small farm customers share in the resolution of any emergency that threatens BPA's ability to recover its costs.

BPA's wholesale rates also include a DDC. The DDC is designed to return money to BPA's wholesale power customers if market and other conditions result in BPA's cash reserves reaching certain levels. BPA has agreed that it will make an offsetting adjustment to Puget's monthly payments if BPA has made payments to its firm power customers under the DDC. These increased payments are only made after DDC payments made to firm power customers and are limited to the amount of any reduction in payments due to imposition of the SN CRAC.

(i) Adjustment to Cash Payments Resulting from SN CRAC and SN CRAC Balancing Account

This section of the Agreement calculates the reduction in the monthly payment to Puget under the Agreement in the event that BPA imposes an SN CRAC on its firm power customers. BPA records the amount of any such reductions in an SN CRAC Account.

(ii) DDC Balancing Account

This section determines if BPA has made DDC payments to its firm power customers. BPA records the amount it would have paid a preference customer for 331 aMW of power in Contract Year 2002 and 368 aMW in each year of Contract Years 2003-2006. BPA records such amount in a DDC Account.

(iii) Adjustment to Cash Payments Resulting from Amounts in SN CRAC Account and DDC Account

There are two situations where BPA increases the monthly payment to Puget to reflect reduced payments from imposition of an SN CRAC. The first situation occurs when BPA has imposed an SN CRAC and then makes a DDC payment at a later date. BPA has agreed that it will increase the cash payment under the Agreement within nine months of the first DDC payment. The increased payments are designed to return any reduction in payments recorded in the SN CRAC account up to the amounts recorded in the DDC Account.

The second situation occurs when BPA imposes an SN CRAC after BPA has made DDC payments at an earlier date. BPA has agreed that it will increase the cash payment under this Agreement within nine months of the SN CRAC reduction. The increased payments are designed to return any reduction in payments recorded in the SN CRAC Account up to the amounts recorded in the DDC Account.

(D) Load Reduction Contingency

When BPA proposed that its customers all contribute to BPA's rate reduction efforts, a number of customers and other interested stakeholders requested that BPA include a provision that ensured that any single customer would not be the only customer modifying its contract to reduce its obligation on BPA. BPA agreed to include a load reduction contingency provision that operated to terminate the customer's obligation to BPA if certain contingencies occurred. BPA has offered to include this provision in all of its rate reduction contracts where customers are taking actions that are valued below their market value. Under the Financial Settlement Agreement, BPA's payment to Puget will increase from \$20 to \$38 per MWh if any of the contingencies occur on the effective date for the particular contingency. These contingency provisions only apply to payments during the period from October 1, 2001, until September 30, 2002. Any contingencies that are effective after that date will have no effect on payments to Puget.

The first contingency is whether BPA adopts the proposed rate case settlement entered into by the Joint Customer Group and BPA staff. If the Administrator elects to not adopt that settlement in his final decisions in Docket No. WP-02, the load reduction contingency occurs and the payments to Puget will increase effective October 1, 2001. Under such settlement proposal, BPA would implement a Load Based Cost Recovery Adjustment Clause (LB CRAC) that assumes that BPA will purchase from the wholesale market any remaining amounts of power needed to augment BPA's system to serve its Subscription obligations.

The second contingency is whether BPA achieves a sufficient amount of rate reduction agreements with its public agency, investor-owned utility and direct service industrial customers during the first six month period of the LB CRAC calculation. The second contingency measures the amount of purchases BPA makes from the market in the LB CRAC calculation excluding purchases from BPA's public agency, investor-owned utility and direct service industrial customers during the period from April 10, 2001, through the calculation of the LB CRAC in late June. If BPA does not achieve approximately 1450 aMW over the initial six month period in reductions of market purchases, the load reduction contingency occurs and payments to Puget will increase effective on October 1. This provision assures any individual customer that they are not the only customer participating.

The third contingency is whether BPA achieves a sufficient amount of rate reduction agreements with its public agency, investor-owned utility and direct service industrial customers during the second six-month period of the LB CRAC calculation. The third contingency measures the amount of purchases BPA makes from the market in the LB CRAC calculation excluding purchases from BPA's public agency, investor-owned utility and direct service industrial customers during the period from April 10, 2001, through the calculation of the LB CRAC in late June and extensions of purchases with such customers entered into prior to April 10, 2001. If BPA does not achieve approximately 1250 aMW over the second six month period in reductions of market purchases, the load reduction contingency occurs and payments to Puget will increase effective on April 1. This provision assures any individual customer that they are not the only customer participating during this period.

The fourth contingency measures the end of the load reduction emergency by examining the amount of direct service industrial load BPA forecasts to serve in its calculation of the LB CRAC. If the forecast amount of direct service industrial load exceeds 400 aMW per month over the six month period of a LB CRAC calculation, the load reduction contingency occurs and payments to Puget will increase at the start of the six month period included in the calculation of the LB CRAC.

The fifth contingency measures the end of the load reduction emergency by examining the actual amount of direct service industrial load served by BPA. Once BPA starts serving more than 400 aMW per month during any six month period, the load reduction contingency occurs and payments to Puget will increase at the start of the month following the determination.

(E) No Other Adjustments to Cash Payments

Section 4(b)(1)(E) of the Agreement clarifies that except as provided in specified subsections, there are no other adjustments to the cash payment amounts under the Agreement.

(2) October 1, 2006, through September 30, 2011

Subject to the terms of the Agreement, BPA will, no later than October 1, 2005, notify Puget in writing of the amount of Firm Power in annual aMW that will be provided to Puget during the period that begins October 1, 2006, and ends on September 30, 2011. The terms and conditions for this sale will also be as provided for in the Firm Power Block Power Sales Agreement, and that agreement will be amended by the BPA and Puget to reflect the amount of Firm Power to be sold during such period. BPA will not offer an amount of Firm Power that exceeds Puget's net requirement at the time of the notice issued by BPA. Prior to issuing such notice, BPA will consult with Puget regarding its desire for Firm Power or Monetary Benefits.

If Puget does not purchase any Firm Power during the period from October 1, 2001, through September 30, 2006, Puget will establish an initial net requirement under Exhibit C of the Firm Power Block Power Sales Agreement by August 1, 2005, for Contract Year 2007. Puget will execute a contract including the terms and conditions of the Firm Power Block Power Sales Agreement, and the information provided on net requirements by January 1, 2006, if BPA notifies Puget that a portion of its benefits will be provided as Firm Power.

If the RL Rate calculated at 100 percent annual load factor for the period from October 1, 2006, through September 30, 2011, exceeds the Lowest PF Rate for the same 100 percent annual load factor during such period, Puget may, by written notice to BPA within 30 days after BPA published its power rate case ROD, notify BPA that it will convert its entire Firm Power purchase under the Firm Power Block Power Sales Agreement to Monetary Benefits for the remaining term of the Agreement.

(c) Monetary Benefit Portion of Total Benefits

(1) Amount of Monetary Benefit

(A) October 1, 2001, through September 30, 2006

BPA will provide 332 annual aMW to Puget in Monetary Benefits for the period that begins October 1, 2001, and continues through September 30, 2006. This amount is the same amount of Monetary Benefits included in Puget's original Settlement Agreement.

(B) October 1, 2006, through September 30, 2011

No later than October 1, 2005, BPA will notify Puget in writing of the amount of Monetary Benefit, expressed in annual aMW, for which payments will be made to Puget during the period from October 1, 2006, through September 30, 2011.

(2) Determination of Monetary Benefit Monthly Payment Amounts

For both the period from October 1, 2001, through September 30, 2006, and October 1, 2006, through September 30, 2011, the Monetary Benefit monthly payment amounts will be determined in accordance with a formula. The formula is the Forward Flat-Block Price Forecast established in the same BPA power rate case as that which established the RL Rate during the relevant rate period, multiplied by the RL Rate calculated at 100 percent annual load factor, multiplied by the Monetary Benefit amount in annual aMW, multiplied by 8,760 hours; divided by 12 months.

(3) Exception to Use of RL Rate in Sections 4(c)(2)(A) and 4(c)(2)(B)

If there is no RL Rate in effect or the RL Rate exceeds the Lowest PF Rate, then the Lowest PF Rate will replace the RL Rate in the payment formulas. Use of the Lowest PF Rate in such event will apply to Monetary Benefits provided in accordance with sections 4(b)(2)(C) and 4(c)(1).

(d) Payment Provisions

This section of the Agreement provides that BPA will pay Puget monthly cash payments, Monetary Benefits and monthly installments. These payment amounts are netted against the monthly payment amounts that Puget owes BPA for Firm Power purchases. If the monthly cash payments, Monetary Benefits and monthly installments exceed what Puget owes BPA for Firm Power, then BPA will pay Puget either on the due date of the bill under the Firm Power Sales Agreement or, if Puget is not purchasing power, within 30 days of the end of the calendar month for which cash payments and Monetary Benefits are due (Due Date). After the Due Date, a late payment charge is calculated at a prescribed rate. This section also provides that BPA will pay by electronic funds transfer using Puget's established procedures.

5. CASH PAYMENTS IF FIRM POWER NOT DELIVERED

Section 5(a) of the Agreement incorporates provisions from the Settlement Agreements regarding the conditions under which Firm Power is not delivered, and the determination of cash payments when such conditions occur. The conditions under which Firm Power is not delivered include where the amount of Firm Power purchased exceeds the utility's net requirement; where Firm Power is assigned to another entity that is not eligible for net requirement purchases; where there is an insufficiency; where there is a termination or decrement for the export of a regional resource; where Firm Power is not delivered due to a monthly purchase deficiency; and where the Block Sales Agreement is held invalid.

Section 5(b) establishes a formula for determining cash payment amounts when the conditions of section 5(a) occur. Section 5(c) provides that rather than receive payments under the default option described in section 5(b)(1), Puget may elect to offer BPA a put right for amounts of power not delivered pursuant to sections 5(a)(1) through 5(a)(4), and section 5(a)(6). Section 5(b)(2) establishes the terms of the exercise of the put right.

Section 5(b)(3) of the Agreement provides an exception to the use of the RL rate in determining cash payment amounts and implementation of the put right. If there is no RL Rate in effect or the RL Rate exceeds the Lowest PF Rate, then the Lowest PF Rate replaces the RL Rate in the formulas.

Section 5(b)(4) of the Agreement provides that if the monthly payment amount determined pursuant to the formulas is positive, then BPA pays the amount to Puget. If the amount is negative, then Puget pays the amount to BPA.

6. PASSTHROUGH OF BENEFITS

Section 5(c)(3) of the Northwest Power Act provides that the benefits of the REP are to be passed through directly to a utility's residential loads within a State. 16 U.S.C. §

839c(c)(3). Similarly, BPA and Puget have provided that the benefits from the Agreement are passed through in such a manner. Section 6(a) of the Agreement therefore provides that, except as otherwise provided in the Agreement, cash payment amounts received by Puget from BPA under the Agreement must be passed through, in full, to all residential and small farm consumers comprising Puget's Residential Load, as either (1) an adjustment in applicable retail rates; (2) monetary payments, or (3) as otherwise directed by the applicable State regulatory authority. Section 6(a) also confirms one manner in which cash benefits and Monetary Benefit amounts may be passed through to Residential Load.

Section 6(b) of the Agreement ensures that cash benefits under the Agreement must be distributed to Puget's Residential Load in a timely manner. This is accomplished by providing that the amount of benefits held by Puget will not exceed the expected receipt of monetary payments from BPA under the Agreement over the next 180 days. If the annual monetary payment is less than $600,000, section 6(b) permits Puget to distribute benefits on a less frequent basis provided that distributions are made at least once each contract year. Section 6(b) also permits the distribution of monetary payments in advance of its receipt of such payments from BPA in an amount not to exceed the expected receipt of monetary payments from BPA under the Agreement over the next 180 days.

Section 6(c) of the Agreement provides that the benefits will be passed through consistent with procedures developed by Puget's State regulatory authority(s). Cash payments under the Agreement will be identified on Puget's books of account in order that such benefits can be easily tracked. In addition, funds will be held in an interest bearing account, and will be maintained as restricted funds, unavailable for the operating or working capital needs of Puget. Also, benefits will not be pooled with other monies of Puget for short-term investment purposes. These provisions ensure that benefits will be provided only to Puget's residential and small farm consumers. The Agreement clarifies that once Puget has provided the benefits to its residential and small farm consumers by applying it as a credit on their bills, the funds are no longer restricted funds.

Section 6(d) provides that nothing in the Agreement requires that any power be delivered on an unbundled basis to residential and small farm customers of Puget or that Puget provide retail wheeling of such power.

7. AUDIT RIGHTS

Section 7 of the Agreement establishes audit rights that are virtual identical to the audit rights in the Settlement Agreement. BPA has audit rights to ensure that, even if benefits are passed through as directed by the applicable state regulatory authority, BPA can require that benefits only be passed through to eligible Residential Load. BPA retains the right to audit Puget at BPA's expense to determine whether the benefits provided to Puget under the Agreement were provided only to Puget's eligible Residential Load. BPA retains the right to take action consistent with the results of the audit to require the passthrough of benefits to eligible Residential Load. BPA's right to conduct audits of Puget with respect to a Contract Year expires 60 months after the end of the Contract Year. As long as BPA has the right to audit Puget under the Agreement, Puget will maintain all relevant records.

8. ASSIGNMENT

Section 8 of the Agreement addresses the assignment of the benefits of the Agreement. This section is virtually identical to the assignment provisions in the Settlement Agreement. This section reflects the need for flexibility in the provision of benefits to Puget's residential and small farm customers in light of the uncertainty of the energy industry regarding deregulation or other efforts that could restructure state retail electric service. These provisions are virtually identical to the assignment provisions in the Settlement Agreement. Section 8(a) requires Puget to assign benefits to BPA if a Qualified Entity serves Residential Load formerly served by Puget (unless BPA has approved an agency agreement for such Qualified Entity), or BPA has approved a state program for the passthrough of benefits by a distribution utility.

Section 8(b) of the Agreement provides that the Agreement is binding on any successors and assigns of the Parties, but that neither Party may otherwise transfer or assign this Agreement without the other Party's written consent. Such consent cannot be unreasonably withheld, provided that Puget agrees it will assign benefits under this Agreement subject to the following terms and conditions: (1) Puget will quantify an amount of Residential Load each month served by Qualified Entities that would have been eligible to receive benefits if served by Puget, and provide written notice of such amount to BPA; (2) Puget will assign to BPA during the month following such notice a share of the total benefits, whether or not Puget continues to serve such Residential Load. The Residential Load of Puget will not include Residential Load receiving benefits over a new distribution system; (3) If the passthrough of benefits is made to consumers with Puget acting as agent, then Puget will retain the cash payments assigned to BPA and use such cash payments to provide benefits to individual residential and small farm consumers.

Section 8(c) of the Agreement provides that Puget may continue to pass through benefits to individual residential and small farm consumers under this Agreement not served by Puget if (i) Puget is acting as the agent under an agreement entered into between Puget and a Qualified Entity which has been approved by Puget's applicable state regulatory authority and BPA; or (ii) BPA has approved a program developed by the applicable state regulatory authority providing for the passthrough of benefits received by Puget under the Agreement to all its residential and small farm consumers acting in its capacity as a distribution utility.

Section 8(d) of the Agreement provides that if a Qualified Entity eligible to purchase firm power under section 5(b) of the Northwest Power Act acquires all or a portion of the distribution system serving the Residential Load of Puget, Puget will assign a share of the total benefits to BPA for the remaining term of the Agreement.

9. NOT APPLICABLE

This section of the Agreement was intentionally left blank.

10. CONSERVATION AND RENEWABLES DISCOUNT

The rates contained in BPA's May Proposal include a Conservation and Renewables Discount (C&R Discount). The C&R Discount is designed to encourage the development of conservation and renewable energy resources. Section 10 of the Agreement addresses how the C&R Discount will apply to the cash benefits provided to Puget. Subject to the terms specified in BPA's applicable Wholesale Power Rate Schedules, including GRSPs, BPA will pay Puget an amount equal to the C&R Discount for 368 aMW for each Contract Year during the October 1, 2001, through September 30, 2006, period, unless Puget has notified BPA's Power Business Line (PBL) before August 1, 2001, that it will not participate in the C&R Discount. This is to ensure that Puget's residential and small farm consumers will retain the benefits they would have received if Puget had provided power benefits instead of cash benefits. Where Puget is willing to assist BPA's rate mitigation efforts by receiving cash benefits instead of power, Puget should not be penalized for such actions.

To retain the full amount of the C&R Discount, Puget must satisfy all obligations associated with the C&R Discount as specified in BPA's applicable Wholesale Power Rate Schedules, including GRSPs, and the C&R Discount implementation manual. Puget will reimburse BPA for any amount it received but for which it did not satisfy such obligations.

11. GOVERNING LAW AND DISPUTE RESOLUTION

Puget requested a dispute resolution provision in its Settlement Agreement based on litigation. Puget then requested, and BPA agreed, to modify such provision in the Amended Settlement Agreement to a dispute resolution provision based on arbitration.

Section 11 of the Agreement addresses the law governing the Agreement and the manner in which disputes under the Agreement will be resolved. In summary, the Agreement will be interpreted consistent with and governed by Federal law. Final actions subject to section 11(e) of the Northwest Power Act are not subject to binding arbitration and shall remain within the exclusive jurisdiction of the United States Ninth Circuit Court of Appeals. Any dispute regarding any rights of the Parties under any BPA policy, including the implementation of such policy, shall not be subject to arbitration under this Agreement. Other contract disputes or contract issues between the Parties arising out of this Agreement will be subject to binding arbitration. The Parties will make a good faith effort to resolve such disputes before initiating arbitration proceedings. During arbitration, the Parties will continue performance under this Agreement pending resolution of the dispute, unless to do so would be impossible or impracticable.

12. NOTICE PROVIDED TO RESIDENTIAL AND SMALL FARM CUSTOMERS

Section 12 of the Agreement provides that Puget will ensure that any entity that issues customer bills to Puget's residential and small farm consumers will provide written notice on such customer bills that their benefits are "Federal Columbia River Benefits supplied by BPA."

13. STANDARD PROVISIONS

Section 13 of the Agreement includes a number of standard contract provisions. These provisions are virtually identical to those in the Settlement Agreement. These provisions include a requirement for a written instrument to amend the Agreement; conditions governing the exchange of information and the confidentiality of such information; a provision that Agreement constitutes the entire agreement between the Parties; a provision that incorporates the exhibits into the Agreement by reference; a provision that no other person is a direct or indirect legal beneficiary of, or has any direct or indirect cause of action or claim in connection with the Agreement; and a provision providing that any waiver at any time by either Party to the Agreement of its rights under the Agreement will with respect to any default or any other matter arising in connection with this Agreement will not be considered a waiver with respect to any subsequent default or matter.

14. TERMINATION OF AGREEMENT

Section 14 of the Agreement addresses termination of the Agreement. There are three basic provisions for termination. First, if BPA does not adopt the Partial Stipulation and Settlement Agreement in the WP-02 Wholesale Power Rate proceeding, then Puget may, upon written notice to BPA prior to September 1, 2001, terminate the Agreement. This is because, absent the adoption of the Partial Stipulation and Settlement Agreement, Puget would not agree to the terms of this Agreement. Second, the Agreement is subject to Puget's determination by June 15, 2001, that the Washington Utilities and Transportation Commission (WUTC) will approve this Agreement and provide satisfactory retail rate treatment. This is because, if Puget knew that it would not receive approval of the Agreement from the WUTC, Puget would not enter the Agreement. Finally, Puget may terminate the Agreement if BPA does not use BPA's then-current rate case Forward Flat-Block Price Forecast for all estimates of the cost of purchases of flat blocks of power in its rate cases, which are made in advance of the period of delivery and which are made for the rate period established in the particular rate case that occurs between October 1, 2006, and September 30, 2011. Puget must provide written notice up to 30 days after FERC grants interim approval for BPA's wholesale power rates effective during the period occurring between October 1, 2006, and September 30, 2011. This provides Puget the ability to terminate the Agreement if BPA's then-current rate case Forward Flat-Block Price Forecast does not meet acceptable criteria and would provide, in Puget's eyes, inadequate Monetary Benefits.

15. SIGNATURES

Section 15 provides that each signatory represents that he or she is authorized to enter into this Agreement on behalf of the Party for whom he or she signs.

16. EXHIBIT A: BLOCK POWER SALES AGREEMENT

Exhibit A to the Agreement is a Block Power Sales Agreement, Contract No. 01PB-10886. The Block Power Sales Agreement is the same agreement that is attached as an exhibit to the Settlement Agreements of the other IOUs. The development of the Block Power Sales Agreement was previously addressed in BPA's "Residential Exchange Program Settlement Agreements with Pacific Northwest Investor-Owned Utilities, Administrator's Record of Decision," October 2000. The Amended Settlement Agreement attaches a Block Sales Agreement that includes the terms and conditions for a ten-year Block Sales Agreement. The Block Sales Agreement attached to the Settlement Agreement only provided for a five-year sale.

CONCLUSION

I have reviewed and evaluated the record compiled by BPA on the foregoing issues and terms regarding BPA's Amended Settlement Agreement with Puget Sound Energy. Based upon the record compiled in this proceeding, the decisions expressed herein, and all requirements of law, I hereby adopt the Amended Settlement Agreement with Puget Sound Energy. The evaluations and decisions used in the development of the Amended Settlement Agreement are consistent with the environmental analysis conducted for BPA's 1998 Power Subscription Strategy, BPA's Power Subscription Strategy NEPA ROD, BPA's Business Plan EIS, and BPA's Business Plan ROD.

Issued at Portland, Oregon, this 6th day of June, 2001.

\s\ Stephen J. Wright

Acting Administrator and Chief Executive Officer

Newsbreaker:
Wright gives progress report on efforts to reduce October rate increase

June 6, 2001

Click here for past *Newsbreakers*.

At a press conference this morning, Acting Administrator Steve Wright said that, if no more customers take load off BPA, the Oct. 1 rate increase will be over 150 percent.

Wright also said that, if BPA's customers reduce their load on BPA by another 1,200 average megawatts, the rate increase could be kept under 75 percent.

Also today, participants in a rates technical workshop were presented the data behind the projected rate increase. Customers have until June 22 to take enough load off BPA to bring down the projected rate increase. BPA will release its final rate numbers on June 29.

Go to http://www.bpa.gov/Corporate/KCC/nr/01nr/nr060601x.shtml to see the press release. Talking points are available at http://webip1/Corporate/KC/tp/bpa/01tp/tp060601.shtml. Talking points are for internal use only.

- For general public: energy conservation needs to be way of life.
- This is about the Northwest economy. Everyone must own it. The sacrifices called for are tough, but not as tough as the consequences of a rate increase of 250 percent or more. We can manage this to prevent a larger scale calamity if we pull together.

Click here to see the text of Wright's presentation. Beginning tomorrow, Tuesday, click here to participate in a online discussion about Wright's message to the region.

Published by BPA Internal Communications, 503-230-3927.

Region's Largest Public Utility Steps Up To Load Reduction Agreement

Click here for other BPA news releases

Bonneville Power Administration
FOR IMMEDIATE RELEASE: TUESDAY, JUNE 12, 2001
PR 52 01

CONTACTS: Ed Mosey, BPA (503) 230-5131
Dan Williams, SCL, (206) 615-0978

SEATTLE, Wash. – The Bonneville Power Administration and Seattle City Light signed a load reduction agreement on June 6 that will reduce the utility's demand on BPA by 49.3 average megawatts for one year starting in October 2001.

"All of us have a stake in a financially healthy Bonneville Power Administration," said Gary Zarker, superintendent of City Light. "Keeping Bonneville out of the high-priced power marketplace will result in lower prices for all of us. Even if we have to buy power from the market, this will be a net gain for us."

Steve Wright, acting BPA administrator, praised City Light's commitment, saying, "As the largest public agency in the region, City Light has taken a very important step toward reducing the rate increase planned for Oct. 1 and is helping ensure economic stability in the region. City Light is doing its part, and we hope that other public utilities will do the same within the next 11 days."

Beginning in October, about 444.5 of City Light's 1,283 forecasted average megawatt load will be served by BPA. Zarker said that the 10 percent returned to BPA will be made up through conservation and the purchase of energy from the market.

BPA's goal is to reduce the load of its public utility customers by about 600 average megawatts. The goal is to reduce loads for the next two years so that BPA does not have to buy power in the expensive wholesale market, which could result in far higher electricity rates. BPA expects that within two years sufficient new generation will have come on line so that market prices will stabilize.

"Negotiations are ongoing with all our customer groups," said Wright. "We hope that our recent load reduction agreements with other customers and now with Seattle City Light will serve as catalysts to firming up additional agreements – and soon."

On June 6, BPA announced that the region's federal electricity system is headed for wholesale rate increases of 150 percent or more beginning October 1 unless its industrial and utility customers make additional commitments to reduce energy use by June 22, 2001.

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Puget Sound Energy and BPA reach federal hydropower accord

Agreement helps keep rates stable for PSE customers

Click here for other BPA news releases

Bonneville Power Administration
FOR IMMEDIATE RELEASE: THURSDAY, June 14, 2001
PR 55 01

CONTACTS: Ed Mosey or Mike Hansen, BPA (503) 230-5131
Grant Ringel, PSE (888) 831-7250

BELLEVUE, Wash. – Puget Sound Energy and the Bonneville Power Administration announced an agreement June 14 in which PSE will reduce the amount of power it plans to buy from BPA. PSE's agreement to forego its purchase of federal power is expected to help BPA significantly reduce a general rate increase planned for October.

