Department of Energy

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

PUBLIC AFFAIRS

January 2, 2009

In reply refer to: DK-7

Mr. Terry B. Armentrout

XXXXX

RE: FOIA #09-015

Dear Mr. Armentrout:

This is your final response to your request for information that you made to the Bonneville Power Administration (BPA), under the Freedom of Information Act (FOIA), 5 U.S.C. 552. Your letter was received in this office on Thursday, December 18, 2008, and has been assigned a controlled number, 09-015. Please use this number in any correspondence with the Agency about your request.

After reviewing your request, it was determined that you addressed all the criteria of a proper request under the FOIA, DOE, and BPA regulation that implements the FOIA at Title 10, Code of Federal Regulations, Part 1004. You have agreed to pay $25.00 in fees.

You had requested the following:
A copy of letters (between 1999 and 2004) signed by the Administrator requesting the Commander of the Corps of Engineers to reduce operation and maintenance cost at Corps of Engineer operated power facilities. Plus any Corps of Engineers response to such a request.

Response:
BPA has provided and enclosed four documents, in their entirety, that are responsive to your request.

Ms. Ann Yoakum, who maintains Executive correspondence signed by the Administrator, was designated as the Authorizing Official for your request. Should you have any questions, you may contact Ms. Yoakum by calling 503-230-7685.

If you are dissatisfied with this determination, you may make an appeal within thirty (30) days of receipt of this letter to the Director, Office of Hearings and Appeals, Department of Energy, 1000 Independence Avenue., SW, Washington, D.C. 20585. Both the envelope and letter must be clearly marked "Freedom of Information Act Appeal." There is no charge for this request.

I appreciate the opportunity to assist you with this matter. If you have any questions about this letter, please contact Laura M. Atterbury, FOIA/Privacy Act Specialist, at 503-230-7305.

Sincerely,

/s/ Christina J. Brannon

Christina J. Brannon
Freedom of Information Act/Privacy Act Officer

Enclosures: Responsive Documents

Department of Energy

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

EXECUTIVE OFFICE

SEP 0 3 2002

In reply refer to: PGF-6

Brigadier General David A. Fastabend
Commander, North Pacific Region
U.S. Army Corps of Engineers – CENWD-DE
P.O. Box 2870
Portland, OR 97208-2870

Dear General Fastabend:

I want to thank you and your staff for the contributions you have made in helping the FCRPS deal with incredible operational and financial challenges the last several months and to ask you for a continued aggressive focus on cost management through the remaining years of the FY 2002-2006 rate period. Our partnership has enhanced our ability to restore the generating assets to the performance that the region should expect from us at costs that are among the lowest in the industry. We are committed to achieving the desired performance for these assets in the long term for the benefit of the region.

We must approach these long-term objectives in an environment of new financial challenges. Through our JOC processes your staff has been kept informed of our financial challenges and has made significant changes to the planned expenditures of '02 and '03. We need your help in BPA's struggle against major cost escalations in the remaining years of our current rate period (through FY 2006). We have already raised power rates over 40 percent to our Northwest customers since September 2001. The PNW consumers can ill afford more cost pressure in this economy. As described in the JOC meetings, important program decisions that will govern our cost structure for the next several years are to be made in November. These decisions will, to a large extent, define whether our rates through 2006 go up or down or stay constant. As you know, these decisions are coming in a highly visible regional process that we are conducting, with all costs being on the table. To make these decisions by mid-November, we need updated cost estimates for the remainder of the rate period, and therefore need the JOC to provide a new 5-year (04-08) O&M budget by September 30.

The hydrosystem is the very foundation of benefits for the region. Through our partnership we must ensure that it is managed to its lowest cost while providing a safe and reliable power supply. Together BPA and The Corps can and will create the better future for the people we both serve. We have done it before.

Sincerely,

/s/ Steven G. Hickok

Steven G. Hickok
Deputy Administrator

Department of Energy

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

Reading File

EXECUTIVE OFFICE

SEP 1 3 2002

In reply refer to: PGP-5

Brigadier General David A. Fastabend
Commander, North Pacific Region
U.S. Army Corps of Engineers – CENWD-DE
P.O. Box 2870
Portland, OR 97208-2870

Dear General Fastabend:

As you are aware, BPA currently faces significant financial challenges. We have already raised power rates over 40 percent to Pacific Northwest customers since September 2001. Pacific Northwest consumers can ill afford more cost pressure in this weak economy.