For five years starting in October 2001, PSE will exchange 368 average megawatts a year for monetary benefits for 820,000 PSE customers. The Washington Utilities and Transportation Commission approved the agreement this week.

By reducing the amount of expensive, open market electricity BPA must buy – and substituting that power with less costly, negotiated cash payments – the agency can lower power prices for all its Northwest customers.

BPA Acting Administrator Steve Wright praised PSE, saying, "Puget Sound Energy has taken a very important step toward reducing the regional rate increase planned for Oct. 1 and is helping ensure economic stability in the region. PSE is doing its part, and we hope that other utilities will do the same within the next eight days."

"Everyone must step forward to help the Northwest cope with the ongoing energy crunch," said Tim Hogan, PSE's vice president of external affairs. "This agreement helps Bonneville reduce energy costs to all its customers. And I'm pleased to say it locks in a dependable benefit for Puget Sound Energy customers. Everyone comes out ahead."

Last week BPA announced the price of wholesale electricity from the Northwest's federal power generating system could rise by 150 percent or more this fall unless BPA customers reduce their energy demands on the agency by June 22. The region's federal

power system can generate approximately 8,300 megawatts of electricity, but contracts with Northwest utilities and large industries committed BPA to providing more than 11,000 megawatts, beginning Oct.

Attachment 5

1. To meet its commitment, customers must reduce their load on BPA or the agency must purchase power in today's extremely expensive market.

PSE's residential and small-farm customers have received federal power benefits from BPA since 1981 in the form of a consumption-based credit on their monthly bills. The benefits for PSE and other BPA customers have increased, Hogan noted, because Northwest federal power has become more valuable as open market electricity prices have increased and become more volatile.

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Attachment 5

News Flash
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News Room

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Puget Sound Energy and BPA reach federal hydropower accord

(06/14/01)

Agreement helps keep rates stable for PSE customers

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Attachment 7

become more volatile.

NOTE: News Release issued by Bonneville Power Administration

Media Contact

1-888-831-7250

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STRATEGY FOR UTILITY CUSTOMER LOAD REDUCTION UNDER SUBSCRIPTION POWER SALES CONTRACTS AND UTILITY CUSTOMER EXPORTS OF UNPLANNED RESOURCES UNDER SECTION 9(c) OF THE NORTHWEST POWER ACT

ADMINISTRATOR'S RECORD OF DECISION

June 15, 2001

JUNE 2001

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STRATEGY FOR UTILITY CUSTOMER LOAD REDUCTION UNDER SUBSCRIPTION POWER SALES CONTRACTS AND UTILITY CUSTOMER EXPORT OF UNPLANNED RESOURCES UNDER SECTION 9(c) OF THE NORTHWEST POWER ACT

ADMINISTRATOR'S RECORD OF DECISION

I. INTRODUCTION

Regional customers of the Bonneville Power Administrator (BPA) have been requested to voluntarily reduce the amount of load they have placed on BPA under their individual Subscription power sale contracts in an effort to reduce an expected dramatic rate increase in the BPA's wholesale power rates that become effective on October 1, 2001. This Utility Customer Load Reduction Strategy (Strategy) allows for an offer of contract amendment to facilitate load reductions under the pre-Subscription and Subscription power sale contracts between public body, cooperative, and federal agency[1] customers (collectively referred as "preference customers") and BPA. In reducing a portion of their BPA served loads, BPA expects some of its preference customers, as well as investor-owned utility (IOU) customers, to add unplanned resources to temporarily meet such load obligations. Therefore, this Strategy also includes a determination under section 9(c) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) regarding possible future exports by preference customers and IOUs of their unplanned resources.

II. BACKGROUND

BPA was created in 1937 to market electric power generated at Bonneville Dam, and to construct and operate facilities for the transmission of power. 16 U.S.C. § 832-832l (1994 & Supp. III 1997). Since that time, Congress has directed BPA to market power generated at additional facilities. *Id.* § 838f. Currently, BPA markets power generated at 30 Federal hydroelectric projects and several non-Federal projects. BPA also owns and operates approximately 80 percent of the Pacific Northwest's high-voltage transmission system. In 1974, BPA became a self-financed agency that no longer receives annual appropriations. *Id.* § 838i. BPA's rates must therefore produce sufficient revenues to repay all Federal investments in the power and transmission systems, and to carry out BPA's additional statutory objectives. *See id.* §§ 832f, 838g, 838i, and 839e(a).

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[1] Federal agencies are not preference customers of BPA, but BPA dispenses with its power obligation to this group of customers under the same rate as used for its sales of federal power to qualified public body and cooperative customers.

A. BPA's Power Subscription Strategy

The concept of power subscription came from the Comprehensive Review of the Northwest energy system, convened by the governors of Idaho, Montana, Oregon, and Washington to assist the Northwest through the transition to competitive electricity markets. The goal of the review was to develop recommendations for changes in the region's electric utility industry through an open public process involving a broad cross-section of regional interests. In December 1996, after over a year of intense study, the Comprehensive Review Steering Committee released its Final Report. The Final Report recommended that BPA capture and deliver the low-cost benefits of the Federal hydropower system to Northwest energy customers through a subscription-based power sales approach. In early 1997, the governors' representatives formed a Transition Board to monitor, guide, and evaluate progress on these recommendations.

An important element of the Final Report was the formation of a Subscription Work Group. The Work Group, which generally met in Portland twice a month from March 1997 through September 1998, was open to the public. On average, 40-45 participants--representing customers, customer associations, Tribes, state governments, public interest groups, and BPA--attended. Three subgroups formed to more intensely pursue the resolution of issues involving business relationships, products and services, and implementation. BPA, its customers, and other interested parties discussed and clarified many Subscription issues. During this time, BPA and the public confirmed goals, defined issues, developed an implementation process for offering Subscription, and developed proposed product and pricing principles.

During the spring and summer of 1998, BPA conducted extensive public meetings with all interested parties regarding the development of BPA's Power Subscription Strategy. BPA developed the Power Subscription Strategy Proposal after considering the efforts of the Subscription Work Group. On September 18, 1998, BPA released its Power Subscription Strategy Proposal for public comment. Accompanying the proposal was a press release entitled "Spreading Federal Power Benefits" and a Keeping Current publication entitled "Getting Power to the People of the Northwest, BPA's Power Subscription Proposal for the 21st Century." Keeping Current (Sept. 1998). During the comment period BPA received nearly 200 responses to the proposal comprising nearly 600 pages of comments. After review and analysis of these comments, BPA published its final Power Subscription Strategy on December 21, 1998. See Power Subscription Strategy, and Power Subscription Strategy, Administrator's Record of Decision (Strategy ROD). At the same time, the Administrator published a National Environmental Policy Act (NEPA) ROD that contained an environmental analysis of the Power Subscription Strategy. This NEPA ROD was tiered to BPA's Business Plan ROD (August 15, 1995) for the Business Plan Environmental Impact Statement (DOE/EIS-0183, June 1995).

The Power Subscription Strategy describes BPA's decisions on a number of issues. These issues include the availability of Federal power, the approach BPA will use in selling power by contract with its customers, the products from which customers can choose, and frameworks for pricing and contracts. The Power Subscription Strategy discussed some issues that would not be finally decided in the Strategy. Most of these remaining issues will be decided in BPA's 2002 power rate case, although some were decided in other forums, such as the transmission rate case, which concluded recently. For example, while the Strategy documents BPA's intention to implement a rate discount for conservation and renewable resources, the final design of that discount was developed in BPA's 2002 power rate case. Other issues to be decided in the 2002 power rate case include the design and application of the Cost Recovery Adjustment Clause (CRAC), which rates apply to which sales, and the design of the Low Density Discount. Customers raised issues regarding the application of other customers' non-Federal resources to serve regional load. These resource issues involve factual determinations under section 3(d) of the Act of August 31, 1964, P.L. 88-552 (Regional Preference Act), and section 9(c) of the Northwest Power Act, 16 U.S.C. § 839f(c) (1994 & Supp. III 1997), which BPA could not address in the Power Subscription Strategy and which were not made a part of the decisions in the Subscription Strategy ROD.

B. Power Subscription Strategy Supplemental ROD

BPA's 1998 Power Subscription Strategy served to guide BPA in accomplishing its goals. After adoption of the Strategy, however, developments occurred that prompted BPA to seek, in some instances, additional comment from customers and constituents on new issues. The Strategy contemplated further public processes to implement its goals. BPA's initial proposal for the 2002 power rates, which began in August 1999, was completed on May 8, 2000 (although its was subsequently amended). BPA and its customers continued discussions on power products and power sales contract prototypes, and the Slice of System product was further defined. In a December 2, 1999 letter, BPA sought comment from customers and constituents on some of these new issues; specifically, the length of the Subscription window for power sales contract offers, the actions required of new small utilities during this window to qualify for firm power service, and new developments with respect to General Transfer Agreements. Other issues arose independently, such as new large single loads (NLSL) under the Northwest Power Act, duration of the new power sales contracts, and a new contract clause regarding corporate citizenship. BPA also undertook a comment process on the amount and allocation of power and financial benefits to provide the IOUs on behalf of their residential and small farm consumers.

C. BPA's Section 5(b)/9(c) Policy

As BPA recognized that its existing long-term power sales contracts would soon expire, BPA proposed to establish a policy to guide the agency in making determinations of the net requirements of its utility customers in order to offer Federal power under new contracts. (For the most part, existing power sales contracts expire by October 1, 2001). A net requirements policy is an important component to BPA's execution and implementation of new power sales contracts. Under section 5(b)(1) of the Northwest Power Act, BPA is obligated to offer a contract to each requesting public body, cooperative, and investor-owned utility to meet each utility's regional firm load net of the resources used by the utility to serve its firm power consumer load. 16 U.S.C. § 839c(b)(1) (1994 & Supp. III 1997). In making this determination, BPA has a corresponding duty to apply the provisions of section 9(c) of the Northwest Power Act, 16 U.S.C. § 839f(c) (1994 & Supp. III 1997), and section 3(d) of the Regional Preference Act, 16 U.S.C. § 837b(d) (1994 & Supp. III 1997).

BPA provided two opportunities for public review and comment in developing its proposed 5(b)/9(c) policy. On May 6, 1999, BPA published its initial policy proposal, entitled "Opportunity for Public Comment Regarding Bonneville Power Administration's Subscription Power Sales to Customers and Customer's Sale of Firm Resources," 64 Fed. Reg. 24,376 (1999). BPA held two public meetings to discuss this policy. The first meeting was held on May 27, 1999, in Spokane, Washington. The second meeting was held on June 2, 1999, in Portland, Oregon. On June 3, 1999, the thirty-day comment period was extended by BPA through June 30, 1999.

After reviewing and considering the comments received on the initial policy proposal, particularly those that requested that BPA provide a second round of review and comment, BPA issued a revised policy proposal on October 28, 1999, entitled "Revised Draft Policy Proposal Regarding Subscription Power Sales to Customers and Customer's Sales of Firm Resources," 64 Fed. Reg. 58,039 (1999). BPA reviewed and considered the comments received on the revised policy. On May 24, 2000, BPA issued its final "Policy on Determining Net Requirements of Pacific Northwest Utility Customers under Sections 5(b)(1) and 9(c) of the Northwest Power Act," also called BPA's "Section 5(b)/9(c) Policy." BPA also issued a Section 5(b)/9(c) Policy Record of Decision.

D. BPA's 2002 Wholesale Power Rate Case

On August 13, 1999, BPA published a notice of BPA's 2002 Proposed Wholesale Power Rate Adjustment, Public Hearing, and Opportunities for Public Review and Comment. 64 Fed. Reg. 44,318 (1999). This began a lengthy and complex hearing process that concluded with BPA's 2002 Final Power Rate Proposal, Administrator's Record of Decision, in May 2000 (May Proposal). 16 U.S.C. § 839e(i). In July 2000, BPA filed its proposed 2002 wholesale power rates with the Federal Energy Regulatory Commission (FERC) for confirmation and approval. 16 U.S.C. § 839e(a)(2). Subsequent to that time, however, during the late spring and summer months, the West Coast power markets suffered price increases and volatility that had not been seen before. By August, it was clear that these market prices were not a short-term phenomenon. This meant that BPA's cost-based rates, which were already below the original market forecast, were even more attractive. Thus, BPA assumed that additional load would be placed on BPA, and BPA would need to purchase additional power to augment the Federal Columbia River Power System (FCRPS) supply. BPA determined that the implications for cost recovery were so serious that a stay of the rate proceeding at FERC was requested. This enabled BPA to review the events that had occurred during the summer months and to determine whether the escalating prices and increased volatility would require remedial action.

Escalating and more volatile market prices had two related effects. First, the specter of higher prices and continued unpredictability caused customers to place as much load as possible on BPA. Second, to meet this increased load obligation, BPA will need to make substantially greater power purchases at substantially higher and more uncertain prices than anticipated in the May Proposal. BPA concluded that the May Proposal, as filed with the FERC, was not adequate to deal with the added costs and financial risks that the high and volatile market prices created for BPA.

During the initial phase of the rate case, BPA's load forecast exceeded BPA's forecast of generation resources by 1,732 average megawatts (aMW). Due to escalating and volatile market prices, BPA estimated that expected loads would exceed the original rate case forecast by an additional 1,518 aMW. Inasmuch as the generating capability of FCRPS was already inadequate to meet the earlier load forecast, BPA would have to purchase power to further augment its inventory to serve these additional loads. The cost of power to serve these unanticipated loads was not included in revenue requirements.

The combination of an unanticipated increase in loads and purchase requirements, with higher and more uncertain market prices, greatly diminished the probability that rates proposed in the May Proposal would fully recover generation function costs. Absent a change to the May Proposal, Treasury Payment Probability (TPP) would be reduced to below 70 percent, a level that would fall well short of specific goals and targets. In its judgment, BPA had a serious cost recovery problem that it was obliged to address by reason of statute and Administration policy.

BPA's Amended Rate Proposal was a continuation of the WP-02 rate proceeding. It was conducted for the discrete purpose of resolving a cost recovery problem brought about by market price trends and load placement changes occurring since the record was closed in the first phase of the proceeding. During the consideration of the Amended Proposal, however, BPA concluded that it was necessary to make additional changes to ensure BPA's cost recovery. BPA then filed a Supplemental Proposal. There were three reasons BPA filed a Supplemental Proposal. First, BPA's forecast for starting rate period reserves had dropped substantially since the forecast in its Amended Proposal. Second, market prices for power during the first two years of the rate period were significantly higher than BPA had forecast in the Amended Proposal. Regardless, BPA would have prepared an update to the Amended Proposal to show the impact of these revised forecasts on BPA's proposed rates. The third reason was that, as a result of discussions with the rate case parties, BPA staff reached a Partial Stipulation and Settlement Agreement with many of those parties. Part of that agreement was that the BPA staff would reflect their understanding of the Partial Stipulation and Settlement Agreement with the Supplemental Proposal for consideration by the Administrator.

The situation has been further complicated by the second lowest runoff year on record, with current runoff forecasted at around 55 million acre feet (MAF). Water Year forecasts in BPA's May Proposal and Amended Proposal assumed average water for both this FY 2001 and for the next five years of the rate period – 102.4 MAF. The current conditions would require BPA to purchase much more power this year than expected to meet loads, at extremely high prices, and to reduce the amount of surplus energy BPA can sell this year. As BPA described in its Amended Proposal, prices in the wholesale electricity market had been extremely volatile and high. In fact, during one week in January alone, BPA purchased over $50 million in power to meet load. This was putting tremendous pressure on BPA's end-of-year reserves. End-of-year reserves translate into starting rate period reserves. In BPA's May Proposal, starting reserves were estimated to be $842 million on an expected value basis. In BPA's Amended Proposal, starting reserves expected value estimates had increased to $929 million. Then, the expected value of BPA's starting reserves estimate dropped to $309 million. There is still a significant range of uncertainty surrounding this estimation of starting reserves. This is driven by some unknown factors for the rest of this fiscal year around hydro operations related to fish requirements, run-off levels, and the volatility in market prices.

Starting reserves are a key risk mitigation tool in BPA's Supplemental Proposal. A significant drop in starting reserve levels, without other adjustments, reduces Treasury Payment Probability (TPP) for the five-year rate period. Therefore, in order to offset this decline, and maintain a TPP level within the acceptable range, adjustments to other tools need to be made.

Market prices during the rate period are higher in the first years of the rate period, ranging from $200/megawatthour (MWh) to $240/MWh for FY 2002, and then dropping during the last years of the rate period, to a range between $40/MWh and $60/MWh in FY 2006. This compares with a risk-adjusted expected price forecast in the Amended Proposal for the five-year rate period around $48/MWh, where expected prices for individual years did not vary by more than $5/MWh from the $48/MWh average.

Because BPA will be in the market purchasing power to serve load during the next five years, BPA's purchase power costs will fluctuate as market prices change. Because the potential levels of power purchases and prices are so great, BPA needs to concern itself not only with annual or rate period totals, but with the seasonal and semi-annual timing of costs and revenues. In order to maintain TPP at an allowable level, all other things being equal, the expected value for the average rate over the five years will be higher with an average flat rate than with a rate shaped to match the expected market. Therefore, BPA revised the LB CRAC so that its expected revenues closely match the shape of its augmentation costs. In summary, BPA's Supplemental Proposal suggested that BPA's customers could see much higher prices during the October 1, 2001, to September 30, 2006, rate period.

E. Administrator's Call for Rate Mitigation Efforts

In March 2001, recognizing the potential for very large adjustments to the rates due to the LB CRAC, BPA began discussions regarding load reduction and the actions being developed by BPA with customers, representatives of the Pacific Northwest States, state utility commissions, and other regional stakeholders. On April 9, 2001, the BPA acting Administrator delivered a speech to the citizens of the Pacific Northwest regarding the potential impact of BPA's proposed rate increase and possible ways to reduce the impact of the increase. In summary, the acting Administrator stated that without certain kinds of action taken by all customers, the first-year increase could be 250 percent or more, likely doubling the retail rates in many utility service areas. An increase of this magnitude would have widespread economic consequences. Thus, before BPA submits its proposed rates to FERC for its review and approval at the end of June 2001, the Administrator is encouraging the region to work together to get the rate increase down to a manageable level.

The speech described the factual crisis situation the region is faced with: historically low water combined with a tight wholesale power market and skyrocketing power prices. At the same time, California's experiment with deregulation helped to drive wholesale electricity prices to unprecedented levels. When BPA completed the execution of new Subscription power contracts last fall, BPA's contractual obligations added up to approximately 11,000 megawatts--about 3,000 megawatts more than BPA's current generating resources can provide on a firm basis. Absent significant load reduction, the only way BPA can meet its obligations is to buy the vast majority of the additional power in a wholesale power market where supplies are tight and prices are sky high.

The speech called upon the region to focus on what the region and BPA can do now to minimize the size of the coming wholesale rate increase. The most immediate and direct way to decrease the size of next year's rate increase is quite simply to decrease the amount of power BPA has to buy in the market. This calls for aggressive and immediate steps from all customer groups to reduce the size of the rate increase by reducing the amount of electricity demand put on BPA. It could keep the first-year rate increase below 100 percent.

The speech called for a three-pronged approach: curtailment of power use, conservation--or more efficient use of power, and power buybacks. This needs to happen across all four states, across public and private power, and across all sectors of energy use--industrial, commercial, agricultural, and residential. The speech called on BPA's preference customers to make a contribution to the solution by requesting every utility customer to reduce its Subscription purchases from BPA by 5 to 10 percent. BPA's rate increases will spur some of this reduction, but more focused efforts are needed to achieve significant savings. BPA indicated that it would be willing to make modest incentive payments to help achieve utility reductions, but the incentive payments cannot be large or they will defeat the intended effect.

The speech also touched on the longer-term solutions that will help lead to lowering the high wholesale power supply prices currently being experienced. The fundamental problem is supply and demand being out of balance. Prompt infrastructure investments are needed in generating resources, especially gas-fired and wind-powered generation; gas pipeline capacity and storage; electric power transmission facilities; and energy conservation measures. If wholesale power prices can be brought down quickly, through infrastructure investments and other actions, then BPA's rates will come down in the future. The faster these actions can be taken, the quicker those rates can come down.

Thus, the acting Administrator asked regional customers to contribute to the mitigation of BPA's potentially high rate increases. Under the rates proposed in the 2002 Draft Supplemental Record of Decision for Wholesale Power Rate Proposal (May 2001), the Administrator proposed a rate structure that will be adjusted every six months, based on actual costs of purchasing firm power to serve BPA's firm power load. That rate adjustment (called the Load-Based Cost Recovery Adjustment Clause or LB CRAC) proposal must be submitted to the FERC at the end of June 2001, in order to have interim approval to go into effect in October of 2001, when BPA's current power rates expire. The LB CRAC adjustment calls for a determination by July 1, 2001, of the amount of power BPA must acquire to serve firm loads for the first six months of the rate period. Therefore, all actions that customers will take to reduce their subscription load must be committed to by contract before June 22, 2001, in order to be included in the first LB CRAC calculation. The acting Administrator's reasoning regarding the various strategies for achieving actual reduction in preference customer load is addressed below.

III. Actions Available to Preference Customers to Reduce Load

The acting Administrator's speech called for customers to reduce their power purchases on BPA by ten percent from October 1, 2001 through September 30, 2003. In aggregate, a ten percent load reduction equates to about 600 aMW from preference customers who are purchasing under either Subscription load-following, Slice/Block, or pre-Subscription contracts. From an operational and contractual standpoint, BPA has taken into account the fact that not all preference customers operate alike, nor purchase the same power products from BPA. With these differences in mind, BPA developed a set of actions (a toolkit) for its customer account executives to use with their customers to achieve their individual 10 percent load reduction. For example, customers wanting to take multiple actions to achieve their load reduction may enter into an "overarching" or umbrella-like agreement which will identify those specific contractual actions. The overarching agreement may alternatively contain only a single action to be taken by the customer which will achieve its load reduction.

The following comprise the toolkit of actions available to customers to achieve their ten percent load reduction.

- *Conservation.* Continue conservation/augmentation programs, including regionwide Vending Mi$er, compact fluorescent lighting, and the invitation to reduce load through conservation (IRLC).

- *Retail rate redesign.* Utility customers may, on their own, implement a redesign of their retail rates to induce more efficient use of electricity.

- *End-use consumer generation.* An end-use consumer will apply its own generation, i.e., cogeneration or emergency backup generation, to serve its own needs or to supply the consumer's serving utility.

- *Addition of utility customer generating resources.* BPA agrees by contract to allow preference and IOU customers to add and use generating resource(s) to serve their loads for the mitigation period. These are small resources or contract purchases that were unplanned prior to this time and which are being added only to replace an amount of the customer's power purchase obligation on BPA (up to the full ten percent load reduction requested by BPA). Such resources do not include larger resources or power purchase contracts that were previously planned by the customer. BPA anticipates that customers will obtain generating resources in a variety of ways, such as leases, contract purchases of output, or construction. Some customers may take such actions consistent with BPA's recently proposed Temporary Small Resource Policy. That policy is subject to a separate ROD and NEPA consideration and is not within the scope of this Strategy. As discussed in greater detail below, at the end of the rate mitigation period, BPA anticipates supplying the ten percent of load through planned power acquisitions; customers who add resources pursuant to this Strategy may then remove such resources and sell the amount of power used for the ten percent load reduction in the wholesale power market.

- *Rate mitigation replacement product.* BPA requests that all preference customers pursue an amount of load reduction, including its full service requirements customers. Full service customers generally purchase all of their power from BPA and have either no resources of their own or very small non-dispatchable resources. Such customers have small net requirement loads and do not purchase power from the volatile market. Therefore, BPA developed a rate mitigation replacement product that is available only to full service customers. Under the rate mitigation replacement product an eligible customer has two choices: (1) identify an amount of firm power, including temporary surplus firm power, to be repriced at market under the FPS rate schedule, as provided under Exhibit D of the customer's Subscription contract; or (2) identify an amount of firm power for replacement by an equivalent amount of surplus firm power priced at market under the FPS rate schedule under Exhibit C of the Subscription contract. BPA expects the total amount of the rate mitigation replacement product taken by full service customers will be small and most likely will not exceed 50 aMW. Surplus firm power will be made available either by allocating power intended for augmentation or by purchasing a minimal block of power from the market.

- *Non-load following customer rate mitigation commitment.* Customers purchasing non-load following products, such as a block of firm power, may contractually commit to reduce, by a specified amount, power from their fixed purchase obligation under contract. Under this action BPA agrees to a so-called "buy-back" of the amount of power the customer specifies for reduction.

- *Voluntary load reduction.* The customer and BPA may contract to have the customer enter into an agreement with a specific retail consumer to curtail, i.e., voluntarily reduce, its electricity consumption. Actions that can be taken include: irrigation load reduction, demand exchange, and retail industrial consumer load buydowns.

While BPA believes that much of the load reduction it seeks will result from customers taking the above actions, BPA also believes that load reduction will also come about simply by being price-induced.

IV. Contract Amendment Offers and Contingency Clause

In making available the above contract actions, BPA will include a contingency clause to allow a customer to terminate its contractual obligation to perform a selected action if certain conditions occur. The following describes the conditions for termination.

- The first condition occurs if the WP-2002 Final Supplemental Wholesale Power Rate Record of Decision (ROD) does not adopt the LB CRAC mechanism. This contingency is necessary because these contracts will be signed prior to the issuance of the Rate Case ROD.

- The second condition is a "test" that must be met to ensure that all customers are performing as expected, assuming the Administrator does adopt the LB CRAC mechanism in the Power Rate Case ROD. The test is intended to indicate whether customers are engaged in rate mitigation actions that will assure that the October rate increase does not exceed 87 percent, considering the level of the market clearing price of power.

- Third, the contingency clause provides that if the Administrator adopts the LB CRAC in the Power Rate Case ROD, and the rate mitigation efforts exceed the amount necessary to reduce market power purchases below 2,200 aMW per month, the additional load reduction will be used to reduce the level of the LB CRAC.

- Fourth, BPA added termination language to the contingency clause to address concerns raised by preference customers that their actions may result in a rate increase low enough for the economical operations of the DSIs, which would then again put upward pressure on the LB CRAC.

V. Determination of Utility Customer Exports of Unplanned Resources Under Section 9 of The Northwest Power Act

As stated above, one of the actions that can be taken by a utility customer to reduce a portion of its BPA served load during the first two years of its Subscription contract is to contractually add a generating resource(s) to serve such load obligation. These resources are unplanned since neither BPA nor the customer expected to add them during the term of the Subscription contract. The addition of these unplanned resources is due to BPA's call for its customers to reduce their load on BPA by ten percent in order to reduce the increase in BPA's wholesale power rates. BPA otherwise is contractually obligated to serve such portion of the customer's load. BPA has examined and analyzed several factors which lead BPA to conclude that unplanned resources added by a utility customer pursuant to this Strategy may be removed by the customer and resold in the market during the 2003 through 2006 period. BPA has also determined that during this period such resource(s) may be exported from the region consistent with section 9(c) of the Northwest Power Act. <u>See</u> Appendix, Section 9(c) Export Determination Study for Unplanned Resources (Study).

BPA has a statutory duty under Public Law 96-501, section 9(c) of the Northwest Power Act, 16 U.S.C. § 839f(c), to determine whether the export of unplanned resources by utility customers during the period FY 2002 through 2006 will result in an increase in the electric power requirements of BPA or any of its customers and whether the resource could be conserved or otherwise retained to serve regional load in the Pacific Northwest. If BPA finds that the export of a resource would result in an increase in the electric power requirements of any of its customers under BPA's Northwest Power Act, Section 5(b) utility power sales contracts, and the resource could have been conserved or otherwise retained to serve regional loads, BPA is required to reduce its firm load obligation to deliver power and energy under the exporting utility's power sales contract, effective on a date certain up to the amount of the export sale and for the duration of such sale. If, on the other hand, BPA finds that the export of the Pacific Northwest resource would not result in any increase in the electric power requirements of BPA for that customer or any other customer, or BPA further finds that the energy could not be reasonably conserved or otherwise retained for service to regional load by reasonable measures then BPA will not decrease its obligation to the exporting utility under its power sales contracts.

In implementing section 9(c), BPA must reasonably balance the risk between BPA becoming obligated to acquire additional resources which it otherwise would not plan to serve additional load obligations, with the customers' ability to export unplanned resources. In making this determination, BPA is taking into account the current power situation. BPA's contractual obligations to serve regional customers' load during the next rate period exceeds BPA's firm resources. See Study. In order to otherwise meet its contractual obligations BPA is faced with having to purchase power from a historically high priced and volatile market, the cost of which must be recovered in the rates BPA charges its customers. Considering the economic impact such purchases would have on BPA's rates, BPA is requesting regional customers to reduce their BPA served loads for the first two years of the rate period. Such action by its customers will result in a reduction in BPA's contractual obligation to serve and reduce the amount of high priced power costs to be included in BPA's rates.

Utility customers reducing a portion of their BPA served load by adding unplanned resources are doing so in the first one or two years of the rate period. These unplanned resources will be used as bridge resources to transition between today's expensive market and the lower cost period expected in 2003. See Study. It is both uneconomical and difficult, however, for customers to purchase and add unplanned resources in the first two years only. As a general matter, most resources that are available now to customers to meet their load reduction during the two year period are expensive and only economic or available for five year periods. See Study, Table 2. At five years such resources become more economical to operate because the customer is in a better position to recover its resource cost.

BPA expects today's resource and market conditions to change within the next two to three years with generation supply being added to the region and market prices dropping. BPA concludes that it will then have an adequate and economical power supply to meet all of its contractual obligations, including resumption of service to customer reduced load. Not only is BPA expecting the region to be in a load–resource balance in 2003, but BPA also expects the price of power available in the market to drop significantly from today's high prices.[2] Therefore, BPA has determined that future exports by a utility customer of its unplanned resource(s) will not result in any increase in the electric power requirements of BPA for that customer or any other customer. In addition, given the high cost of such unplanned resources and the expected lower cost resources and reduced market prices, BPA finds that these unplanned resources cannot be reasonably conserved or otherwise retained for service to regional load.

[2] BPA will examine the level of its rates expected for the second year, as well as the availability of cost effective power in the market. If BPA's rates and market prices are expected to be high, then BPA will request its utility customers to continue using their unplanned resources.

VI. NEPA Review

The Strategy For Utility Customer Load Reduction Under Subscription Power Sales Contracts And Utility Customer Export of Unplanned Resources Under Section 9(c) of the Northwest Power Act is consistent with BPA's Business Plan Record of Decision (ROD), signed August 15, 1995, BPA's Business Plan Environmental Impact Study (EIS), and the subsequent Power Subscription Strategy ROD, signed December 21, 1998. The Strategy ROD is a direct application of BPA's earlier decision to adopt a market-driven approach for participation in the increasingly competitive electric power market.

VII. Conclusion

Events transpiring in the wholesale power market necessitate that BPA and its customers take actions to mitigate the adverse impact such events are having on BPA and the region's economy. BPA's power supply obligations exceed the capability of BPA's system. In meeting these obligations BPA and its customers have alternatives. On the one hand, BPA and its customers can stay the course and have BPA purchase power from the high priced and volatile market. Such costs, if incurred, would need to be recovered through BPA's rates. On the other hand, BPA and its customers can work together to reduce BPA's load obligations and reduce the level of BPA's rates becoming effective October 1, 2001. BPA and its customers are agreeing to work together toward a goal to reduce by ten percent the load currently on BPA. Under this Strategy, BPA has developed actions which I believe will achieve the ten percent goal. In addition, this Strategy and the accompanying Northwest Power Act section 9(c) determination allows BPA's utility customers to add and use unplanned resources to meet their ten percent load reduction and to export such unplanned resources when subsequently removed from utility load service.

Issued in Portland, Oregon, on June 15, 2001.

/ S / Stephen J. Wright
Acting Administrator and Chief Executive Officer

APPENDIX
Section 9(c) Export Determination Study for Unplanned Resources
Fiscal Years 2002 through 2006

Background

In the fall of 2000, BPA completed its subscription process with the signing of new power sales contracts with its customers in the Pacific Northwest. These customers signed contracts that total about 11,000 aMW. BPA's system, composed of 30 hydroelectric projects, one nuclear plant, and several non-federal projects, generally produces about 8,500 aMW of electricity on a planning basis each fiscal year. Therefore, BPA will need to purchase energy in the marketplace in order to meet its contractual obligations for the entire 5-year period of this study.

During the past few months, BPA has developed a Load Reduction Strategy to mitigate the impacts of current high and volatile market power prices on the rates that it will charge its wholesale customers beginning October 1, 2001, by encouraging customers to reduce their purchases from BPA by up to 2400 aMW in the short term, until expected moderation in market prices occurs. See BPA's Load Reduction Strategy ROD. At that time, BPA will serve its entire contractual sales obligation to these customers.

As described in the Load Reduction Strategy ROD, one of the options available to public utility customers and IOUs for reducing their loads is the addition of unplanned resources - new generating units or contract resources - that can be brought on-line in a short time period. This 9(c) study shows that most of these resources burn natural gas or diesel fuel, and are higher-cost resources than the larger and more efficient generating resources that take more time to plan, permit, and site before coming on-line.

The following analysis demonstrates that it is highly likely that BPA will be able to purchase power in FY 2003 or FY 2004 and beyond at market prices that are lower than the cost of operating these unplanned higher cost resources, and therefore makes a determination that the amounts of these resources applied to loads can be exported from the region.

Federal and Regional Load Resource Balances

BPA's 1999 Pacific Northwest Loads and Resources Study (White Book), adjusted for the loads presented in the Amended Proposal for BPA's 2000 Power Rate Case, shows that BPA's expected load obligations resulting from Subscription will exceed the resource capability of the federal system in each year from FY 2002 through FY 2006 (see Table 1).

Table 1
BPA and Regional Load Resource Balances
FY 2002 through FY 2006

Fiscal Year	BPA System Load Resource Deficit	PNW Regional Load Resource Deficit
FY 2002	-2120 aMW	-3539 aMW
FY 2003	-2226 aMW	-3831 aMW
FY 2004	-2144 aMW	-3821 aMW
FY 2005	-2252 aMW	-3880 aMW
FY 2006	-2383 aMW	-3806 aMW

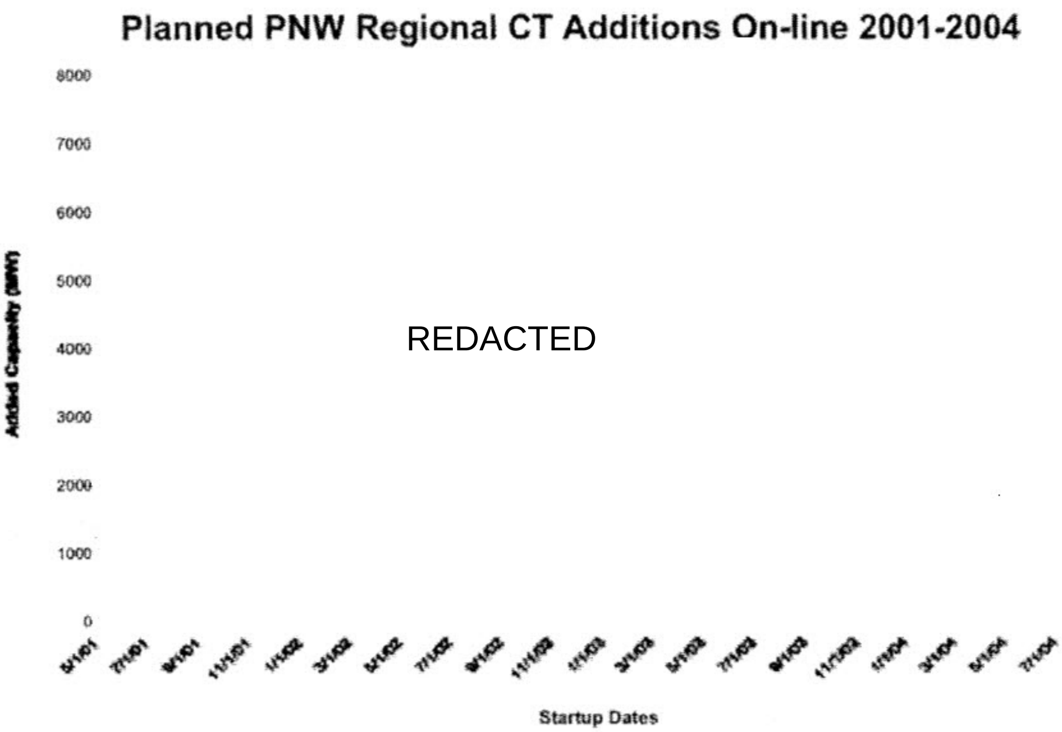
See Attachment 1 (Appendix page 7) for details.

In addition, again based on the 1999 White Book, Table 1 shows that the Pacific Northwest region is expected to be deficit as well during these same 5 years. Neither of these studies takes into account the resource additions expected to come on-line over the next few years.

Plans to build new generating resources have multiplied recently as high wholesale electricity prices have created price signals that are causing accelerated development of generating resources throughout the PNW. As a result, the regional balance of supply and demand will change dramatically beginning in 2003, when, over a 12-month period, over 5,000 aMW of natural gas-fired combined cycle combustion turbines (both utility and merchant plants) is scheduled to come on-line in the region, as shown in Figure 1.

Furthermore, this total does not include an additional 450 aMW of wind generation expected to be added by 2003. In addition, Attachment 2 (Appendix page 8) shows all expected resource additions for the PNW over the next few years, which total about 20,000 aMW. Based on these resource plans, BPA anticipates that the region will be in a load–resource balance by the beginning of FY 2004, if not before, and BPA will therefore be able to meet its firm load obligations through the purchase of output from these new resources.

Figure 1

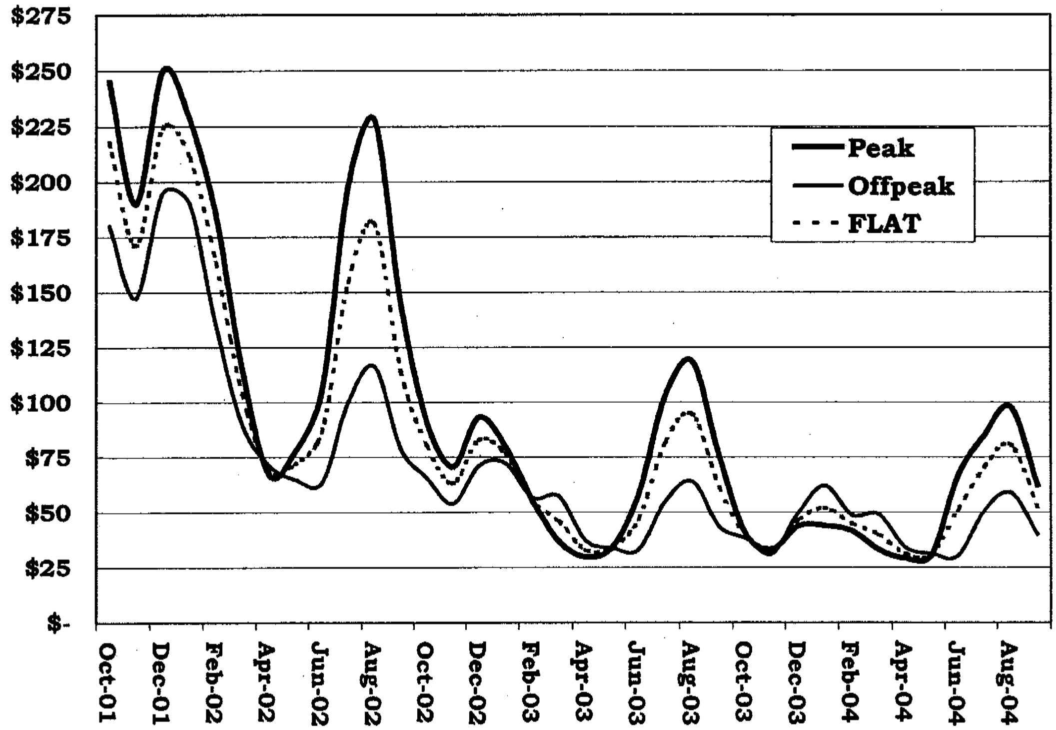


In addition, as shown in Attachment 3 (Appendix page 14), as much as 42,000 aMW of generation is planned to be on line in California by the end of this 5 year period. Since the West Coast functions as a single market much of the time, these resource additions will create downward pressure on market prices by 2003. As a result, market prices are expected to come down significantly in that same time frame as supply more closely matches demand.

Future Wholesale Market Prices

Future wholesale electricity prices are already reflecting this anticipated change in the region's supply situation. Prices that traders are quoting, as illustrated in Figure 2, show dramatic declines in FY 2003 and 2004 when the forward price drops to about \$55 per MWh for the year – a dramatic decline from the average of about \$150 for FY 2002. This forward price curve

Figure 2
Forward Price Curve FY 02 to FY 04
Based on quotes from Morgan Stanley



demonstrates a wholesale market that is "backwardated," meaning that prices are lower in the longer term than in the near term. This price pattern indicates that buyers and sellers are considering the large amount of future new generation in the region, and in California, when selling and purchasing power now for delivery in the future.

In addition, quotes that BPA's trading floor received in early June reflect further decreases in these prices from the mid-$50s per MWh to the mid-$40s. These forward prices are approaching the embedded cost of a new combined cycle combustion turbine, estimated to be between $45 and $55 for a unit with a 7000 Btu heat rate and gas prices in the range of $4 to $5/mmBtu.

Table 2
Projected Market Prices for Electricity
Used in BPA's 2000 Power Rate Case

Fiscal Year	Projected Market Price ($/MWh)
FY 2002	$148
FY 2003	$63
FY 2004	$46
FY 2005	$50
FY 2006	$49

Note: prices for FY 02 and FY 03 are based on market quotes while the prices for the last 3 years come from the Aurora model.

Further evidence of a backwardated market is shown in BPA's Risk Analysis Studies for the Amended Proposal and the Final Supplemental Proposal for the 2000 Power Rate Case. Table 2 shows projected market prices for flat energy dropping from $148 in FY 2002 to an average of $48 for the final 3 years of the rate period.

Types and Costs of Likely Unplanned Resources

The types of unplanned resources that BPA expects its preference and IOU customers to acquire to meet their load reductions are outlined in Table 3.[3] All are resources with capacity that is less than 50 MW. With the exception of wind, their fuel sources are natural gas or diesel fuel. These resource types are the major ones that can be acquired and brought on-line in a short timeframe – which is necessary since the load reduction commitments signed in June 2001 will take effect on October 1, 2001. As illustrated in the table, these resource types are comparatively higher in cost than the prices for FY03 and beyond shown in Figure 2. Flat forward prices drop to just above $50 per MWh by the end of 2004, yet the operating costs of the above technologies range from $57 to $164. These costs all exceed the forward price significantly, except for the LM6000s. This simple CT, however, is unlikely to be able to be brought on–line in the time frame of the Load Reduction Strategy, but it was included in the table.

[3] BPA does not consider a utility with a market resource that is used to meet the utility's load reduction to be a planned resource used to serve regional firm load. BPA considers such resource use to be unplanned. See Administrator's Record of Decision, Non-Federal Participation Capacity Ownership Contracts and Section 9(c) Policy, at B-14, (July, 1994).

Table 3

Model	Technology	Average Heat Rate (BTU/kWh)	Fuel Type	Fuel Price ($/MMBTU)	Fuel Tax ($/unit)	O&M ($/MWh)	Total Fixed Costs ($/MWh)	Approx. Total Production Cost ($/MWh)
GE LM6000	Simple, aero, CT	8,300	N.Gas	5.0	0.00	3	12	57
GE Jenbacher JGC 320GS	Reciprocating	9,500	N.Gas	5.0	0.00	12	69	129
Caterpillar 3516B	Reciprocating	9,500	Diesel	8.5	0.00	23	60	164
Vestas 660kW	H-axis wind turbine	0	Wind	0.0	0	7	67	73

Notes:
Wind production costs do not include the $17/MWh federal tax credit subsidy.
Reciprocating gensets are amortized over a 24 month period at 4.5% interest.
The simple cycle CT and the wind turbines are amortized over a 30 year period at 6% interest.
A 90% operating factor is assumed for the reciprocating gensets
A 30% operating factor is assumed for the wind turbines.

Note: Information that forms the basis for the above table came from various EPRI studies, the manufacturers of this equipment, and internal BPA analysis.

Conclusion

In conclusion, analysis of loads and resources for BPA and the Pacific Northwest for the period 2001 through 2003 confirms that the current resource and market situation should moderate, with market prices more closely reflecting the underlying costs of newly built generating resources. Currently scheduled additions to the regional supply of electricity will more than off-set BPA's expected deficits as load reduction obligations terminate in 2003 and beyond.

Based on the analysis of the above factors, BPA makes the following determination pursuant to section 9(c) of the Northwest Power Act regarding the future export of unplanned resources used by preference customers and IOU customers to serve their load reduction commitments. BPA does not believe that sales of these amounts of unplanned resources outside the Pacific Northwest by utility customers will affect BPA's obligation to meet their loads nor the loads of other customers in the region. Further, based on the high costs of unplanned resources compared to the lower-cost planned resources and the backwardated market prices, BPA does not believe such unplanned resources could be retained or otherwise conserved for use in the region.

Attachment 1

Adjusted Federal Surplus/ Deficit from the 1999 White Book

1999 White Book Adjusted Federal Surplus/Deficit					
Adjusted for Augmentation through 8/1/2000					
Fiscal Year					
Energy in Megawatts	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**
1. 1999 Federal S/D	**-1030**	**-1135**	**-1053**	**-1161**	**-1076**
Firm Load Changes ("-" indicated Load Increase)					
Additional Public Load	-1400	-1400	-1400	-1400	-1400
Additional DSI Load	-49	-49	-49	-49	-49
2. Total Load Change	**-1449**	**-1449**	**-1449**	**-1449**	**-1449**
Firm Contract Changes ("+" indicates Resource Increase)					
Other Entities to BPA Pwr Sale	358	358	358	358	142
3. Total Contract Changes	**358**	**358**	**358**	**358**	**142**
4. Total Load Resource Adjustments	**-1091**	**-1091**	**-1091**	**-1091**	**-1307**
(line 2 + 3)					
5. 1999 Adjusted Federal S/D	**-2120**	**-2226**	**-2144**	**-2252**	**-2383**
(line 1 + 4)					
Based on 1999 White Book dated 12/31/99					
Note: Adjustments included public and DSI load changes and					
purchases from other entities made before 8/1/2000.					

Attachment 2

Derived From
Northwest Power Planning Council
PLANNED GENERATING PROJECT ACTIVITY IN THE PACIFIC NORTHWEST
June 11, 2001

(see key p. 13)

Project	Project Type	Technology	Fuel	MW Capacity	On-line date
Air Liquide	TG	FO2	IC	9.6	
Arrowrock Dam	G	WAT	HY	56.0	
Ash Grove Cement	TG	FO2	IC	8.0	
Athol	TG	FO2	IC	1.6	Mar-01
B&G Farms (Adams Rd.)	TG	FO2	IC	10.0	May-01
B&G Farms (Frenchman Hills)	TG	FO2	IC	10.0	May-01
B&G Farms (Jericho)	TG	FO2	IC	12.6	May-01
Bains	TG	FO2	IC	2.5	May-01
Bear Creek	G	WAT	HY	4.0	
Beaver GT	G	NG	GT	24.5	Jul-01
Bellingham Cold Storage	TG	FO2	IC	2.0	Mar-01
Benton PUD	G	NG	GT	27.0	Nov-01
Big Hanaford	G	NG	CC	248.0	Jul-02
Blackfeet Wind	G	WND	WT	50.0	Oct-02
Boardman GT	G	NG	GT	47.0	Dec-01
Boardman Turbine Upgrade	G	COL	ST	65.0	Sep-00
Bonneville First Powerhouse R&B	XG	WAT	HY Eff		Dec-03
Boundary Runner Replacement	XG	WAT	HY Eff		Jun-03
BP Cherry Point CC	G	NG	CCCG	750.0	
BP Cherry Point GTs	G	NG	GT	73.0	
BP Cherry Point ICs	TG	FO2	IC	26.0	Mar-01
Cabinet Gorge Addition	XG	WAT	HY	60.0	
Cabinet Gorge Unit #2 Turbine Replacement	XG	WAT	HY Eff	12.0	2001
Cabinet Gorge Unit #3 Turbine Replacement	XG	WAT	HY Eff	12.0	2002
Cabinet Gorge Unit #4 Turbine Replacement	XG	WAT	HY Eff	12.0	2003
Calligan Creek	G	WAT	HY		
Calpine (Alcoa)	G	NG	GT	88.0	
Cenex	TG	FO2	IC	20.0	
Chehalis Generating Facility	G	NG	CC	520.0	
Chelan Co. PUD ICs	TG	FO2	IC	33.6	May-01
City of Albany	XS/NG	WAT	HY	0.5	
City of Anacortes	TG	FO2	IC	1.8	Dec-00
Clark Public Utilities ICs	TG	NG	IC	50.0	Jul-01
Clearwater Creek	G	WAT	HY	6.0	
CNC Containers	TG	FO2	IC	24.0	Nov-00
Coffin Butte Expansion	XG	LG	IC	2.5	
Condit (Removal)	XG	WAT	HY	(14.7)	

Project	Project Type	Technology	Fuel	MW Capacity	On-line date
Condon	G	WND	WT	49.8	Jun-02
Connell's Prairie (White River Project)	G	WAT	HY	14.0	
CONOCO	TG	FO2	IC	19.0	
Cowlitz Co. PUD GTs	TG	NG	GT	13.5	Jul-01
Cowlitz Co. PUD ICs Ph 1	TG	NG	IC	6.0	Jun-01
Cowlitz Co. PUD ICs Ph 2	TG	NG	IC	15.0	Oct-01
Cowlitz Co. PUD ICs Ph 3	TG	NG	IC	14.0	Nov-01
Cowlitz Cogeneration	G	NG	CCCG		
Coyote Springs 1 Upgrades	XG	NG	CC	5.0	Jun-01
Coyote Springs 2	G	NG	CC	280.0	Jun-02
Crossroads Conduit	G	WAT	HY		
Decker Coal	TG	FO2	IC	6.4	
Dworshak (Clearwater Hatchery)	G	WAT	HY	2.9	Jul-00
Elwha (Removal)	XG	WAT	HY	(12.0)	
Energy Northwest ICs	TG	FO2	IC		
Equilon GTs	G	NG	GT	38.5	
Equilon ICs	TG	FO2	IC	37.5	
Everett Delta 1	G	NG	CC	245.0	
Everett Delta 2	G	NG	CC	245.0	
Exxon Ph 1	TG	NG/RG	GT	20.0	
Exxon Ph 2	TG	NG/RG	GT	10.0	
Faraday Rehabilitation	XG	WAT	HY Eff	1.7	
Foote Creek Rim IV	G	WND	WT	16.8	Oct-00
Fourmile Hill	G	GST	GE	49.9	10/1/04
Franklin/Grays Harbor CTs	G	NG	GT	44.0	Dec-01
Frederickson (Westcoast)	G	NG	CC	249.0	Sep-02
Fredonia Addition	G	NG	GT	106.0	Aug-01
Garnet Energy Facility	G	NG	CC	273.0	2004
Georgia-Pacific (Bellingham) GTs	G	NG	GT	20.0	
Georgia-Pacific (Bellingham) ICs	TG	FO2	IC	19.2	Jan-01
Gillihan	G	WAT	HY	0.0	
Gilmer	TG	FO2	IC	6.0	
Glines Canyon Removal	XG	WAT	HY		
GNA GT 1-4	G	NG	GT	190.0	Feb-02
Goldendale Energy Center	G	NG	CC	248.0	Jul-02
Gorge Companion Tunnel	XG	WAT	HY Eff	20.0	
Grand Coulee 1 - 18 Runner Repl.	XG	WAT	HY Eff	0.0	Dec-07
Grant Co. PUD ICs	TG	FO2	IC	32.0	Jun-01
Grays Harbor Co. PUD ICs	G	FO2	IC	12.0	Jul-01
Grizzly	G	NG	CC	980.0	
Gunkel Orchards	TG	FO2	IC	3.2	May-01
H.W. Hill Expansion	G	NG	IC	10.5	
Hancock Creek	G	WAT	HY		
Hermiston Power Project 1 & 2	G	NG	CCCG	536.0	Jun-02
Holnam Cement	TG	FO2	IC	6.0	
Ice Harbor R&B	XG	WAT	HY Eff		

Project	Project Type	Technology	Fuel	MW Capacity	On-line date
Idaho Power ICs	TG	FO2	IC	40.0	Jun-01
Kettle Falls Upgrade	XG	NG	GT	6.0	
Klamath Cogeneration Project	G	NG	CCCG	484.0	Jul-01
Klamath GTs	TG	NG	GT	100.0	Nov-01
Kootenai Power Project	G	NG	CC	1300.0	
Lammars	TG	FO2	IC	0.7	
Libby Addition	XG	WAT	HY		
Little Falls Runner Replacement	XG	WAT	HY Eff	0.3	
Lloyd	TG	FO2	IC	0.8	
Long Lake 3 Turbine Replacement	XG	WAT	HY Eff	4.0	Dec-00
Long Lake Addition	XG	WAT	HY	60.0	
Longview Power Station	G	NG	CC	245.0	
Lorz	TG	FO2	IC		
Louisiana Pacific (Missoula)	TG	NG	IC	13.5	
Lower Baker Runner Replacement	XG	WAT	HY Eff	2.0	Jul-01
Maiden Wind Project	G	WND	WT	150.0	Oct-02
Marsh Valley	G	WAT	HY	1.7	
Medite MDF	G	NG	GTCG	6.0	
Mercer Ranch	G	NG	CC	850.0	
Mint Farm	G	NG	CC	249.0	
Miranson (Entiat)	TG	FO2	IC	9.8	
Miranson (Mansfield)	TG	FO2	IC	9.8	
Morrow Power	G	NG	GT	25.0	
Mountain Home (IPC)	G	NG	GT	90.0	Nov-01
Mountain Home (Power Development)	G	NG	GT	90.0	
Nine Canyon	G	WND	WT	50.0	
North Fork Runner Replacement	XG	WAT	HY	3.0	Q3 2001
North Umpqua Project Upgrade	XG	WAT	HY Eff	4.5	
Northeast Washington Mobile Power	TG	FO2	IC		
Northwest Aluminum Wind	G	WND	WT	4.5	Jan-02
Northwest Geothermal Co.	G	GST	GE	30.0	
Northwest Regional Power (Dallesport)	TG	FO2	IC	3.0	
Northwest Regional Power (Hanford)	TG	FO2	IC	28.8	Jun-01
Northwest Regional Power (John Day)	TG	FO2	IC	32.8	May-01
Northwest Regional Power (Rainier)	G	FO2	IC	24.0	
Northwest Regional Power (Rock Island) Ph 1	TG	FO2	IC	32.8	
Northwest Regional Power (Rock Island) Ph 2	G	NG	GT		
Northwest Regional Power (Roosevelt Landfill) Ph 1	TG	FO2	IC	16.0	
Northwest Regional Power (Roosevelt Landfill) Ph 2		NG	GT	15.0	
Northwest Regional Power Facility	G	NG	CC	838.0	
Noxon Rapids 5 Runner Rep & Rewind	XG	WAT	HY Eff	10.0	2005
Noxon Rapids Unit 1 Turbine Replacement	XG	WAT	HY Eff	10.0	
Noxon Rapids Unit 3 Turbine Replacement	XG	WAT	HY Eff	10.0	
Noxon Rapids Unit 4 Turbine Replacement	XG	WAT	HY Eff	10.0	
Okanogan Co. PUD Ph 1	TG	FO2	IC	6.6	

Project	Project Type	Technology	Fuel	MW Capacity	On-line date
Okanogan Co. PUD Ph 2	G	FO2	IC	26.0	Jul-01
Okanogan Power Ph 1	TG	FO2	IC	0.8	Jun-01
Okanogan Power Ph 2	TG	FO2	IC	8.2	
Okanogan Power Ph 3	TG	NG/PG	GT	10.0	
Oregon Energy	G	NG	CCCG	141.0	
Pierce Power	TG	NG	GT	160.0	Sep-01
Pinesdale	G	WAT	HY	0.2	
Ponderay Newsprint	TG	FO2	IC	5.7	Mar-01
Pope & Talbot	G	NG	GTCG	80.0	Mar-02
Port Westward	G	NG	CC	650.0	
Praxair	TG	FO2	IC	5.4	
Priest Rapids Pool Raise	XG	WAT	HY Eff	10.0	
Rail Energy of Montana (Butte)	TG	FO2	IC	9.3	
Rail Energy of Montana (Sappington)	TG	FO2	IC	9.3	
Rail Energy of Montana (Trident)	TG	FO2	IC	9.3	
Rathdrum Power	G	NG	CC	270.0	Aug-01
Reardan	G	FO2	IC	35.0	
Renton Wastewater Fuel Cell	G	WG	FC	1.0	Q3 2002
Rim Rock	TG	FO2	IC	2.5	
Rim View	G	WAT	HY	0.3	Oct-00
River Mill Rehabilitation	XG	WAT	HY Eff	0.6	
Rock Island (New Turbines)	XG	WAT	HY	43.5	
Rocky Reach Powerhouse Rehabilitation	XG	WAT	HY	27.4	Dec-01
Round Butte Runner Replacement	XG	WAT	HY	20.0	2003
Sahko	G	WAT	HY	0.5	
Salt River	G	WAT	HY	1.1	
Satsop	G	NG	CC	630.0	
SDS Lumber ICs	TG	FO2	IC	7.5	
SDS Lumber ST	G	NG/FO/WW	ST	3.5	Jul-01
Seattle City Light ICs	TG	NG	IC	50.0	
Sedro-Wooley Energy Center	G	NG	GT	82.6	Aug-01
Silver Bow	G	NG	CC	500.0	
Simpson Paper	TG	FO2	IC	19.7	
Simpson Ridge	G	WND	WT	375.0	
Skagit Reservoir Optimization	XG	WAT	HY Eff	0.0	Dec-01
Snoqualmie Falls Upgrade	XG	WAT	HY Eff		
SP Newsprint	G	NG	CCCG	119.0	
Springfield	G	NG		9.5	Jul-01
Springfield ICs	TG	FO2	IC	26.7	Apr-01
Starbuck	G	NG	CC	1200.0	
Stateline Phase 1	G	WND	WT	175.0	Dec-01
Stateline Phase 2	G	WND	WT	125.0	Q1 2002
Stone Container	TG	FO2	IC	10.5	
Sullivan Rehabilitation	XG	WAT	HY Eff	1.2	
Sullivan Creek	G	WAT	HY	11.0	
Sumas Energy 2	G	NG	CC	660.0	

Project	Project Type	Technology	Fuel	MW Capacity	On-line date
Summit/Westward	G	NG	CC	520.0	
Tacoma Power IC Expansion	TG	FO2	IC	21.3	
Tacoma Power ICs	TG	FO2	IC	52.5	Jan-01
Taplett (Entiat)	TG	FO2	IC		
Taplett (Wenatchee)	TG	FO2	IC	3.2	
Tesoro Ph 1	TG	FO2	IC	21.6	
Tesoro Ph 2	TG	NG	IC	24.0	
The Dalles 1 - 14 R & B	XG	WAT	HY Eff		
The Dalles 1-14 SS Excitors	XG	WAT	HY Eff		2003
Tiber Dam	G	WAT	HY	7.5	
Tieton	G	WAT	HY		
Titan	TG	FO2	IC	15.0	Jul-01
U.S. Electric Cherry Point	G	COL		249.0	
Umatilla	G	NG	CC	500.0	
Umatilla Generating Project 1 & 2	G	NG	CC	550.0	
Upper Falls Rehabilitation	XG	WAT	HY Eff		
Valley Electric (Black Sands)	TG	NG/FO2	IC	15.0	
Valley Electric (Quincy)	TG	NG/FO2	IC	44.0	
Valley Electric (Wheeler)	TG	NG/FO2	IC	44.0	
Wallula	G	NG	CC	1300.0	
Wanapum 11 & 12	XG	WAT	HY Eff	133.1	
Wanapum Runner Replacement	XG	WAT	HY Eff		
Warm Creek	G	WAT	HY	3.6	
Wells (Governors)	XG	WAT	HY		May-00
West Linn Paper	G	NG	CCCG	94.0	
Willamette Industries (Albany/Millersburg)	G	NG	CCCG	45.0	
WNP-1 Solar	G	Solar	PV	0.1	10/1/01
WNP-2 Upgrade 3	XG	UR	NB Eff		
Youngs Creek	G	WAT	HY	8.3	
Zosel Lumber	G	WD	STCG	3.2	
TOTAL INSTALLED CAPACITY				**20138**	

Key to Attachment 2

[redacted]

Project Type

TG	Temp Generation (permitted for 24 months or less
G	New permanent power plant
XG	Refurbishment, expansion or retirement of existing plant

Technology

FO2	Distillate Fuel Oil
WAT	Water
NG	Natural Gas
WND	Wind
COL	Coal
LG	Landfill Gas
NG/RG	Natural Gas/Refinery Gas
GST	Geothermal Fluid
NG/PG	Natural Gas/Propane
WG	Wastewater Treatment Plant Gas
NG/FO/WW	Natural gas/fuel oil/waste water
NG/FO2	Natural gas/fuel oil
UR	Uranium

Fuel

IC	Reciprocating Engine
HY	Hydropower
GT	Gas Turbine
CC	Combined-Cycle Combustion Turbine
WT	Wind Turbine
ST	Boiler Steam Turbine
HY Eff	Hydropower Efficiency Improvements
CCCG	Combined-Cycle Combustion Turbine Cogeneration
GTCG	Geothermal Cogeneration
GE	Geothermal Plant
PV	Photovoltaic
NB Eff	Boiling Water Reactor Efficiency Improvements
STCG	Boiler Steam Turbine Cogeneration

Attachment 3
Sited California Generation Projects - On Line 2001-2007
(source: Industrial Information Research)

Facility	Technology	Output (MW)	Est Online Date
GRAND TOTAL		**42,013**	
FY 01			
Mountain View Power Partners	Wind	50	4/1/01
Procter & Gamble		44	4/1/01
South Point		545	5/1/01
Desert Basin Generating		500	6/1/01
Griffith Energy Project	CCCT	520	7/1/01
Los Medanos (Pittsburg) Facility	CCCT	500	7/1/01
Sutter Power	CCCT	500	7/1/01
CEC Renewables Estimate I		168	7/1/01
SMUD McClellan Upgrade		22	7/1/01
Cal-ISO Peaking Facilities		500	7/1/01
Huntington Beach Modern.		450	7/1/01
West Phoenix (Phase 1)	CCCT	120	8/1/01
Sunrise Power Phase I	Simple	320	8/1/01
LADWP CT Projects		300	8/1/01
United Golden Gate Peaking	Combustion	51	8/1/01
La Paloma Phase I	CCCT	521	11/1/01
CEC Renewables Estimate II		510	12/31/01
TOTAL FOR FY 01		**5,621**	
FY 02			
Kyrene (Oasis)	CCCT	250	2/1/02
La Paloma Phase II	CCCT	522	3/1/02
Sundance Energy Project		600	6/1/02
Moss Landing	CCCT	1060	6/1/02
Redhawk 1	CCCT	530	7/1/02
Redhawk 2	CCCT	530	7/1/02
Delta Energy Center	CCCT	880	7/1/02
Arlington Valley		550	8/1/02
Caithness Big Sandy (Phase I)	CCCT	500	11/1/02
Gila River	CCCT	2000	12/1/02
TOTAL FOR FY 02		**7,422**	
FY 03			
Pastoria	CCCT	750	1/1/03
Pastoria 2	CCCT	250	1/1/03
Redondo Beach		700	1/1/03
Three Mountain	CCCT	500	2/1/03
Hanford Energy Park	CCCT	99	2/1/03
Mesquite Power		1000	3/1/03
Elk Hills	CCCT	500	3/1/03
Metcalf Energy Center	CCCT	600	3/1/03
Midway-Sunset	CCCT	500	3/1/03
Blythe	CCCT	520	4/1/03
Mountainview		1056	5/1/03

Contra Costa	CCCT	530	5/1/03
West Phoenix (Phase 2)	CCCT	500	6/1/03
Otay Mesa	CCCT	510	6/1/03
High Desert	CCCT	720	7/1/03
Sunrise Power Phase II	CCCT	240	8/1/03
Harquahala Generating Station	CCCT	1040	9/1/03
Potrero	Combustion	540	9/1/03
Morro Bay	CCCT	1200	10/1/03
Fourmile Hill		50	12/1/03
Teayawa Energy Center		600	12/1/03
Valley	CCCT	250	12/1/03
TOTAL FOR FY 03		**12,655**	
FY 04			
Antelope	CCCT	1000	2/1/04
Caithness Big Sandy (Phase II)	CCCT	220	3/1/04
Rio Linda/Elverta	CCCT	560	4/1/04
South City	CCCT	550	4/1/04
Gila Bend	CCCT	750	6/1/04
East Altamont		1100	6/1/04
United Golden Gate CC	CCCT	520	6/1/04
Magnolia Modernization		310	6/1/04
El Segundo		280	7/1/04
Roseville		750	7/1/04
SMUD CCCT Cycle	CCCT	1000	7/1/04
Maxwell		600	7/1/04
Russell City Energy Center	CCCT	600	10/1/04
Springerville Generation I		380	12/1/04
Long Beach District		500	12/1/04
TOTAL FOR FY 04		**9,120**	
FY 05			
La Paz	CCCT	1080	8/1/05
Santan	CCCT	825	12/1/05
Springerville Generation II		380	12/1/05
TOTAL FOR FY 05		**2,285**	
FY 06			
Redhawk 3	CCCT	530	6/1/06
TOTAL FOR FY 06		**530**	
FY 07			
White Tank Mountain	Pump Storage	1250	1/1/07
Toltec Power Station		2000	1/1/07
Mobile		600	1/1/07
Redhawk 4	CCCT	530	12/1/07
TOTAL FOR FY 07		**4,380**	

BPA to announce load cuts and rates Friday, June 29

Click here for other BPA news releases

Bonneville Power Administration
FOR IMMEDIATE RELEASE: FRIDAY, June 22, 2001
PR 63 01

CONTACTS: Ed Mosey or Mike Hansen, BPA (503) 230-5131

PORTLAND, Ore. – The Bonneville Power Administration said today it will announce who has signed load reduction agreements and a new wholesale rate on Friday, June 29. Load reduction megawatt totals for each customer class will be posted on the BPA Web site (bpa.gov) Tuesday afternoon, June 26.

The level of the rate scheduled to take effect Oct. 1 depends largely on the results of load reduction by utilities and industries. Although the deadline for signing load reductions is still June 22, officials said many customers were expected to sign up late Friday and more time will be needed to complete transactions and calculate results.

A press conference will be held Friday, June 29, at the BPA headquarters in Portland.

Who: BPA Administrator Steve Wright

When: 9:30 a.m. PDT.

Where: BPA headquarters, 905 N.E. 11th Avenue, Portland

Telephone access will be available for reporters at 1-800-937-6563. An operator will take calls and transfer them individually to the press conference in the order received.

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Insley,Gary C - PTS

From: Roadman, Val - PL
Sent: Monday, June 25, 2001 5:05 PM
To: Aho, Rodney - PSE; Anderson, Brenda S - PTF-5; Beede, C T - PSE/Missoula; Berwager, Syd - PT-5; Bloyer, Dan - PSE; Burns, Allen - PS-6; Clarke Jr, Stuart - PSW/Seattle; Elizalde, John - PSW-6; Fitzsimmons, David - PSW; Forman, Charles W - PSW-6; Hustad, Kenneth H - PSE/Spokane; Insley, Gary - PTS-5; Itami, Rick - PSE/Spokane; King, Larry D - PS/BURLEY; Kitchen, Larry - PT-5; Lamb, William D - PTF-5; Le, Nga (Dan) - PTF-5; Leathley, Kimberly - PTP-5; Lebens, John - PSW; Linn, Young S - PTF-5; Miller, Mark - PT-5; Mills, David - PTF-5; Norman, Paul - P; Oliver, Stephen - PT-5; O'Neal, Paul J - PSW; Pyrch, Karen S Graves - PSW-6; Reich, George T - PSW/Seattle; Rettenmund, Frederic D-PSE/Spk; Rockwood, Theresa - PSW-6; Schimmels, Nancy M-PSE/Spokane; Tetnowski, Sonya M - PSE-6; Thompson, Garry R -PSE/Spokane; Von Muller, Tom H - PL/Spokane; Watts, Kirsten - PSW/Seattle; Wilson, Scott - PT-5; Wykoff, Angela M - PSW-6; Ball, Crystal A - KN-DC; Custer, Cindy J - KR/WSGL; Evans, Bart - KR-7C; Hunt, Karen - KR-7; Hustad, Carol S - KR/Spokane; Kuntz, Gail K - KR/MSGL; Morrow, Anne - KR-7C; Reller, Mark D - KR/MSGL; Seifert, Roger - KN-DC; Stier, Jeffrey K - KN-DC; Swedo, Robert L - KR/Spokane; Taves, John - KR-7C; Williams, John J - KR/BOISE; Zimmer, Pat - KR-7C; Eastman, Darrell - KT-7; Shank, Bob - KT/Spokane; Smith, John A - KT/Spokane; Alder, Michael - PGF-6; Allison, Jack - PGF-6; Berger, Michael - PGF-6; Foulkes, Gabrielle - PGF-6; Fox, Roy B. - PGF; Hacker, Kathy S - PGF-6; Jones, Mark A - PGF-6; Wellschlager, John D - PGF-6
Cc: Arrington, ZoeAnne - PM-6; Keep, Barney - PSP; Cherry, Diane - PSP; Foulkes, Gabrielle - PGF-6; Jones, Cynthia L - PSP-5; Hampton, Jennifer S - PSP-5; Procter, Robert J - PSP-5; Doubleday, Bill - PSP-5; Gustafson, Greg - PSP; McCoy, Tim D - PSP-6; Delwiche, Gregory K - PG-5; Newton, Tiffany - PG-5; Pyrch, John - PN-1; Hyzer, Patricia - PN-6; Zenner, Sharon - PSR-6; Pirie, Theresa L - PSR-6; Bleifuss, Edward L - PMM-5; Moorman, Geoffrey - PM-6; Draper, Anne E - PTT-5; Baker, Lynn W - KC-7; Canaday, Barbara - KC-7; Crawford, Bryan - KC-7; Hansen, Michael - KC; Hyman, Aretha A - KC-7; Mahar, Dulcy - KC-7; Moore, Hugh A - KC-7; Mosey, Edward - KC-7; Reuven, Karol-Jo - KC-7; Stenehjem, Carlene - KC-7; Templeton, Ian - KC-7; Roach, Randy A - L-7; Curtis, Jim - DF-2; Lefler, Valerie - DFS-2; Mesa, Philip A - PGPL-5; Latham, Dale - PS-6; Lovell, Byrne - KP-7; Vincent, Grant - PGGB; Hickok, Steven G - D-7; Wright, Stephen J - A-7; Stauffer, Nicki - A-7; McElhaney, Judy - D-7; Yoakum, Ann - D-7; Goodwin, Helen - KP-7; Adamske, Mary - PSE/Spokane; Bome, Suzanne L - PT-5; Cage, Candace - PSW-6; Davidson, Holly A - PSW-6; Ervast, Yolanda S - PSE/Bend; Jee, Rose - PSW; Larson, Cheryl - P; Montague, Kay - CGB/Idaho Falls; Moore, Lisa A - PSE/Spokane; Palmer, Linda L - PS-6; Polenske, Judy - PSW/Seattle; Scott, Jenifer A - P-6; Shepherd, Jodi - PSE/Spokane; Uhrich, Judy A - PSE/BURLEY; Wilson, Sarah J - PTS-5; Hage, Bonnie - KR-7; James, Lorena A - KR/Helena; Jones, Sheron - KN-DC; Ostrom, Sara A - KR-7; Welch, Sheryl D - KR/7C; Shelton, Valerie M - KT/Spokane; Adler, David J - LP-7; Burger, Peter J - LP-7; Casad, Kurt R - LP-7; Hull Gerit F - LP; Johnson, Tim A - LP-7; Miller, Thomas D - LP-7; Runzler, Kurt W - LP-7; Skidmore, Lara - LP-7; Van Buren, Marybeth - LP; Westenberg, Sarah A - LP-7; Wright, Jon D - LP-7; Atterbury, Laura M - PL-6; Banks, Jill - PL-6; DeKlyen, Tom - PL; Dowty, Phyllis M - PL; Evans, Liz - PSW; Legarde, Lorena - PL-6; Roehm, Jenny L - PL; Whitney, Carolyn A - PL; Petty, Robert J - PTP-5
Subject: Rates Workshops; Load Reduction Strategy ROD////RE: Don't Leak Rate//RE: Last minute talking points change re What's happening with Rates' announcements?

Below is a little more information re this week's rates workshops and the 6/15 Load Reduction Strategy ROD. Will probably send you more information tomorrow or Wednesday.

1. There will be two Rates workshops this week--one on Wednesday (6/27) and one on Friday (6/29). The following meeting notice information was emailed to rate case parties.

The LB CRAC workshop has been continued and will reconvene on Wednesday June 27, 2001 from 9:30 a.m. to 4:30 p.m. in the Rates Hearing Room 223 of the 911 Building. There will also be a meeting on Friday, June 29, 2001 from 10:00 a.m. to noon in the Rates Hearing Room 223 of the 911 Building. To dial into the bridge, all participants must dial 503-230-3344, wait for the double beep then enter the passcode 4394. If you need assistance dialing into the bridge or have questions or problems, call Cynthia Jones @ 230-5459, or Jennifer Hampton @ 230-7443. Other questions should be directed to Sarah Westenberg at 503-230-4753.

Peter Burger followed up with another email to rate case parties re both workshops. Text is provided for your information below.

"Regarding the meeting Wednesday, we would encourage parties, particularly those from out of town, to participate by phone. While the meeting is scheduled for currently scheduled for several hours we do not anticipate that it will take that long. (Our current view is no more than an 1 hour) Our plan for the meeting is two fold. First to give parties a general idea of where we ended up on the price curve given the rate mitigation effort recently concluded. Second, we would like to discuss the scheduling of some meetings to resolve this problems related to price quantity relationship in the future. We are looking at the month of August to begin these discussions.

With regard the meeting on Friday, we do not anticipate that this meeting will take very long. We envision this as being more of an announcement of the LB CRAC rather than a working discussion. Technical staff will be available to present more detail on the calculation of the LB CRAC than will be presented by the Administrator at his press conference. If you have any questions please contact Barney Keep at 503-230-5660."

2. The Load Reduction Strategy ROD document and announcement was available on the external Power Business web site as of 2:00 PM today (Monday, June 25th). See the "Implementation of 2002-2006 Power Rates" section of the "What's New" page:

http://www.bpa.gov/power/pgg/whatspl.shtml

Grant Vincent also created a temporary link to the document on the Power Rates page. See:

http://www.bpa.gov/power/rates

-----Original Message-----
From: Roadman, Val - PL
Sent: Monday, June 25, 2001 1:44 PM
Subject: Don't Leak Rate//RE: Last minute talking points change re What's happening with Rates' announcements?
Importance: High

Just heard that some of you are talking to the media. Please be careful in your discussions. **Steve Wright does not want any leak at all about what rate we'll announce on Friday other than it's below triple digits.** Thanks.

-----Original Message-----
From: Roadman, Val - PL
Sent: Friday, June 22, 2001 4:15 PM
Subject: Last minute talking points change re What's happening with Rates' announcements?

Have you noticed how quickly things have been moving lately?

The attached revised talking points contain edits received from Allen Burns to the fourth bullet in the "Messages" section of the version I sent you at 3:50 today. Friday, June 22, 2001, marks the end of the load reduction process that Steve Wright announced at an April 9 press conference. These talking points explain how the results of the load mitigation effort will be released to the press, customers and constituents between now and June 29.

<< File: LoadReduct_release_TP3.doc >> = revised 6/22 BPA Talking Points on "Releasing results of load mitigation effort"

-----Original Message-----
From: Roadman, Val - PL
Sent: Friday, June 22, 2001 3:50 PM
Subject: What's happening with Rates' announcements?
Importance: High

Read below information for what's planned re rates release from today through next Friday, 6/29. More detail available next week.

1. The Final ROD and Study documents for the 2002 Rate Case are now available on the external web site. See:

http://www.bpa.gov/Power/PSP/rates/RateCase/announcements.shtml

2. Attached is a media advisory being issued today announcing what will be released when. Note Steve Wright will have a press conference Friday, June 29 at 9:30.

<< File: June29Rates_.doc >> = 6/22 media advisory

3. Attached are talking points that explain how the results of the load mitigation effort will be released to the press, customers and constituents between now and June 29.

<< File: LoadReduct_release_TP2.doc >> = 6/22 BPA Talking Points on "Releasing results of load mitigation effort"

4. Attached is a List of signers as of 4:45pm on 6/21. This list was discussed at yesterday's PBLMC. Information from this list was shared verbally with Clearing Up. **You may share this information verbally but please do not distribute it externally.** Steve Wright doesn't want a list of signers released until Friday, 6/29.

<< File: Load Reduction 10 percenters List 6-21-01.doc >> = list of signers of Rate Mitigation agreements for 10% or more as of 4:45 pm on 6/21

5 I'm not sure if I've not this right but I believe there will be two technical workshops next week. One on Wednesday to discuss the price curves only and a last LB CRAC Workshop on June 29 to announce the final rates. More info and communication tools to come your way next week including a detailed release plan and talking points on the LB CRAC percentage.

BPA Load Reduction and Power Buyback Preliminary Results
Revised 6/26/01

The numbers below represent the results of regional efforts to secure load reductions commitments from public, IOU, and DSI customers of BPA as well as power buybacks from IOUs.

A. Load Reduction and Power Buybacks for 6 months beginning October 1, 2001

Table A-1 presents the average monthly load reductions on BPA for the 6-month period beginning October 1, 2001. These load reductions will be reflected in the LB CRAC and revised rates to be released on 6/29/01 that will take effect for a 6-month period beginning October 1, 2001.

Table A-1
Load Reductions for 6 months beginning October 1, 2001

Customer Group	Received (aMW)	Goal (aMW)	Percent of Goal
Public	468	600	78%
IOU	93	100	93%
DSI	1,158	1,200	97%
Total	1,719	1,900	90%

Table A-2 presents the power buyback from IOUs that BPA will receive, on average, monthly for the first 6 months of FY'02. These amounts are also included in BPA's calculation of the LB CRAC that will take effect for a 6-month period beginning October 1, 2001.

Table A-2
Power Buyback from IOU for 6 months beginning October 1, 2001

Received (aMW)	Goal (aMW)	Percent of Goal
558	500	112%

Table A-3 is the sum of the results for Table A-1 and Table A-2.

Table A-3
Grand Total for 6 months beginning October 1, 2001

Received (aMW)	Goal (aMW)	Percent of Goal
2,277	2,400	95%

Attachment 5

B. Load Reduction and Power Buyback Results for the 12-month period beginning October 1, 2001

These two tables below contain the amount of load reductions and power buybacks that BPA will receive monthly for the 12 months beginning October 1, 2001. These tables are provided solely for the purpose of indicating the amounts of load reduction and power buybacks that occur on average, monthly, over the 12-month period. For example, the public number in Table B-1 is 530 aMW and the public number in Table A-1 is 468 aMW. This difference indicates that BPA will receive a greater amount of public load reduction during the period April 1, 2002 to September 30, 2002 than will be received during the first 6-month period beginning October 1, 2001. Due to changing market conditions, continuing load reductions efforts, and the potential for changing load placement on BPA due to weather and economic activity, it is not possible to use the numbers in Tables B-1 and B-2 to estimate what the LB CRAC will be for the second 6-month period that begins on April 1, 2002.

Table B-1 presents the average monthly load reductions for the 12-month period beginning October 1, 2001.

Table B-1
Load Reductions for 12 months beginning October 1, 2001

Customer Group	Received (aMW)	Goal (aMW)	Percent of Goal
Public	530	600	88%
IOU	93	100	93%
DSI	934	1,200	78%
Total	1,557	1,900	82%

Table B-2 presents the average monthly power buyback from IOUs for the 12 months beginning October 1, 2001 that is in addition to the load reductions from the IOUs contained in Table B-1.

Table B-2
Power Buyback from IOUs

Received (aMW)	Goal (aMW)	Percent of Goal
558	500	112%

Table B-3 is the sum of the results for Table B-1 and Table B-2.

Table B-3
Grand Total for 12 months beginning October 1, 2001

Received (aMW)	Goal (aMW)	Percent of Goal
2,115	2,400	88%

Bonneville Power Administration

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BONNEVILLE POWER ADMINISTRATION

BPA News Shorts

For energy and fish related developments within the region

June 27, 2001 UPDATE

RATES DECISION PRESS CONFERENCE LOCATIONS, TIMES

BPA acting administrator Steve Wright will hold three regional press conferences Friday, June 29 to announce the wholesale power rate hike that will take effect Oct. 1 of this year. He will also disclose the results of an intensive regionwide effort by utilities and industries to reduce power purchases to put the brakes on runaway energy prices.

Press briefings will be held in the following cities:

PORTLAND, Ore., 9:30 a.m. PDT, at BPA headquarters, 905 NE 11th Ave., Portland. Teleconferencing will be available in Portland only.

SEATTLE, Wash., 12:30 p.m. PDT, at Crown Plaza Hotel (downtown), 1113 6th Ave., Seattle

PASCO, Wash., 3:00 p.m. PDT, at DoubleTree Hotel, 2525 N. 20th Ave. (4 blocks from Pasco Airport)

LOAD REDUCTION, POWER BUYBACK TOTALS

BPA yesterday announced the results of average monthly load reduction commitments from its public, IOU and DSI customers, as well as the average monthly power buyback from IOUs, for the six month period beginning Oct. 1. Click here to see tables and explanations showing the results.

TEMPORARY SMALL RESOURCE POLICY, ROD ISSUED

Through September 2002, BPA will let its customers temporarily add small generating resources without permanently reducing their call on power from BPA. The Temporary Small Generating Resource Policy was issued June 25, following the administrator's Record of Decision (ROD) which

Attachment 21

was signed June 22. The policy applies to resources that produce one megawatt to 25 MW. BPA called for public comment on a draft policy this spring.

"I've debated this internally and believe we have the right response," said Acting Administrator Steve Wright. "We will only support diesel that is accepted under local air quality regulations. Beyond that, diesels run at $100 a megawatthour to $150 MWh or more. As we get large generation on line and prices come down, it will kick off the diesel."

All resources must comply with all applicable state and local operations. Diesel generators must use specified techniques to control emissions, which cost $1,000 to $3,000 per unit. Meanwhile, adding more resources to the West Coast power pool now will ease power shortages, and adding small resources close to cities will help improve power system reliability. Click here to see the whole policy and ROD.

BPA TO ANNOUNCE LOAD CUTS, RATES FRIDAY

BPA will announce who has signed load reduction agreements and a new wholesale rate on Friday, June 29. Load reduction megawatt totals for each customer class will be posted on the BPA Web site (www.bpa.gov) Tuesday afternoon, June 26.

The level of the rate scheduled to take effect Oct. 1 depends largely on the results of load reduction by utilities and industries. Although the deadline for signing load reductions was June 22, officials said many customers were expected to sign up late Friday and more time will be needed to complete transactions and calculate results.

A press conference will be held Friday, June 29 at 9:30 a.m. PDT, at the BPA headquarters in Portland.

RATE ROD RELEASED

BPA's acting administrator signed the final record of decision on the power rate case on June 20. Because the action was final, it allowed BPA staff to freely hear customer concerns about rate impacts in the last few days of their load-reduction commitment discussions. Prior to that, BPA was in an "ex parte" period and could not discuss rates with individual entities unless all parties to the rate case were included. The final ROD doesn't include the actual percentage adjustment to the rate because it will reflect application of three cost-recovery adjustment clauses in the rate structure:

- **Load-based CRAC** – the one that's the subject of the current load-reduction effort.
- **Financial-based CRAC** – triggers when net revenue forecasts fall below specified thresholds.
- **Safety-Net CRAC** – triggers if there's a 50 percent probability BPA will miss a debt payment or if a payment is actually missed.

"The customers proposed the load-based CRAC as a way to handle the volatility of the power market," BPA power rate case manager Barney Keep noted. "It's proved a very valuable concept."

WHAT DOES FERC'S LATEST MEAN TO BPA?

"There's not likely to be a great immediate impact on BPA from the Federal Energy Regulatory

Attachment 21

Commission's latest order, announced June 19, simply because BPA doesn't expect to be in the power market much this summer. BPA has already bought most of the power it expects to need this summer, and we're in a drought, so we won't have much to sell," BPA spokesperson Mike Hansen explained.

Long term, the impact is anything but clear. FERC has jurisdiction over "public utilities," meaning investor-owned utilities and marketers. Its orders tend to be very broadly framed and designed for its jurisdictional utilities. BPA has been reviewing the 50+ page order to see how it might apply to the agency. The Department of Energy and the administration are also reviewing FERC's order.

ONE WINTER DOWN, ANOTHER TO GO

BPA staved off disaster by finding ways to stay out of "a market where we could have lost a lot of money without buying very much power. We've navigated through in a way that has not and will not sell short our public responsibilities," said Vice President for Power Generation Greg Delwiche at a recent briefing.

Non-hydro supplies helped. The Columbia Generating Station (nuclear plant) "ran like a champ" all winter, Delwiche said. "We've been successful in conservation and did a very successful two-for-one energy exchange with California that saved them from some (not all) blackouts and added 500 megawatt-months to BPA's energy supply."

In theory, BPA is planning to go into next winter with sufficient water so as not to affect next year's operations. "But it's a stretch," Delwiche said. "The Canadian reservoirs will not refill this year. I can't imagine we'd have no problem if we get another year of 55 million acre-feet. If we get a normal year, we could probably come out of the drought relatively quickly. If it rains in November, I'll heave a huge sigh of relief."

NLSL PUBLIC PROCESS OPENED JUNE 25

The public comment period opened June 25 on three specific New Large Single Load (NLSL) issues. These issues, which deal with how much BPA power allocations utlities receive, are summarized in a Federal Register Notice that was published June 25. Note that BPA is not reviewing the entire NLSL policy. Comments should be limited to the three issues outlined in the Federal Register Notice. The comment period is open through Friday, July 27. A public meeting will be held in Portland on July 10 at the Sheraton Airport Hotel. For more details on this public process click here.

WEATHER/STREAMFLOWS FOR THE WEEK

The weather in the Columbia River Basin for the week that ended June 20 was cooler than normal the first five days and warmer than normal the last two days. Light precipitation fell in Canada and Montana, while the rest of the basin was dry. Very little snow remains in the higher elevations. Natural stream flows at The Dalles continued to decrease during the week.

Precipitation (above The Dalles Dam):

- 126 percent of average (June 1 - 19)
- 70 percent of average (Oct. 1 - June 19)

Attachment 21

Reservoir status: Federal reservoirs were 63 percent full, compared to 72 percent of full capacity at this time last year.

Natural streamflows (for the week ending June 13)

- Grand Coulee: 156,800 cubic feet per second (cfs); 48 percent of average
- Lower Granite: 38,400 cfs; 35 percent of average
- The Dalles: 212,700 cfs; 44 percent of average

External sources of snowpack, precipitation, volume and "final observed data": NW River Forecast Center, National Weather Service, Natural Resources Conservation Service.

News Shorts is edited by Barbara Canaday
For more information, please contact;
Ed Mosey at 503-230-5359 or
Mike Hansen at 503-230-4328

News Shorts archive page

Media Center Home

Attachment 21

BPA will announce rate decision Friday in
Seattle, Portland and Pasco

Click here for other BPA news releases

Bonneville Power Administration
FOR IMMEDIATE RELEASE: WEDNESDAY, June 27, 2001
PR 69 01

CONTACTS: Ed Mosey or Mike Hansen, BPA (503) 230-5131

PORTLAND, Ore. – Acting BPA Administrator Steve Wright will announce Friday June 29 the wholesale power rate hike to take effect Oct. 1. He also will disclose the results of an intensive regionwide effort by utilities and industries to reduce purchases to put the brakes on runaway energy prices.

"The region is wrapping up an all-out campaign to reduce loads and conserve energy," Wright said. "The results we will announce Friday are critically important to the health of the Northwest economy and the power bills of consumers."

Wright will conduct press briefings in the following cities. Teleconferencing will be available in Portland only.

Portland:
Friday, June 29
BPA Acting Administrator Steve Wright
9:30 a.m. PDT.
BPA headquarters, 905 N.E. 11th Avenue, Portland

Telephone access will be available for reporters at 1-800-937-6563. An operator will take calls and transfer them individually to the press conference in the order received.

Seattle:
Seattle - Crown Plaza Hotel (downtown)
Friday, June 29
BPA Acting Administrator Steve Wright
12:30 p.m.
1113 6th Avenue
(206) 464-1980 (Hotel phone number, no teleconferencing available).

Pasco:
Pasco - DoubleTree Hotel
Friday, June 29

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BPA Acting Administrator Steve Wright
3 p.m.
2525 N. 20th Avenue (4 blocks from Pasco Airport)
(509) 547-0701 (Hotel phone number, no teleconferencing available).

# # #

Attachment 14

Bonneville Power Administration

in the news

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June 29, 2001 Press Conference

This is the electronic version of the press packet that was available at Bonneville Power Administration headquarters building for the June 29, 2001 press conference.

Related BPA news releases:

June 29, 2001 - BPA announces new wholesale power rate

June 27, 2001 - BPA will announce rate decision Friday in Seattle, Portland and Pasco

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Other materials:

Posters

Load Reduction Heroes list (customers) (Updated July 2, 2001)

Letter from Stephen Wright to BPA customers and citizens of the Pacific Northwest

Biography of Stephen J. Wright

BPA Fast Facts

(*Many of the above files are in Adobe PDF format. You will need an Adobe acrobat reader. If you do not have one, click here to download it for free.)

Page updated July 2, 2001 by BPA Communications, (503) 230-5131.

Attachment 15

BPA announces new wholesale power rate

Dramatic drop from anticipated 250% increase

Click here for other BPA news releases

Bonneville Power Administration
FOR IMMEDIATE RELEASE: FRIDAY, June 29, 2001
PR 72 01

CONTACTS: Ed Mosey or Mike Hansen, BPA (503) 230-5131

PORTLAND, Ore. - "The region's utilities and industries have proven that, if we act collectively, we can benefit collectively," according to Steve Wright, the acting administrator of the Bonneville Power Administration.

"For about a year we've known that we've had a problem that would cause our rates to go up. Just a little over two months ago, BPA's customers faced a wholesale rate increase of 250 percent or more," Wright said. "Due to an unprecedented load reduction effort by utilities and industries, I am pleased to announce that the pending increase has been cut to 46 percent effective on Oct. 1."

Wright added that the response of the region to the crisis "should make us all proud to be citizens of the Pacific Northwest."

The region's utilities and industries slashed their demand from BPA by 2,277 average megawatts, which means BPA will not have to buy that power in an extremely high-priced wholesale market. That's 95 percent of the load reduction goal of 2,400 megawatts that BPA had set. This amount of power is about a quarter of BPA's regional requirements.

"I am tremendously grateful to Secretary of Energy Spencer Abraham for his early support when it was not clear this was going to be a success," Wright said. "I'm also deeply appreciative of the support from the region's congressional delegation and governors."

The load reduction effort will result in lower rates than would otherwise have been necessary to cover the costs of high-priced power purchases. Moreover, it will save jobs. "As many as 25,000 people will still be working who otherwise would have been laid off if wholesale rates had increased 250 percent," Wright estimated. "The reliability of the power system also is substantially improved and market prices are falling. All of this is a direct result of the thousands of individuals around the region taking actions that benefit the region as a whole."

Wright said the action the region took to lower the rate increase will save ratepayers approximately $4 billion. "This is money that otherwise would have come out of the pockets of businesses struggling to compete, farmers facing lower commodity prices and everyone who pays electric bills," Wright said.

While the rates for the six months beginning Oct. 1 cannot be altered, utilities that have not yet reduced

Attachment 16

their load on BPA still have a chance to make a contribution. If they sign up, they can further reduce BPA's need to purchase expensive power from the market. Since BPA passes on costs in rates, any further efforts at load reduction will show up in future rate savings.

BPA will reassess rates every six months and adjust them to account for actual power costs. BPA is a not-for-profit federal wholesale power marketing agency. As such, it passes costs directly to its utility and industry customers without markup. The size of the retail rate hike will vary by utility.

"Although the region has substantially reduced its exposure to the market, we recognize that the rate increase is still a steep one," Wright said. He urged the region not to relax its efforts to conserve energy.

"Our challenge will be to communicate to people and businesses region wide the specific information they need to reduce electricity use over the next six months," he said.

"What we have done in the short-term strategy responds to the immediate crisis," Wright said. "The President's National Energy Plan calls out the need to build an energy infrastructure that will provide for long-term reliability and low cost. The region must now focus on necessary investments in energy efficiency, power plants, and electric power and natural gas transmission facilities to bring supply and demand into balance. This is the only way to assure long-term prosperity while protecting the environment of the Pacific Northwest.

"We've demonstrated that we can regain control of our regional energy destiny," Wright said. "Now let's prove that we can keep it."

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Attachment 16

BONNEVILLE POWER ADMINISTRATION

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

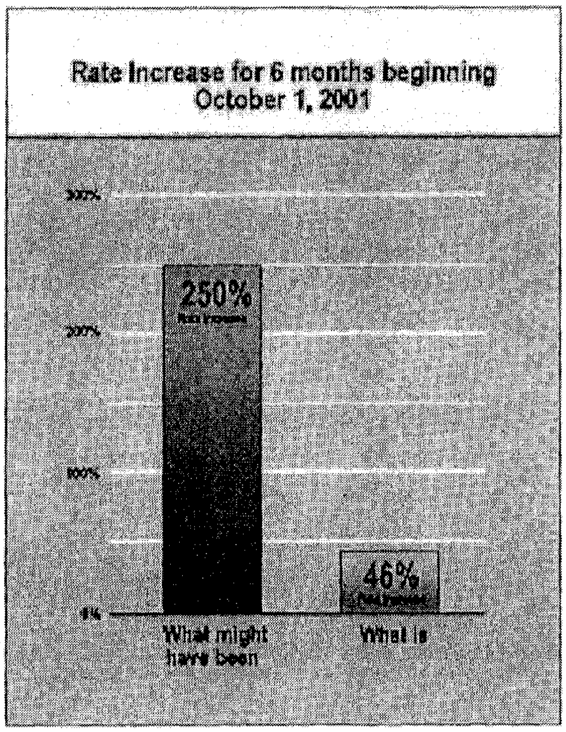
June 29, 2001

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.



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.

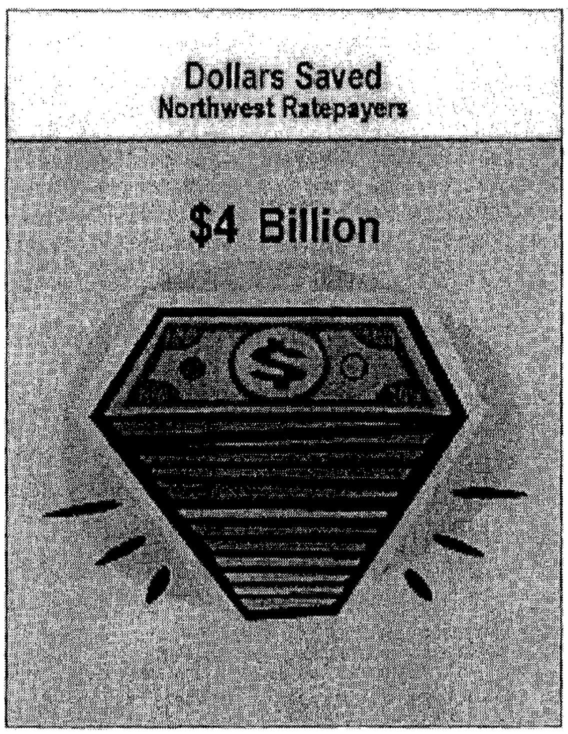
We called on the region's utilities to reduce their power take on BPA by up to 10 percent, and we asked the region's industries that are directly served by BPA, primarily aluminum plants, to delay the restart of operations for up to two years. Starting in October, Bonneville would have been obligated 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. Fortunately, 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.

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.



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.

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.

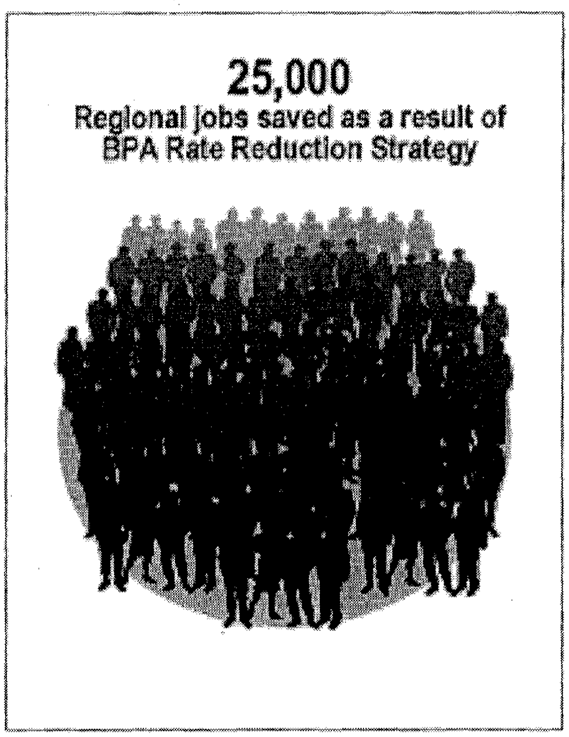
This reflects outstanding progress on several important conservation initiatives. We recognize that there is still much work to do to get these measures installed and delivering the promised savings, but this is by any measure a great start. These energy efficiency efforts will continue to pay dividends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



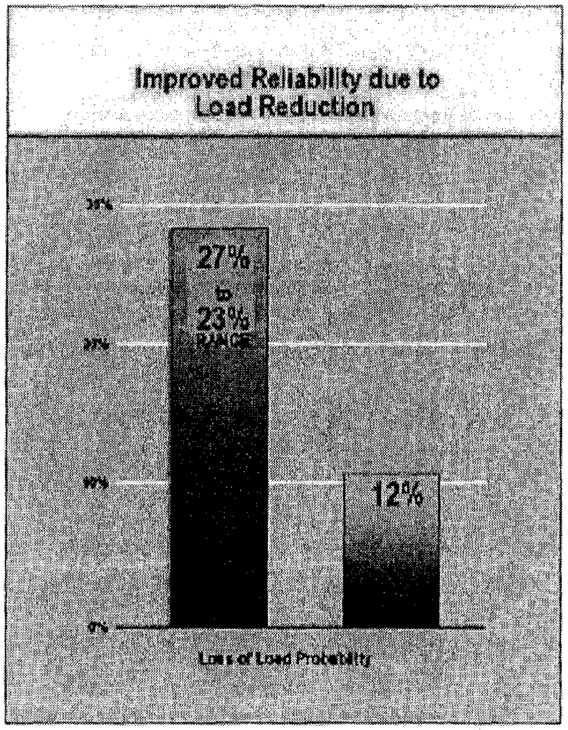
Because BPA's rate increase has been mitigated substantially through these load reductions, as many as 25,000 jobs have been saved in the Pacific Northwest.

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 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.



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.

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 J Wright

Stephen Wright
BPA Acting Administrator

Attachment 25

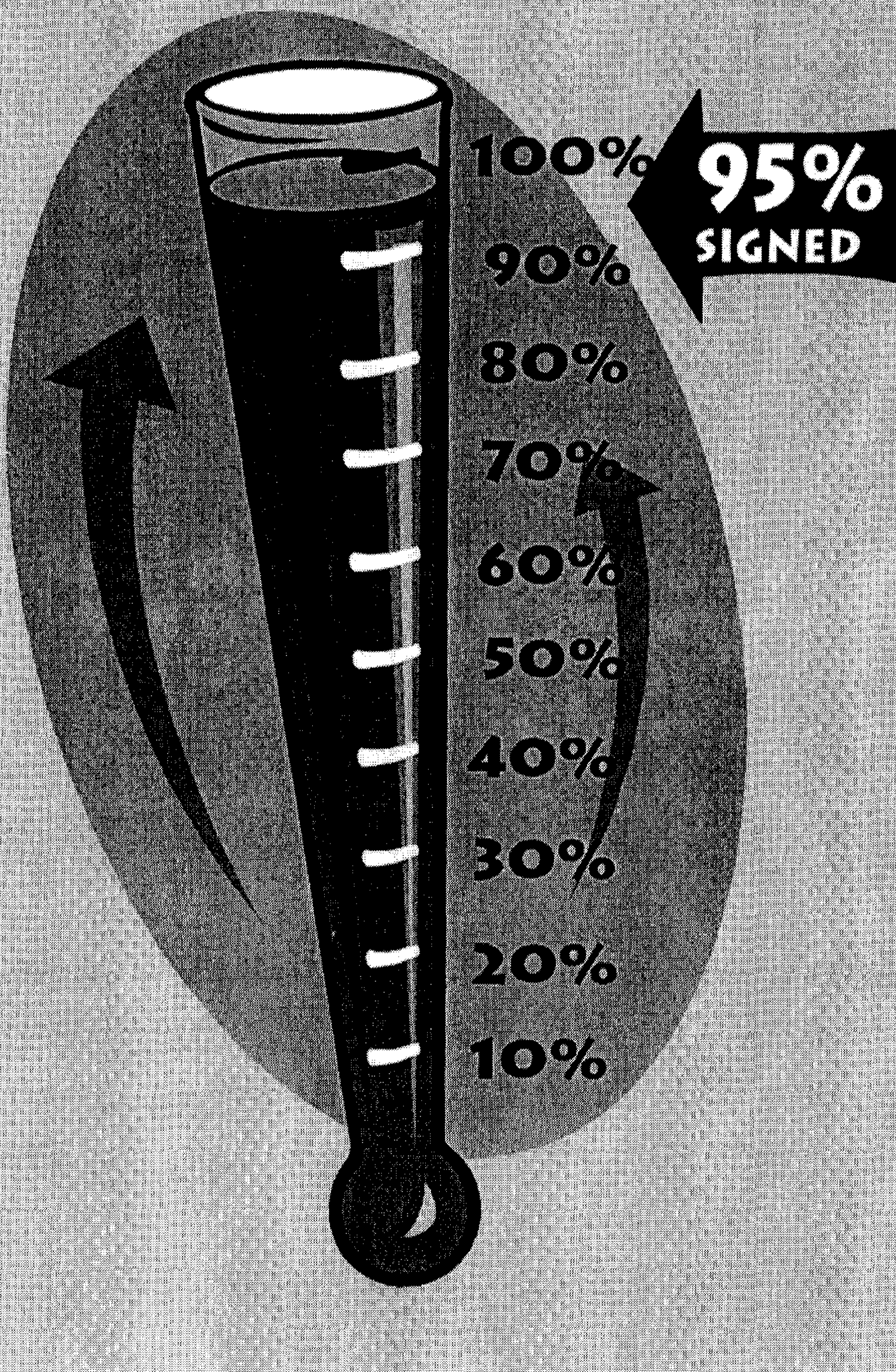
06/29/2001

Grand Total

for 6 months beginning October 1, 2001
in aMW

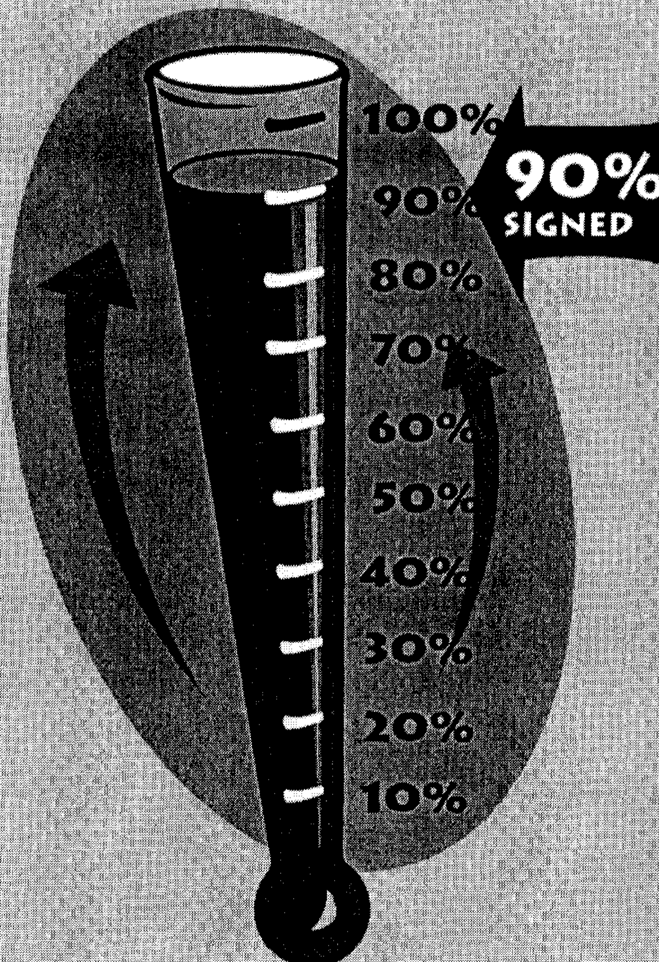
Goal
2,400

Signed
2,277



Load Reduction by Customer Group

for 6 Months beginning October 1, 2001 in aMW



TOTAL

Goal

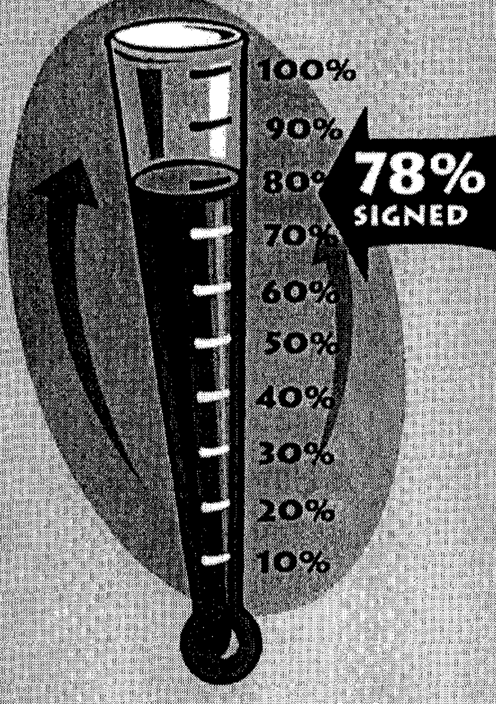
1,900 aMW

Signed

1,719 aMW

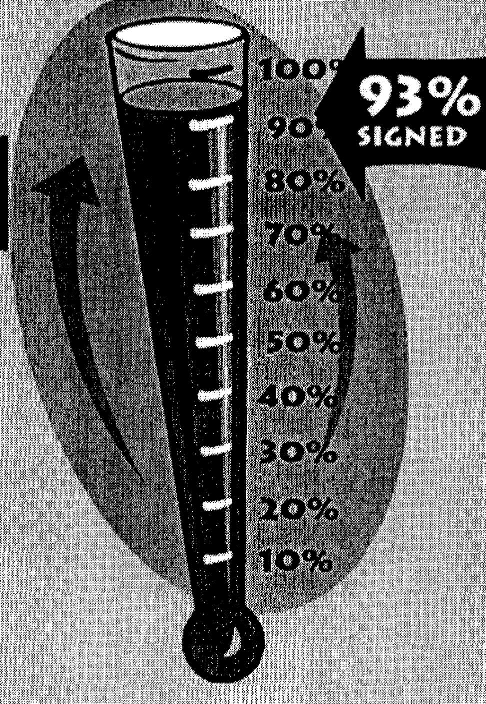
Publics

Goal	600
Signed	468



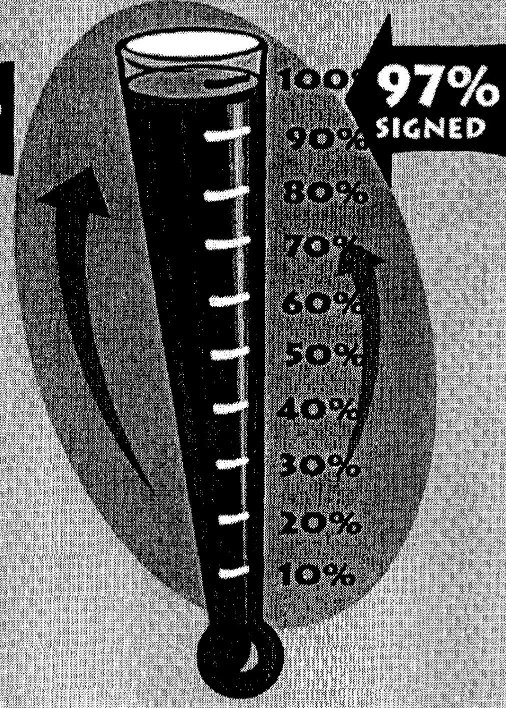
IOUs

Goal	100
Signed	93



DSIs

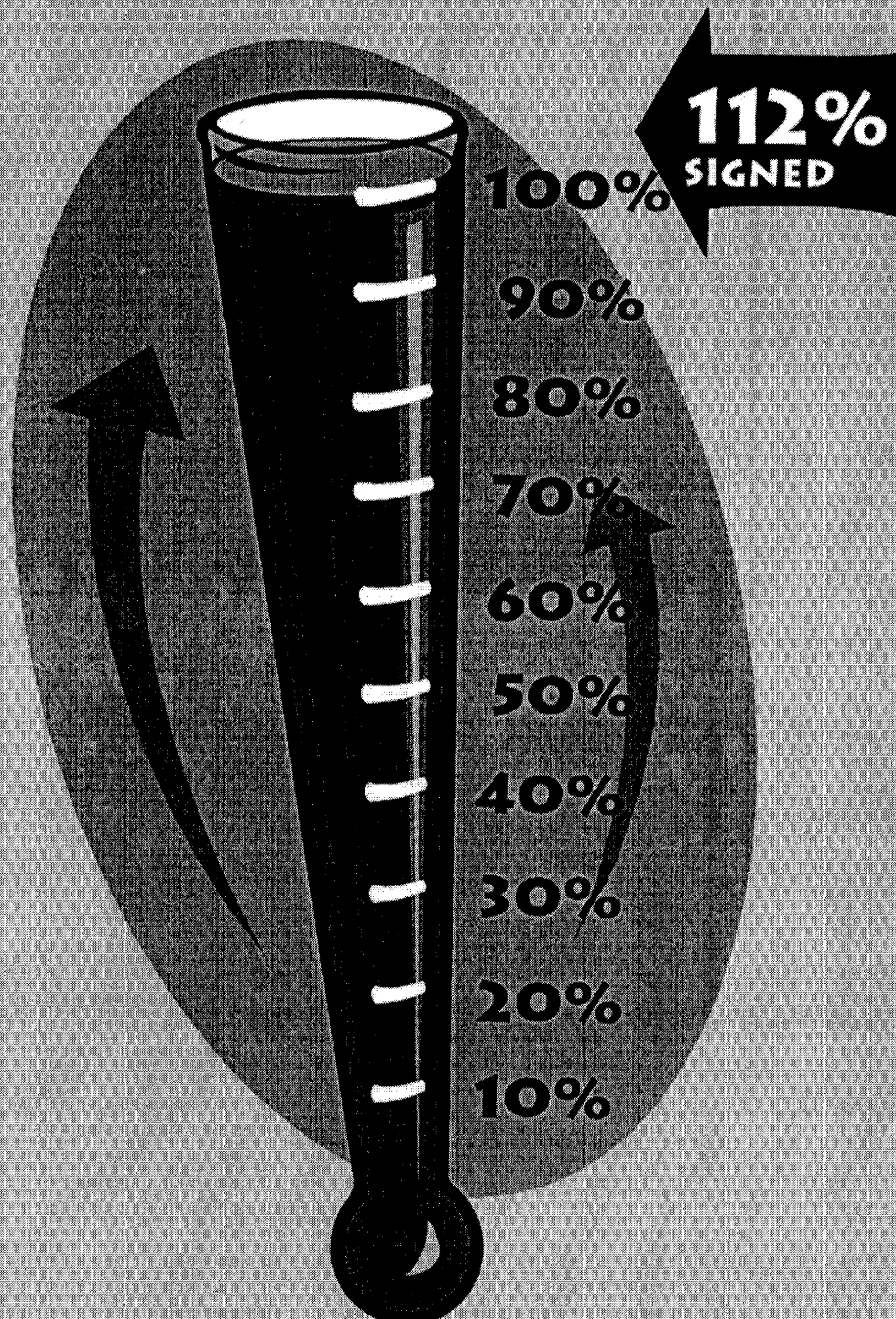
Goal	1,200
Signed	1,158



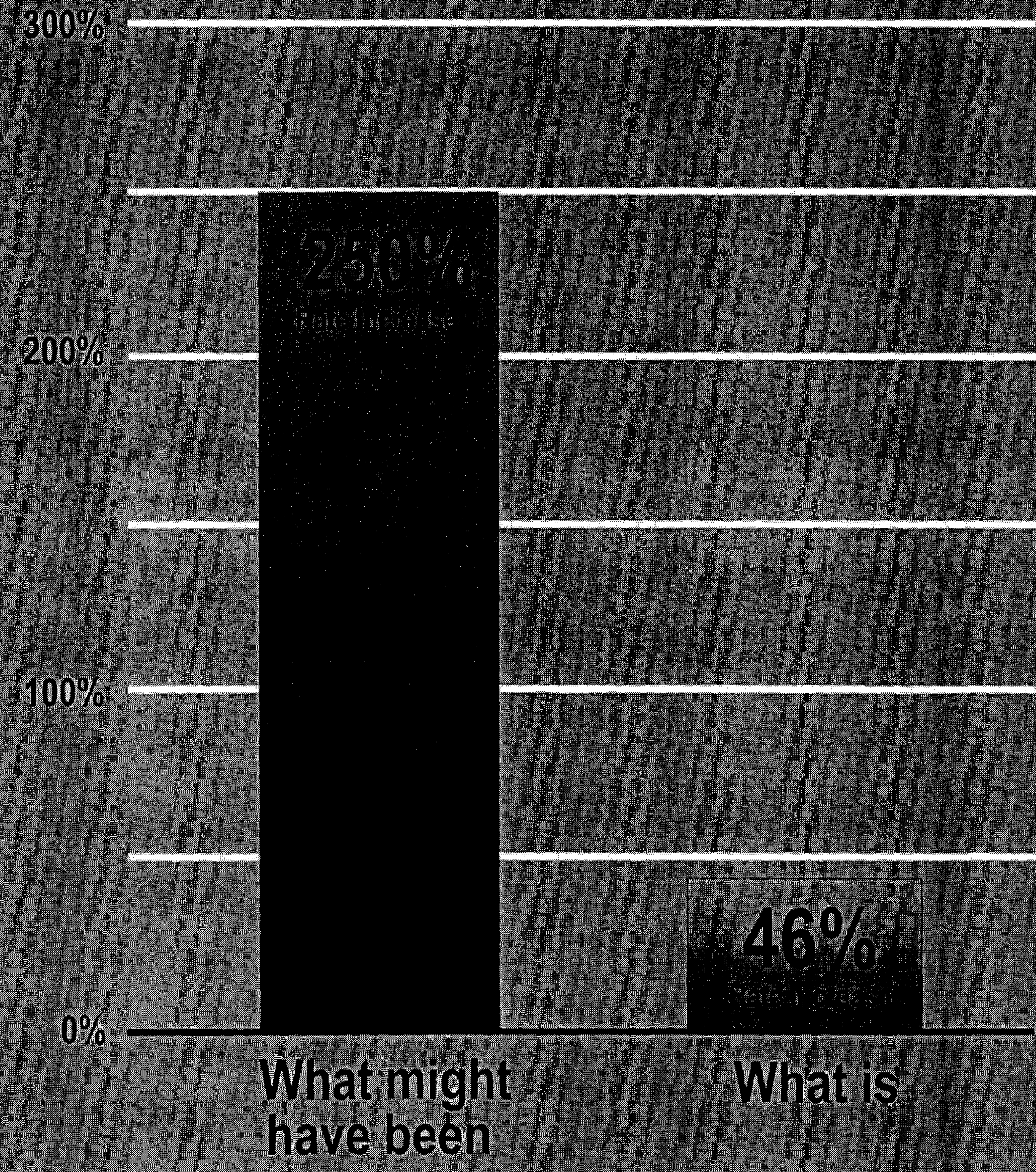
Buy Backs from IOUs
in aMW

Goal
500

Signed
558



Rate Increase for 6 months beginning October 1, 2001

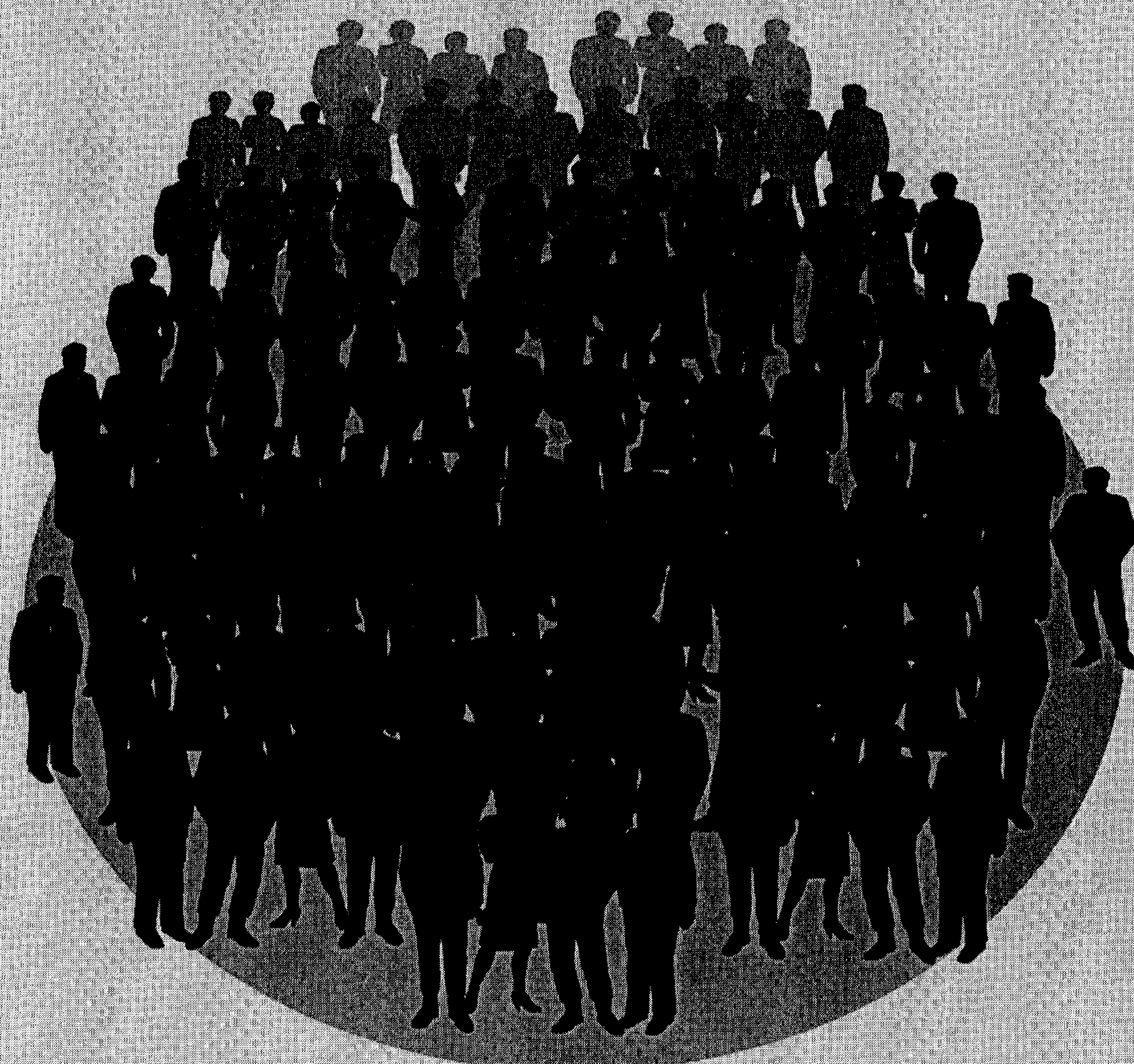


Dollars Saved
Northwest Ratepayers

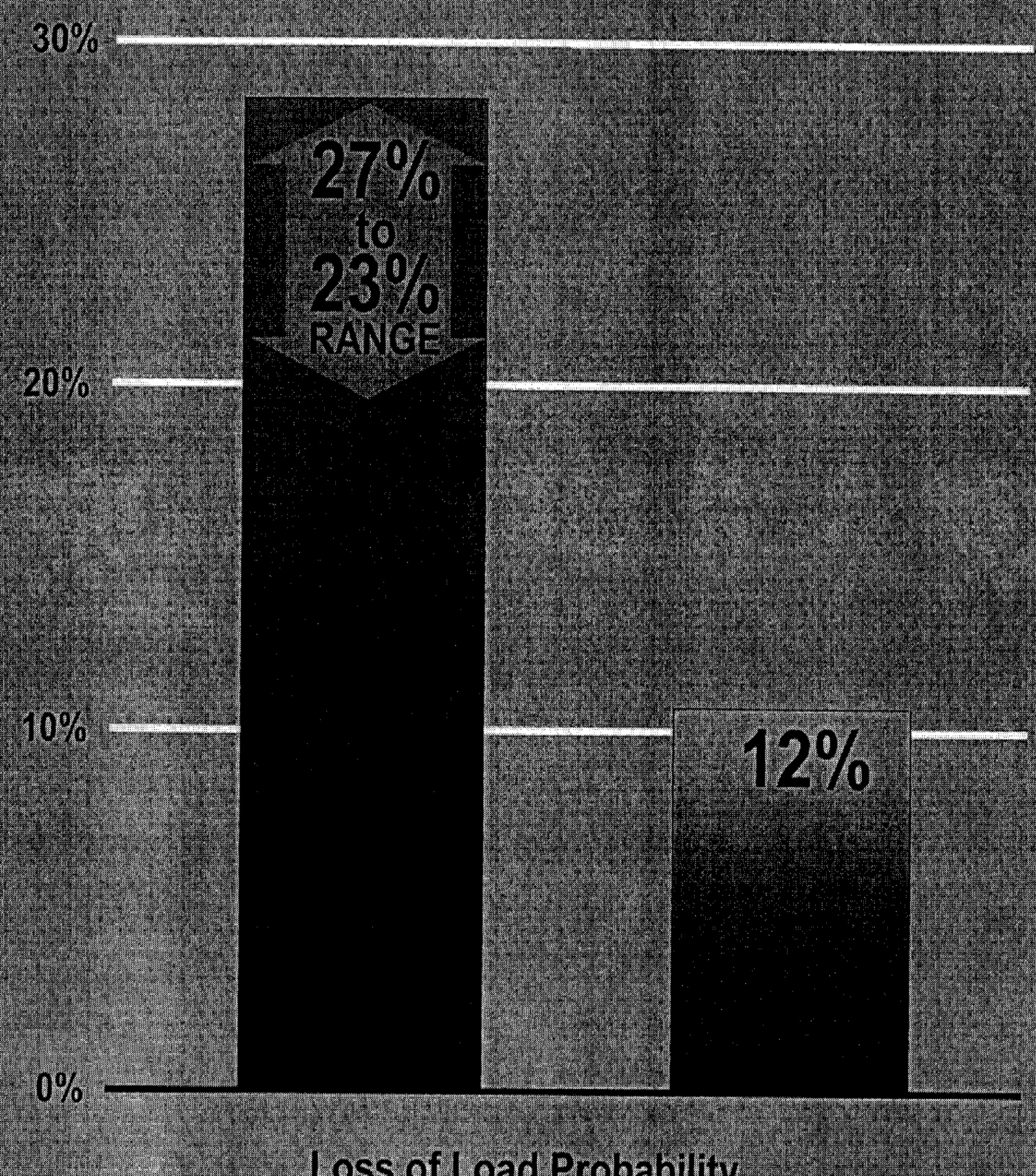
$4 Billion

25,000 Regional Jobs

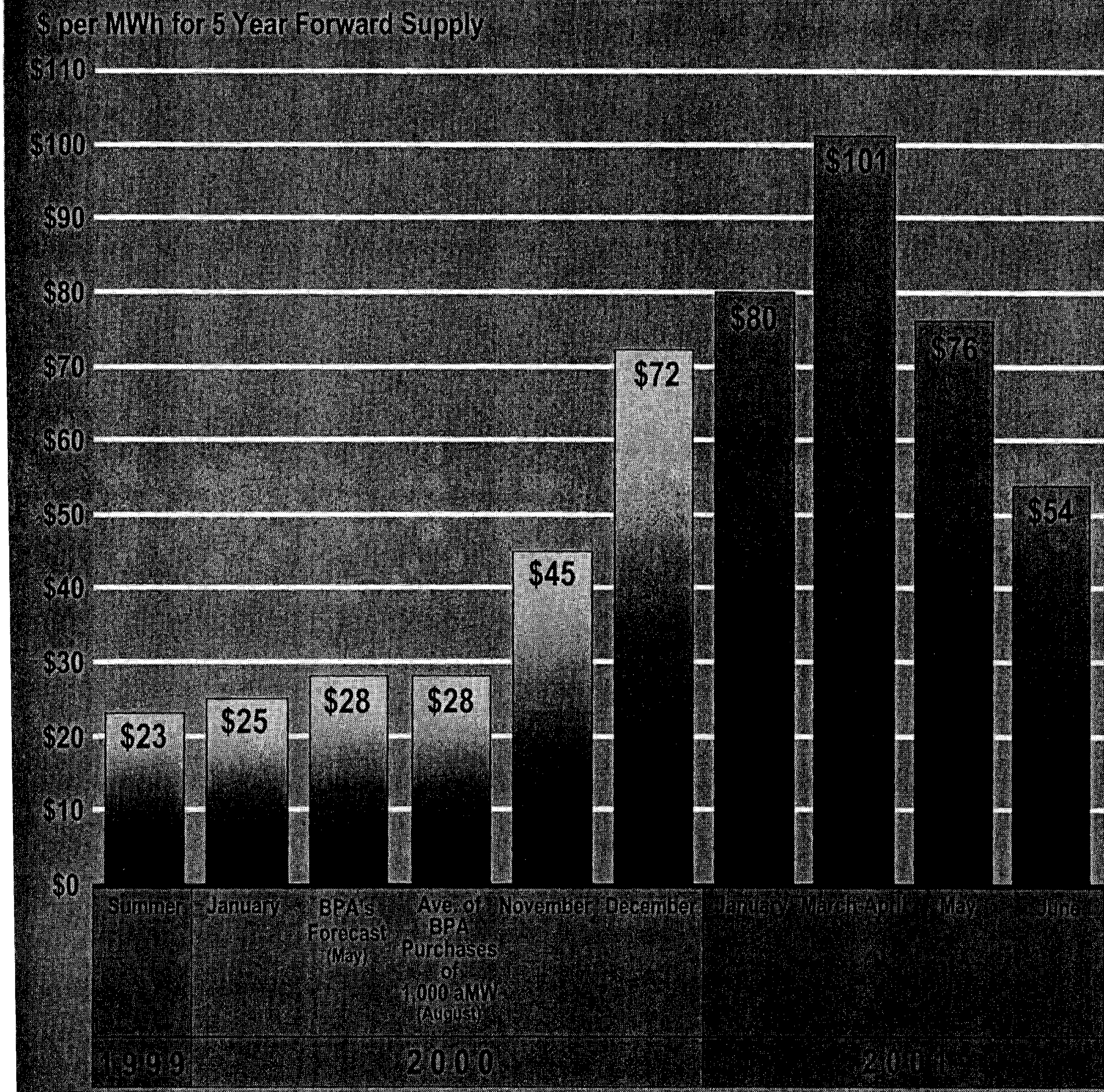
saved as a result of BPA Rate Reduction Strategy



Improved Reliability due to Load Reduction



Forward Block Energy Prices for FY02-FY06



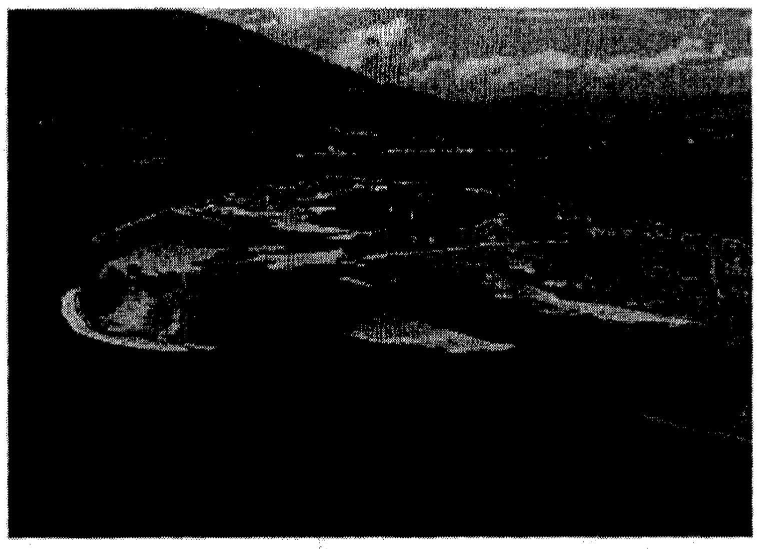
JOURNAL

July 2001

A MONTHLY PUBLICATION OF THE BONNEVILLE POWER ADMINISTRATION

THE REGION RESPONDS!

Northwest utilities and industries have answered BPA's call for load reductions magnificently this spring, committing to reduce their loads on BPA by more than 2,200 megawatts for October 2001-March 2002. This reaches 95 percent of BPA's 2,400 megawatt goal. As a result, BPA's rate adjustment for October will be in double-digits, not the 250 percent or more that was projected in April. BPA scheduled press conferences for June 29 to announce the results and thank the region. For the whole story, see Acting Administrator Steve Wright's letter to the Northwest (mailed with this issue of the *Journal*).



The drought continues: Low streamflows will continue to be the norm for the Columbia River the rest of this summer.

SPRING SPILL IS DONE

BPA concluded 32 days and 600-megawatt-months of spring spill at lower Columbia River dams on June 15. Due to the power emergency, the spill was about 15 percent of the water that would be spilled in a normal water year under requirements of the Biological Opinion on Columbia River hydro operations for endangered salmon. But the spill was targeted to times and dams when most of the listed fish were migrating, which increased its biological effectiveness.

NEXT QUESTION: SUMMER SPILL

BPA and other federal agencies are working on what to do about spill this summer. Summer spill primarily benefits salmon stocks that are not listed as endangered or threatened. As of late June, the system is right on the threshold of meeting the criteria established by the federal agencies for providing spill this drought year. Federal agencies took public comment on summer spill through June 22 and were to meet June 29 to discuss options for spill or other actions to help migrating fish this summer.

Spill is not the only method of transporting fish safely past dams. Fish bypasses also reduce the number of fish passing through the turbines. Barging also is being used and is considered to be most effective method in low water years. For more, go to *www.salmonrecovery.gov*

POLICY EASES POWER SHORTAGE

Through September 2002, BPA customers may temporarily add small generating resources without permanently reducing their call on power from BPA. The agency's new Temporary Small Generating Resource Policy applies to resources that produce one megawatt to 25 MW. All resources must comply with applicable state and local operations. Diesel generators must use specified techniques to control emissions that cost $1,000 to $3,000 per unit. Adding more resources to the West Coast power pool now will ease power shortages, and adding small resources close to cities will help improve power system reliability. BPA called for public comment on a draft policy this spring. The policy expires in September 2002. For details, go to *http://www.bpa.gov/power/pl/subscription/announcements.shtml*

BONNEVILLE POWER ADMINISTRATION

NEW LARGE SINGLE LOADS AT ISSUE

BPA is requesting public comments through July 27 on three issues related to its New Large Single Load policy. The policy defines how BPA implements a Northwest Power Act requirement that BPA charge a "new resources" rate to new loads that consume 10 average megawatts or more. The term was designed to make new large power consumers pay costs of adding new power sources to serve their loads. Issues still occasionally arise about what loads should be subject to the NR rate. Current issues are:

1) BPA preference customer service to direct-service industrial load.
2) Transfer of "contracted for, committed to" loads between BPA preference customers.
3) Whether BPA should close the class of "contracted for, committed to load" served by BPA customers. Large loads that were "contracted for, committed to" by BPA customers before Sept. 1, 1979 are not subject to the NR rate.

For more, see *http://www.bpa.gov/power/pl/subscription/announcements.shtml*

SEVEN WIND PROJECTS SHORTLISTED

BPA now has seven wind projects that add up to 830 megawatts on its short list, culled from 25 wind projects totaling more than 2,500 MW submitted this spring. If all the projects are built as proposed, they will increase the total U.S. wind generation capacity by 20 percent. BPA will negotiate predevelopment agreements with the four project developers: SeaWest Wind Power of San Diego; Zilkha Renewable Energy and Columbia Wind Power, both of Texas; and Pacific Winds of Boise, Idaho. BPA will complete environmental review of each project before committing to power purchases and is studying how large amounts of intermittent wind power would affect the Northwest power system. BPA already has 34 MW of wind power on line and another 425 MW in contract negotiation or environmental review.

CONSERVATION'S STACKING UP

BPA is offering its customers many ways to reduce their loads through energy conservation and customers are signing up quickly. As of late June, the tally includes:

- 69 customers in BPA's Energy Star compact fluorescent lightbulb program or running their own.
- 69 customers in the regional VendingMi$er program.
- 54 customers signed on as Energy Star partners.
- 41 signed Conservation-Augmentation proposals from 14 customers, with another 16 ConAug proposals from eight customers being evaluated.
- 39 conservation and renewable discount early implementers.
- 14 utilities signed up for a ConAug commercial lighting program. Up to 27 more may join them.

For more, go to *http://www.bpa.gov/Energy/N*

BPA, CALIFORNIA SET SUMMER GROUNDRULES

BPA, the California Department of Water Resources and the California Independent System Operator have agreed to a contingency plan for this power-short summer. "We want California to know that we're prepared to help them if we can," said BPA Senior Vice President for the Power Business Line Paul Norman. The principles of the summer contingency plan are:

- All transactions must benefit both California and the Pacific Northwest.
- Transactions must not transfer reliability problems from one region to the other.
- If energy provided by one region requires operations outside environmental protection restrictions, compensation must be provided for environmental remediation.

BPA expects to continue negotiations with CWDR and the California ISO to develop a winter contingency plan with ground rules for how California may assist the Pacific Northwest this coming winter.

RATE ROD RELEASED

BPA's acting administrator signed the final record of decision on the power rate case on June 20. The rates now go to the Federal Energy Regulatory Commission for review before taking effect Oct. 1. The final ROD doesn't include the actual percentage adjustment to the rate because that will reflect application of three cost-recovery adjustment clauses in the rate structure, including the load-based CRAC that has been the subject of this spring's load-reduction effort. "The customers proposed the load-based CRAC as a way to handle the volatility of the power market," BPA Power Rate Case Manager Barney Keep noted. "It's proved a very valuable concept." See *http://www.bpa.gov/power/psp/rates/RateCase/announcements.shtml*

FISH IMPLEMENTATION PLAN EIS OUT

BPA is calling for public comments through Aug. 6 on a draft environmental impact statement for its Fish and Wildlife Implementation Plan. BPA's decisions include policy choices made in implementing and funding actions under the Northwest Power Planning Council's Fish and Wildlife Program, the 2000 Biological Opinions and the Federal Caucus Endangered Species Act Implementation Plan, among others. "The draft EIS is about policy direction and assessing tradeoffs from a broad perspective, not specific projects," said EIS lead Charles Alton. See *http://www.efw.bpa.gov/cgi-bin/PSA/NEPA/SUMMARIES/FishWildlifeImplementation*

IT'S STILL DRY

The National weather Service's River Forecast Center has released its final June forecast for Columbia River runoff for 2001. It is for runoff of 55.6 million acre-feet, second only to the 53.8 MAF of 1977.

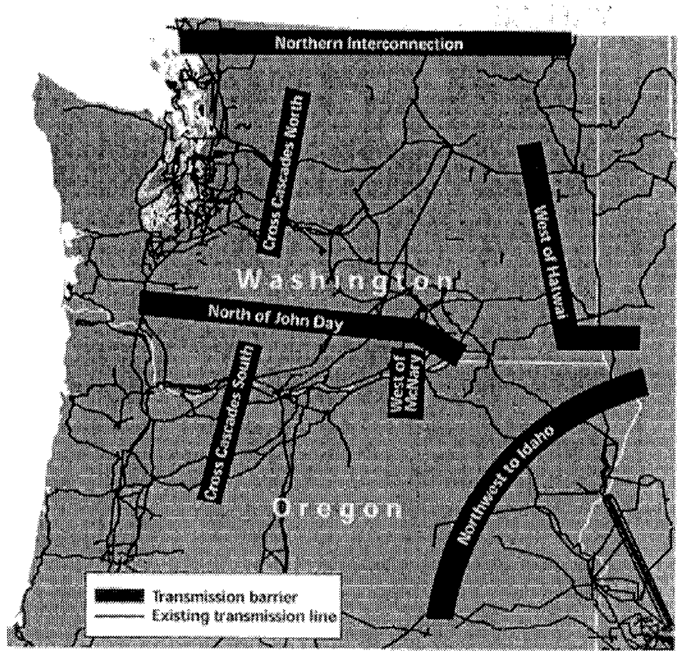
In theory, BPA is planning to go into next winter with sufficient water so as not to affect next year's operations. "But it's a stretch," BPA Vice President for Generation Supply Greg Delwiche said. "The Canadian reservoirs on the upper Columbia River will not refill this year. I can't imagine we'd have no problem if we get another year of 55 million acre-feet. If we get a normal year, we could probably come out of the drought relatively quickly. If it rains in November, I'll heave a huge sigh of relief."

WEST OF HATWAI CURTAILED

BPA has had to curtail transmission capacity on its transmission lines between Montana and Washington to protect the safe and reliable operation of the transmission system. BPA applied summer season limits curtailing capacity on the West of Hatwai cutplane on May 31. The new limits are more restrictive because of the loss of Columbia Falls Aluminum Co. load in Montana and the growth of load served by Avista Corp. transmission lines parallel to the BPA lines.

A cutplane is a collection of transmission lines on which the amount of power that can be carried may be constrained, or limited, under certain operating conditions. BPA is working with the owners of the Colstrip generating plant in eastern Montana to develop an agreement to drop a generator there if dropping federal generation is not sufficient. This would relieve pressure on the cutplane and allow it to resume operation at full or nearly full capacity.

The capacity curtailment of the West of Hatwai cutplane highlights the need for new transmission. BPA's five-year infrastructure plan includes construction of a 500-kV line from Bell Substation to Grand Coulee Substation, which will relieve constraints across the West of Hatwai cutplane. BPA is seeking additional borrowing authority so it can proceed with construction.



Cutplanes – the heavy black lines on this map – show points of stress on the transmission system.

PUBLIC INVOLVEMENT

STATUS REPORTS

Blackfeet Wind Project EIS. Mont. — To acquire 36-66 megawatts of electricity from the proposed wind project.

Coeur d'Alene Tribe (CDA) Trout Production Facility Project EA. Idaho — To fund design, construction, operation and maintenance of a facility to provide off-site mitigation for losses on the mainstem Columbia River.

Condon Wind Project EIS. Ore. — To acquire about 50 megawatts of electricity from the proposed wind project.The draft EIS is available (#3376).

Fish and Wildlife Implementation Plan EIS. Regionwide — To examine potential impacts of implementing one of the fish and wildlife policy directions being considered in regional processes. Draft EIS is available (#0312).

Grande Ronde and Imnaha Spring Chinook Project EA. Ore. — To build egg incubation and juvenile rearing facilities on the Lostine and Imnaha rivers and modify the Gumboot and Lookingglass facilities.

Johnson Creek Artificial Propagation Enhancement EA. Idaho — Develop native chinook salmon broodstock for rearing of acclimated smolts to preserve and recover the population.

Kangley-Echo Lake Transmission Line Project EIS. Wash. — To build a 500-kV transmission line in King County to connect an existing transmission line near Kangley to Echo Lake Substation. The draft EIS is available (#3017).

Maiden Wind Farm EIS. Wash. — To acquire 150 to 494 megawatts of power from the proposed wind project.

McNary-John Day Transmission Line Project EIS. Ore. and Wash. — To build about 75 miles of new 500-kV transmission line from McNary Substation to John Day Substation.

Mercer Ranch Power Generation Project EIS. Wash. — To integrate an 850-megawatt natural-gas-fired combustion turbine 11 miles west of Paterson.

NEW! New Large Single Load Policy Issues Regionwide — To consider three issues related to implementing BPA's New Large Single Load Policy.

Santiam-Bethel Transmission Line Project EA. Ore. — To rebuild a 17-mile section of the Santiam-Chemawa line to double-circuit to accommodate a new 230-kV transmission line from the Santiam Substation to a Portland General Electric line to PGE's Bethel Substation.

Schultz-Hanford Area Transmission Line Project EIS. Wash. — To build a new 500-kV line to relieve constraints on several lines, provide more operational flexibility to meet endangered salmon obligations and maintain transmission capacity to import and export energy.

Starbuck Power Project EIS. Wash. — To integrate power from the proposed project into the transmission grid.

Temporary Small Resource Policy. Regionwide. — ROD is available.

Umatilla Generating Project EIS. Ore. - To integrate electrical power from a new 550-megawatt natural gas-fired combined-cycle combustion turbine generation plant proposed by the Umatilla Generating Co., LP.

Vegetation Management EIS Supplement Analyses :

- Naselle Tarlett #1 and #2 transmission line right-of-way, Wash. (SA-13).
- Teakean Butte microwave site, Idaho and Wash. (SA-14).
- Selected sections along the Ross-St. John and Ross-Carborundum transmission line rights-of-way, Ore. (SA-15).

Wallula-McNary Transmission Line and Wallula Power Project EIS. Ore. and Wash. - To build 35 miles of transmission line from a proposed gas-fired power generation project in Wallula, Wash., to McNary Substation, Ore.

Watershed Management EIS Supplement Analyses

- Habitat Enhancement & Protection on Duck Valley Indian Reservation - Owyhee River, Idaho and Nev. (SA-54).
- Jim Brown Creek Streambank Stabilization Project, Idaho (SA-55).
- Mining Reach of the Wind River and Dry Creek Rehabilitation, Wash. (SA-56).

White Sturgeon Mitigation and Restoration in the Columbia and Snake Rivers Upstream From Bonneville Dam EA. Ore., Wash. and Idaho. — To restore and mitigate for documented lost white sturgeon productivity caused by development and operation of the hydropower system using intensive fisheries management and modified hydro system operation.

CALENDAR OF EVENTS

Fish and Wildlife Implementation Plan EIS. Draft EIS comment meeting. July 9, 1 to 4 p.m. BPA headquarters, Room 122, 905 NE 11th Avenue, Portland, Ore. Additional workshops may be arranged. Contact Peggy Simpson at (503) 230-3900.

Kangley-Echo Lake Transmission Line EIS. Draft EIS comment meeting. Aug. 1, 4 to 8 p.m. Maple Valley Community Center, 22010 SE 248th St., Maple Valley, Wash.

New Large Single Load Issues. Public comment meeting. **July 10**, 1 p.m., Sheraton Portland Airport Hotel, 8235 N.E. Airport Way, Portland, Ore.

Conservation or Crisis? A Northwest Choice. Conference sponsored by BPA and NewsData. **Sept. 24-26**, DoubleTree Hotel, Jantzen Beach, 909 N. Hayden Island Dr., Portland, Ore. Contact Jennifer Eskil (509) 527-6232 for info.

CLOSE OF COMMENT

Wallula-McNary Power Line and Wallula Power Project. Scoping. **July 13**

Maiden Wind Project. Scoping. **July 13**

Condon Wind Project. Draft EIS. **July 16**

New Large Single Load. Policy issues. **July 27**

Fish and Wildlife Implementation Plan. Draft EIS. Aug. 6

Kangley-Echo Lake Transmission Line. Draft EIS. Aug. 15

Unless otherwise noted, documents cited are being prepared. Indicates a new document is available. Call to order new documents or to be added to the mail list(s) of project(s) of interest to you. Process Abbreviations: **EA** – Environmental Assessment, **EIS** – Environmental Impact Statement, **FONSI** – Finding of No Significant Impact, **ROD** – Record of Decision, **SA** – Supplement Analysis.

FOR MORE INFORMATION OR TO GET INVOLVED: The *Journal* is a monthly newsletter of the Bonneville Power Administration for customers and interested publics. To order documents , call: 800-622-4520 or (503) 230-7334 (Portland). For questions/comments or to be added to a mail list, call: (503) 230-3478 (Portland) or 800-622-4519. Written comments may be sent to: BPA, P.O. Box 12999, Portland, OR 97212. Public Involvement, Internet, E-mail address comment@BPA.gov, BPA home page:*http://www.bpa.gov*

DOE/BP-3394 June 27, 2001 7M

LOAD REDUCTION
Updated 7/2/01

Golden Heroes
10 percent load reduction

DSIs

McCook (Longview)
Atofina
Oremet
Alcoa
Columbia Falls Aluminum Co.
Golden Northwest

IOUs

Avista
PacifiCorp
Montana Power Company
Puget Sound Energy, Inc.
Portland General Electric

Public Utilities

Benton County PUD
Benton REA
Big Horn Electric Coop
Central Montana G&T
City of Ashland
City of Bandon
City of Blaine
City of Bonners Ferry
City of Cheney
City of Drain
City of Ellensburg
City of Forest Grove
City of Idaho Falls
City of McMinnville
City of Milton
City of Milton-Freewater
City of Monmouth
City of Plummer
City of Sumas
City of Cascade Locks
Clallam County PUD
Clark Public Utilities
Clatskanie County PUD
Columbia River PUD
Douglas County PUD
Emerald People's Utility District
Energy Northwest
EWEB
Fairchild Air Force Base
Ferry County PUD
Flathead Electric Cooperative
Franklin County PUD
Glacier Electric Cooperative
Grays Harbor County PUD
Hood River Electric
Kittitas County PUD
Klickitat County PUD
Lakeview Light and Power
Mason County PUD #1
Mason County PUD #3
Nespelem Valley Electric Cooperative
Okanogan County PUD
Orcas Power and Light Coop
Pacific County PUD
Pend Oreille County PUD
Port Angeles City Light
Salem Electric
Seattle City Light
Snohomish County PUD
Springfield Utility Board

Attachment 19

Town of Eatonville
Town of Steilacoom
Umpqua Indian Utility Cooperative
U. S. Department of Energy-Richland
U.S. Navy at Bangor
U.S. Navy at Bremerton
U.S. Navy at Jim Creek
Vera Water & Power
Wells Rural Electric Cooperative
Whatcom County PUD
Yakama Power

Silver Contributors

Compact fluorescent lights
Conservation and Renewables Discount
Vending Mi$er
Plus additional measure

Big Bend Electric Cooperative
City of Chewelah
City of Declo
City of Richland
Columbia REA
East-End Mutual
Farmers Electric Cooperative
Harney Electric Cooperative
Inland Power & Light
Kootenai Electric Cooperative
Lewis County PUD
Lincoln Electric Coop
Lower Valley Energy
Mission Valley Electric Cooperative
Missoula Electric Cooperative
Modern Electric Company
Northern Wasco County PUD
Riverside Electric Cooperative
Skamania County PUD
Surprise Valley Electric Cooperative
Tillamook County PUD
United Electric Cooperative
Vigilante Electric Cooperative
Wasco County PUD

Bronze Contributors

Compact fluorescent lights
Conservation and Renewables Discount
Vending Mi$er

Alder Mutual Light Co.
Asotin County PUD
Central Lincoln PUD
City of Burley
City of Coulee Dam
City of Heyburn
City of McCleary
City of Troy
Columbia Basin Electric Coop
Cowlitz County PUD
Elmhurst Mutual Power and Light
Idaho County Light & Power
Midstate Electric Cooperative
OHOP Mutual Light Co.
Oregon Trail Electric Cooperative
Parkland Light and Water
Peninsula Light
Tanner Electric Coop
Wahkiakum County PUD

Bonneville Power Administration

http://www.bpa.gov

BPA Home ▸ BPA News ▸ 2001 ▸ **The Electricity Crisis: Where Do We Go from Here?**

The Electricity Crisis: Where Do We Go from Here?

A short- and long-term Northwest perspective
By Stephen Wright, Acting Administrator, Bonneville Power Administration
July 27, 2001

One of my predecessors as acting administrator of BPA, Jack Robertson, used to worry that no one knew who or what BPA is. Before he retired, he used to dream of a day when BPA and energy issues would be featured above the fold on the front page of the region's newspapers.

Well, I've got to say that we have realized Jack's wildest dreams. These days, we tend to breathe a sigh of relief if we're not on the front page. On the other hand, while all this attention to the energy crisis has had its uncomfortable moments, I think the coverage has been really good for the region. I have to compliment the region's media in that they have been covering energy issues extremely thoroughly and with an analytical sophistication that does them credit. The more understanding our citizens have of what we do and what role we play, the better able we as a region will be to make the decisions that determine our energy future.

But, while many of you have heard of BPA, not all of you may know what BPA is. So let me give you a quick snapshot. We are a not-for-profit federal agency that serves the Pacific Northwest. We market wholesale electricity from the Columbia Basin's 30 federal dams operated by the U.S. Army Corps of Engineers and Bureau of Reclamation and the region's only operating nuclear plant at Hanford, which is operated by Energy Northwest. Our customers are public and private utilities and a few large industries. Close to half of the Northwest's electricity comes from BPA. We also operate 75 percent of the region's high-voltage transmission lines, as well as the Northwest portion of the large interties that can ship and receive power from California and the Southwest, Canada and eastern Montana.

We are part of the Department of Energy, but-- despite rumors to the contrary--we are not subsidized by taxpayers. BPA recovers the region's federal power system through the sale of wholesale power and transmission service. We do borrow from the U.S. Treasury for capital investments, but we also repay every dime in full at Treasury's cost of money.

With that said, BPA is more than a utility, much more. I take great pride in our public service mission. We fund the largest fish and wildlife program in the nation. We provide incentives for energy conservation, and we have programs to develop renewable energy and technologies of the future, such as fuel cells.

But our greatest public service benefit is providing clean power at cost. This has fueled the Northwest economy for six and a half decades, and there's little question that our low-cost power has been a cornerstone of this region's economy.

So, speaking of cost brings me to the present. Arguably, BPA has just come through the roughest year in its history, although Peter Johnson, who presided over the termination of two WPPSS nuclear plants, might debate me. This coming October, we will begin a new contract period with our customers and a new set of rates. We spent more than two years in a subscription process that ended last October when we signed contracts with our customers for the next five-to-ten years.

BPA's low-cost power is immensely attractive, and with BPA's rates below market, everyone wanted to get a share. So, our biggest challenge as we began contract negotiations with our

Attachment 24
3/25/2004

customers two years ago was not the price of our power, but its allocation. We had different customer groups--public power, private power and direct service industries--each fighting for a bigger piece of the pie. Our discretion is somewhat limited in that, by law, we have an obligation to serve certain customers.

These include public utility districts, municipalities and cooperatives, as well as investor-owned utilities for their residential and small farm customer load. These latter are served through a complex exchange agreement, which I won't go into now, that allows the benefits of the Federal Columbia River Power System to flow to all residential consumers in the Northwest, whether they are served by public or private power. We've also had a long tradition of serving some electricity-intensive industries, primarily aluminum companies, although they are not public preference customers.

The upshot of the subscription process was that, when the dust cleared, we had about 11,000 megawatts of load to serve but only about 8,000 megawatts of resources. As late as May 2000, it didn't look like too bad of a challenge. We could augment our own resources by going to the market and melding that slightly higher priced power with our low-cost federal power. At the time, we expected to be able to hold the new rates relatively close to the old rates.

But soon after, as we were about 1,000 megawatts into the augmentation effort, the wholesale electricity market took off. In fact, it rocketed into outer space, reaching prices 10 times higher than anything anyone had ever seen in the Western grid. A number of events conspired to set this off, the most notable being California's soured restructuring experiment. But, if you strip away the politics and rhetoric, the fundamental problem was the basic issue of supply and demand. Demand for electricity, particularly on the West Coast, had increased over the last 10 years with population growth and the influx of high-tech industries. Throughout this period, there had been no significant building of new resources. And, for the last six years, the growing problem in the hydropower-dependent Northwest had been masked by good to extremely good water. This year's drought ripped that mask off.

By last December, the wholesale electricity market in the West was a shambles. I can pinpoint the exact moment when the market went vertical because it's exactly when my predecessor, Judi Johansen, left and I assumed the helm of BPA.

And what a winter we faced. The unheard of happened in California with rolling blackouts under relatively light loads. No one expected this since California is a summer-peaking system. This meant that the surplus power we were used to getting in winter from California would not be coming our way. On top of that, we were in the second worst water year in the 71 years we've been keeping record.

I have to say, there were some scary days this past winter when the Northwest teetered on the brink of power shortages. In one four-day period last January, we spent 50 million dollars on power purchases. These costs gave us a pretty strong signal that supply was drying up fast. Overall, we spent over a billion dollars on power purchases this year, but even that was not nearly enough. It was only through extraordinary measures, such as paying aluminum smelter to shut down; buying power and water back from willing farmers; foregoing hydro operations that benefit fish, such as spilling water at dams; and exchanging power with California at ratios favorable to the Pacific Northwest that we've been able to meet reliability standards and preserve financial solvency.

I particularly want to extend our appreciation to the Corps of Engineers, Bureau of Reclamation, National Marine Fisheries Service and Environmental Protection Agency, all of whom worked diligently to help us manage the hydro system through this challenging period. And Energy Northwest, which manages the region's nuclear plant, worked with us to keep power flowing this past winter and spring. All these combined actions allowed us to preserve both power reliability and our financial solvency. As a result, we were able to mitigate our financial losses this year, thereby reducing the impact on next year's rates. This allows us to maintain the financial capability to buy power when necessary.

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So this brings us to April. We still needed to purchase another 2,000 or so megawatts for the upcoming five-year contract period, from 2002 to 2006. When we calculated the cost of continuing to arrange purchases in this overheated market, it was apparent that it would take more than a 250 percent rate increase to recover our costs.

We knew this would be unacceptable because it would be disastrous for our economy. An independent study confirmed that such a rate increase would result in 25,000 jobs lost in the Northwest. The signals from the Federal Energy Regulatory Commission, known as FERC, were generally that the West Coast needed to take care of its own problems and should not count on FERC to impose price caps. We anticipated that, as new supplies were developed, market prices would eventually settle out. The big challenge was getting through the next 18 months to two years.

In April, we set a goal to reduce our rate increase to a double-digit number, and we had only three months to pull this off. Looking at lessons we learned from California, it became clear that the only recourse was to reduce our exposure to the market.

That's when we asked our customers to take some extraordinary actions. We asked our aluminum customers to delay the restart of their smelters for another one-to-two years. That meant aluminum workers would have to wait longer to go back on the job. However, the industry had already told us they doubted they could operate if electricity rates rose above $30 a megawatt hour. The 250 percent rate increase we were looking at would have translated into a rate of approximately $80 a megawatt hour. If we had to buy the power to serve the industries, the rate increase would likely have put them out of business, possibly permanently. Furthermore, the same increase would have had disastrous consequences for other customers and the businesses and industries they serve.

The alternative we offered was to cover their costs of staying down, plus provide pay and benefits to their workers during the downtime. That was far cheaper than buying the power to serve them under their new contracts, which gives you an idea of how bad the market was. All but one of our industrial customers took us up on the deal. Kaiser Aluminum has been the only holdout.

At the same time, we also called on our utility customers, both public and investor-owned, to reduce their load on BPA by up to 10 percent. We weren't prescriptive but invited them to be creative, and by and large they were. We asked them to consider various means for getting load off the BPA system, including curtailment, conservation and adding generation.

We were still making buyouts and concluding transactions right up to our deadline for submitting a revised rate proposal to FERC at the end of June. We didn't pin down the actual rate until the day before we sent rates to FERC. I know this sounds nuts, but all of us were staggered that we got the rate increase down to as low as 46 percent. And, yes, I know it sounds crazy to call a rate increase of this magnitude good news. But given where we were just 90 days before, it was extremely good news. We here in the Northwest didn't just dodge a bullet, we dodged a cannon ball.

The region's utilities and industries deserve a great deal of credit for their response. Clark PUD in Vancouver and PacifiCorp, based here in Portland, were the first public and investor-own utilities, respectively, to step up to the plate with load reductions. And, while I'm calling people out, I am particularly proud of our own employees who worked many long and hard hours in the load reduction effort. I don't know that anyone would have bet on such a relatively good outcome. Yes, we bought power back, but at prices averaging $20 a megawatt-hour when prices at the time were over $200 a megawatt-hour. We invested $250 million for a six-month period, but saved ratepayers $4 billion over a year. It also meant that a net of 25,000 jobs were saved. It meant that, while aluminum smelters would be down for some time, they weren't out of business permanently and their workers would be paid.

It meant improved reliability since the bulk of the load reduction came about through conservation or curtailment. The Northwest Power Planning Council estimates that the load

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reduction exercise cut the probability of shortfalls this winter from approximately 25 percent to 12 percent. I also believe that, by staying out of the market, BPA played a key role in bringing market prices down throughout the West. And, in fact, prices are down substantially, such that, in the last month, they are approaching pre-energy crisis levels.

So, thanks to incredible regional cooperation, our short-term strategy worked. The region avoided economic disaster. We helped preserve system reliability. And, BPA stayed financially solvent this year. This latter point is key to preserving the benefits of the federal Columbia hydro system for the Northwest. You may have heard of the Northeast-Midwest coalition -- a group of business, political and other interests -- that has mounted a visible lobby in Congress to either do away with BPA or force us to charge our customers whatever the market will bear, rather than just cover our costs. Their agenda is to eliminate an economic advantage the Northwest enjoys in attracting business and industry. Their mantra is that we are taxpayer subsidized, which we are not. As I noted earlier, we repay taxpayers fully. The coalition's definition of a subsidy appears to be charging less than market prices. But, if we were ever to fail to make our Treasury payment on time and in full for the taxpayer investments in the hydrosystem, we would give the coalition's charges credibility.

Preserving our financial solvency also is critically important to our ability to preserve funding for the region's fish and wildlife program, particularly efforts to save endangered fish. BPA is the principal source of funds for this effort.

So now we come to the point where I tell you that, good as this effort has been, more -- much more -- is needed. The entire effort to bring the rate increase to a manageable level and to keep the lights on during this drought year was simply short-term crisis management. I'm here today to tell you we cannot rest on our laurels and succumb to the siren song that things are better or, worse yet, that there never really was an energy crisis.

We cannot forget that we got through this period only by draconian efforts and some considerable hurt. We are still curtailing loads. Aluminum smelters and other manufacturing operations are still shut down. We compromised our commitment to fish protection because of concerns over electricity reliability and financial solvency. We have incurred environmental costs because of the operation of emergency diesel generation.

If I leave you with any message today, it is that we cannot be lulled into a false sense of security by the current lower market prices. Otherwise we are doomed to repeat history.

What we need now is to forge the same regional cooperation we just saw and focus it on building an energy infrastructure for the Northwest that will ensure reliable electricity supply, without environmental compromise, without industries shut down, without sacrificing our fish and wildlife, and without sacrificing our low-cost power.

Let me outline the areas I believe we need to focus on as we map out our energy future.

First, obviously we need to ensure there is adequate new generation to meet the needs of a growing population and a growing economy. We need low-cost kilowatt-hours added to our system from a variety of sources, including gas-fired generation, wind power and investments in the existing hydropower system. Wind power, in particular, is looking quite promising as a new renewable power source for the Northwest – but that's another speech.

Second, we cannot turn to generation alone. We must refocus on using energy efficiently. Energy efficiency has tended to ebb and flow depending on the price of market power. We need to create sustainable energy efficiency programs that are maintained through high and low market periods. These programs must reflect the realities of an evolving electricity market where consumers will no longer be captive to a single power supplier. We need to dispel the notion that conservation only means doing without. True energy efficiency means maintaining the same amenity levels but using less energy to do so.

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Third, it is not enough to develop energy supplies if we cannot deliver that energy to the cities, towns and farms in our region. The Northwest's high-voltage transmission system is stretched to the limit. Other than one interregional transmission line, there has been no major new transmission built in the Northwest since 1987. Yet, with dozens of developers lining up to develop power for the future, we've got to be able to deliver that power where it's needed. The critical path for developing new generation will be transmission construction because it is more difficult to site and build transmission than generation.

Fourth, while hydropower will remain the basis of our region's electricity system, it is not likely to be a major piece of new supplies. While additional wind power and other renewables should make a significant contribution, much of the future electricity generation is likely to come from combustion turbines fueled by natural gas. They have advantages in that they can be sited and built relatively quickly, and they have relatively low air emissions. We must ensure that we have the gas pipeline capacity and storage to provide the fuel for these resources.

Up to now, I have focused largely on infrastructure issues, but there are three other critical policy issues that we have to resolve if we are to have a sound energy system. First among these issues is the future of our fish and wildlife. As many of you know, the Federal Caucus, a group of federal agencies that serve the region, along with states and tribes, has been working on a plan to implement the Biological Opinion that governs recovery of our endangered salmon and steelhead. There have been years of study and debate behind this plan, which builds on many things that are already underway. Now, it's time to move forward aggressively to implement this recovery effort, in coordination with the Northwest Power Planning Council's fish and wildlife program.

Failure to save our endangered fish is more than an environmental issue. Such a failure will most certainly have widespread impacts on our economy due to the requirements of the Endangered Species Act. If the recovery effort is turned over to a so-called God Squad or the courts, it is out of the hands of the region. We could see impacts that would further degrade the federal hydro system capability, impacts that will exacerbate our supply problems. Put starkly, if we fail to save these fish, we will have put at risk the region's richest resource -- its hydro system.

Another critical policy issue is determining who is responsible for serving the region's load. The role BPA plays in this region, its future and its management, will be an integral part of this discussion. We must think through the issue of BPA's role in the evolving power markets.

The 1980 vision for BPA, under the Northwest Power Act, was that BPA would be a wholesale resource provider serving the needs of the region's retail utilities and direct service industries. Then, in 1996, the region conducted a Comprehensive Review of the Northwest energy system. The long-term vision for BPA that came out of that review was for BPA to be a niche marketer and not an acquirer of resources to meet load growth. It was envisioned that, as a result of wholesale deregulation, a number of independent marketers would provide the resources of the future. However, none of these new providers so far has any responsibility to serve load. Thus, BPA customers that in 1995 had ventured into the market when it appeared market prices would stay low, came storming back to BPA during our subscription contract offerings. What a difference five years can make.

Today, new resources are being developed independently in this region. But there is no clarity about who has long-term responsibility to serve load and, consequently, no guarantee that the power from these resources will be sold in the region.

Many customers are counting on BPA to serve their load, not only for the next five years, but also beyond that, and it looks like more load than BPA has resources for. However, because of the risks in today's erratic market, we are not willing to buy resources for periods longer than we have contracts for. We need to resolve the issue of who is obligated to serve load.

And finally, a key policy issue will be the ultimate shape and scope of the regional transmission system. The Administration and the Federal Energy Regulatory Commission are strongly

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supporting the formation of independent regional transmission organizations, known as RTOs, throughout the nation. We in the Northwest have been working on "RTO West" for at least two years. The impetus toward RTOs is to facilitate deregulated wholesale energy markets that have been deregulated since 1992 and to improve overall system reliability by having a single, independent entity manage the region's transmission transactions, as opposed to a fragmented approach. We expect that an RTO could also, if properly formed, ultimately reduce costs by eliminating pancaked rates, which occur when power is transmitted over multiple connecting lines, and the sender is charged by each individual owner.

Participants in RTO West include BPA, the Northwest's investor-owned utilities, Sierra Pacific in Nevada, Utah Power and Light, and B.C. Hydro in Canada. Each transmission owner would continue to own and maintain its own facilities and lines but would hand over real-time operation, such as sales and scheduling, to RTO West.

Although the region's transmission owners are well along in developing a structure and bylaws for RTO West, there are several critical decisions to be made that will determine the impact of RTO formation on consumers. I am urging everyone to pay attention to this issue because it has far-reaching and long-lasting implications for all electricity users in the region.

The challenges I have touched on today are only a few of the issues that need resolving if we are going to have a vibrant energy infrastructure for this region, for ours is an extremely complex system. But I believe they are the key issues. I think there is a tremendous challenge ahead, but I am not pessimistic. I see a dim light at the end of this long tunnel. At the very least, we know what the challenges are, and we know what we need to do. Right now, it's to make a concerted push at all levels to ensure the infrastructure investments are made that will mean our energy system can remain the envy of the rest of the country and the world.

And I feel a sense of urgency about this. It is imperative that we deal with all of these issues if we are to preserve the benefits of a tremendous resource. The Columbia River, along with its tributaries, is the crown jewel of the Northwest. It is the highway for moving goods from our interior to our ports and back. It is a recreational wonderland that attracts people from all over the world. Its waters have turned arid land into a cornucopia of crops. It provides the cleanest, cheapest renewable energy in the nation. And, I believe that it can also provide safe spawning grounds and passage for our fish. These are benefits of incalculable value that we must preserve.

It will take all of us, especially the support of folks such as you, to make this happen. I would urge the City Club to engage these issues, to take positions and support this effort. It is both our environmental and our economic futures that are at stake.

Attachment 24

Department of Energy

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

POWER BUSINESS LINE

July 1, 2003

In reply refer to: C - 4

VIA FACSIMILE

Mr. Dan Seligman
Columbia Research Corporation
209 W. Evergreen Blvd., Suite 605
Vancouver, WA 98660

Re: FOIA Request #03-025

Dear Mr. Seligman:

This letter responds to your FOIA request of May 5, 2003, regarding communications "between BPA and representatives of public power regarding the proposed adoption of the $200 million risk reduction provision" contained in contracts between BPA and Puget Sound Energy, Inc., and PacifiCorp, respectively. We appreciate your patience while we searched our records for information dating back over two years. We enclose the following material as responsive to your request:

1. An e-mail dated April 3, 2001, from BPA employee Larry Kitchen to other BPA employees, discussing a conversation between Mr. Kitchen and Mr. Terry Mundorf regarding a proposal by Mr. Mundorf to settle litigation regarding the IOU Subscription Settlement Agreements;
2. Hand-written notes by Larry Kitchen regarding a meeting with customers "to talk about contingency language" to be set up for "Wed at 5 room 606."
3. The Wednesday, May 16, 2001, calendar for Paul Norman indicating a meeting entitled "IOUs/Mundorf/Saven – CR606 5b9c/DSI Contingency/IOU Buyback" from 5 p.m. to 6 p.m.
4. Hand-written notes by Larry Kitchen from a meeting with "Mundorf, Leone, Saven's rep./Geoff Carr."

In the above-noted meetings, BPA discussed the proposed PacifiCorp and Puget load reduction agreements with the representatives of BPA's preference customers.

In your FOIA request, you indicated a willingness to pay fees. We have determined that the research and review charges to process your FOIA request total $50.00. An invoice for this amount will be sent under separate cover.

If you are dissatisfied with this response, you may appeal the adequacy of BPA's search by making an appeal within thirty (30) calendar days from your receipt of this letter to: The Director, Office of Hearings and Appeals, Department of Energy, 1000 Independence Avenue, SW, Washington, DC 20585. Both the envelope and letter must be clearly marked "Freedom of Information Act. Appeal."

Sincerely,

Gary C. Insley

Gary Insley

Enclosures

Insley, Gary - PTS-5

From: Kitchen, Larry - PT-5
Sent: Tuesday, April 03, 2001 1:25 PM
To: Cherry, Diane - PSP; Leathley, Kimberly - PTP-5; Casad, Kurt R - LP-7; Lovell, Byrne - KP-7; Insley, Gary - PTS-5; Wilson, Scott - PT-5; Miller, Mark - PT-5; Evans, Liz - PSW; Keep, Barney - PSP
Cc: Oliver, Stephen - PT-5; Burns, Allen - PS-6; Norman, Paul - P
Subject: One Year IOU Rate Mitigation Proposal

Diane, Paul had a discussion with Terry Mundorf yesterday afternoon where Terry suggested we pursue a one year rate mitigation proposal with the IOUs. I followed up with a phone call today and asked Terry to flesh out his idea. I drafted this proposal based on that conversation and got Terry's confirmation that it accurately reflected the conversation. I think this would be a viable proposal to put before the PUCs and see how they react.

There are several financial issues that need fine-tuning. I have assumed that the contingent cash payment in the proposal is not included in the load based CRAC. I have also assumed that BPA can pay interest on a deferred payment without violating any Federal statutes.

The other catch is getting it blessed by PBL and then BPA management by the 10th. I think this proposal should be considered as an option tomorrow afternoon. The other two options are to proceed to ask for a 25% reduction in benefits by June 1without any consideration other than asking the publics to attempt to settle at some future date or seeking a global settlement and asking to buy back power prior to the settlement. Larry

One Year IOU
Subscription Glob...

One Year IOU Subscription Global Settlement Proposal

Goals:
- Achieve a global settlement between the IOUs and the Public Utilities regarding IOU Subscription Settlement Agreements
- Lower the first year BPA wholesale rate increase due to the load-based CRAC

Proposal

- Public agencies would agree to place their litigation on the IOU Subscription Settlement Agreements in abeyance pending settlement discussions
- IOUs would contribute their regional share to rate mitigation through a 5% reduction in their benefits for the first year
- IOUs would provide this reduction to BPA through a negotiated firm power sale at a below market price:
- IOUs would provide BPA 500 aMW of firm power at $75/MWh for one year from October 1, 2001, through September 30, 2002, either on a prorata basis or as negotiated among the IOUs
- BPA would agree to make a contingent payment to each IOU if a global settlement is not concluded based on the following formula:
- The contingent payment would equal the difference between the market value for the one-year power delivery determined during the five business days prior to June 1, 2001, for power less the $75 purchase price less 5% of the calculated value of the IOU Subscription Settlement benefits.
- The contingent payments would be made by BPA the later of October 1, 2002, or the date BPA determines such payment will not result in triggering BPA's financial cost recovery adjustment clause. If BPA defers such payment beyond October 1, 2002, the amount of the payment will be increased by __ percent per month.

① ~~Gent Hall 4529~~
~~[illegible] Allot 5[illegible]~~

②. Denise Hill

③ Dale Lathim - Public AE's would like additional info on ~~[illegible]~~ which they can share

~~④~~ Marilyn - IOU deal and DSF deals

④ Allen ~~[illegible]~~ Burns - Customers want to talk about contingency ~~[illegible]~~ language
-Wed at 5 rm 606

⑤ Allen - What to talk to publics about IOU deals

⑥ Darren Durell - Pamela [illegible] Off

⑦ Mark Levi - Cal PUC did pass rule [illegible] including discriminatory rules against Fed agencies.

⑧

IOU

- ~~[illegible]~~
- ~~Puget~~
- ~~Contingency Provision~~
- ~~IOU Agreement~~
- ~~Idaho Power~~
- ~~Pass Through~~
- ~~Economic Analysis of IOU Deals~~

Avista MPC, IGE, +

May 16, 2001
Wednesday

May 2001						
S	M	T	W	T	F	S
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13	14	15	16	17	18	19
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June 2001						
S	M	T	W	T	F	S
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17	18	19	20	21	22	23
24	25	26	27	28	29	30

Cheryl A/L

Time	Appointment
7 am	
8 00	John Taves - CBS Radio News Interview (X4995)Norman's ofc
9 00	
10 00	
11 00	
12 pm	
1 00	Laila McClay (ACF News Source/CBS Radio News) about the DSI and spill issues at 1 p.m. today. I told her you would call her at 415-382-6202.
2 00	
3 00	
4 00	
5 00	IOUs/Mundorf/Saven - CR606 5b9c/DSI Contingency/IOU Buyback
6 00	

TaskPad

TaskPad

Notes

Tim Castille
- 2 yr sites
Barge 50 MW

Denice Hill
- Energy return by end of month
- Don't want it now / only on HLH.
- Back this weekend. -

BPA - Safety net No DOC
Puget - - Both out

Publics
- Not opposed to stth shot legislation if they like the deal.

- Is it needed or reasonable? -

Murdock, Leonne, Savin's rep. / Geoff Carr

① Prefer no legislation
② Willing to consider if demonstrable need.
Murdock

~~D~~
Gap $43.5

85 - 30 - 55
5
50

#38 tied to durability
- Would like to wipe safety net.

Merk - Get public support for time-of-use rates
- ~~People~~ Potential in the Con thing program

- Include a line item for time of use rates.

From: Miller, Mark - PT-5
Sent: Tuesday, June 05, 2001 4:49 PM
To: Whitney, Carolyn A - PL; Norman, Paul - P; Itami, Rick - PSE/Spokane; Elizalde, John - PSW-6; Mosey, Edward - KC-7; Keep, Barney - PSP; Petty, Robert J - PTP-5; Evans, Liz - PSW; Mosey, Edward - KC-7; Hansen, Michael - KC; Burns, Allen - PS-6; Dowty, Phyllis M - PL; Custer, Cindy J - KR/WSGL; Swedo, Robert L - KR/Spokane; Kitchen, Larry - PT-5; Insley, Gary - PTS-5; Hanlon, Doug - PTS-5; Wright, Stephen J - A-7
Cc: Oliver, Stephen - PT-5; Palmer, Linda L - PS-6; Larson, Cheryl - P
Subject: RE: Puget signing

I have traded telephone messages with Tim Hogan at Puget and Puget's preference is the same as ours, that there should **not** be any publicity on our deal until after it gets through the commission approval proceedings next week. Stay tuned.

-----Original Message-----
From: Whitney, Carolyn A - PL
Sent: Monday, June 04, 2001 3:54 PM
To: Norman, Paul - P; Itami, Rick - PSE/Spokane; Elizalde, John - PSW-6; Mosey, Edward - KC-7; Keep, Barney - PSP; Petty, Robert J - PTP-5; Evans, Liz - PSW; Mosey, Edward - KC-7; Hansen, Michael - KC; Burns, Allen - PS-6; Dowty, Phyllis M - PL; Custer, Cindy J - KR/WSGL; Swedo, Robert L - KR/Spokane
Cc: Miller, Mark - PT-5; Oliver, Stephen - PT-5; Palmer, Linda L - PS-6; Larson, Cheryl - P
Subject: Puget signing

It looks like Puget may put their name on the contract this week. However, we want to delay announcing this until next week when the PUC approves it--probably 6/15. Please check with Mark Miller and Steve Oliver before planning any external communication about Puget signing.