As Deputy Administrator Steve Hickok indicated in his letter on operations and maintenance costs, I appreciate the efforts of the U.S. Army Corps of Engineers staff in working with us to find solutions during these times. Over the years our partnership has also enhanced our ability to direct fish recovery efforts and most recently establish clear performance standards for the Federal Columbia River Power System.

To address this financial difficulty, BPA has initiated a highly visible and thorough review of all costs. BPA has undertaken significant internal cost reductions. In addition, BPA has requested similar cost review from the Bureau of Reclamation, U.S. Fish and Wildlife Service, National Marine Fisheries Service, the Northwest Power Planning Council, and Energy Northwest.

BPA's fish and wildlife costs are part of the costs that are under review. We work aggressively to optimize the biological benefits for fish and wildlife at the least cost to the region's ratepayers. I want to assure you that BPA is firmly committed to meeting the performance standards identified in the 2000 Biological Opinion (BiOp). Acknowledging the significance of these obligations, I look forward to any recommendations the Corps of Engineers may have that achieve efficiencies.

A subteam of the Federal Caucus, chaired by BPA staff, has been asked to evaluate modifications to operations that reduce cost but allow us to stay on track to meet our performance standards. A similar effort, led by COE's Division and District staff, is underway on the configuration side. We need to ensure that all agencies involved are focused on a thorough review of the biological information to determine if there are alternative actions that still allow us to meet BiOp standards at least cost.

As with O&M and other costs, these decisions will, to a large extent, define whether our rates through 2006 go up or down or stay constant. To make these decisions by mid-November, we request your agency to continue treating this effort with the highest priority, allow for a review of the operational and configuration alternatives, and participate in a summary of that review by October 15. We would like to build on the successful work of the Federal Caucus and deliver a five-agency proposal by that date.

I want to again express my gratitude for the work we have done to date. Thank you, in advance, for your continued understanding, support, and efforts in evaluating current operations and configuration actions.

Sincerely,

(Sgd.) Stephen J. Wright

Stephen J. Wright
Administrator and
Chief Executive Officer

Department of Energy

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

EXECUTIVE OFFICE

March 25, 2003

In reply refer to: PGF-6

Brigadier General David A. Fastabend
Commander, North Pacific Region
U.S. Army Corps of Engineers – CENWD-DE
P.O. Box 2870
Portland, OR 97208-2870

Dear General Fastabend:

I want to thank you and your staff for responding to my earlier letter (9/3/02) asking the Joint Operating Committee (JOC) to provide updated cost estimates for Operations and Maintenance (O&M) expenses for the remainder of the rate period, and to prepare a new 5-year (FY 04-08) O&M expense budget. This information was vitally important to the Financial Choices process we recently completed here in the region. Since the completion of that process, your staff has worked closely with BPA staff to understand the operational and financial pressures we're under, and to maintain an aggressive focus on cost management of the Operations and Maintenance expense program.

As you are aware, even with the reductions in expense forecasts that were achieved in the Financial Choices process, BPA may still need to raise rates for the remainder of the rate period (through FY 06). Given the state of the regional economy, we are aggressively seeking ways to avoid this outcome. Therefore, I'd like you to again look closely at the O&M expense budget forecast for the FY 04 to 06 rate period. Specifically, what would the impact be to the Operations and Maintenance Program if budgets were reduced an additional 5 or 10% beyond the budgets that were developed during the Financial Choices process? We can work together to jointly determine the appropriate timing for when a response to this request is required; pending your advice, we would like to aim at April 19, 2003. We have not concluded that additional cost reductions are appropriate. We simply need to understand, as do regional utilities, the tradeoffs and risks. I understand that this is a particularly difficult exercise given the sensitivity of O&M funding to system performance. As part of BPA's efforts to reduce costs, we've developed general guidance for Power Business Line managers to follow when developing budgets and making decisions on expenses. I've enclosed a copy for your consideration.

In these difficult times, it is rewarding to know that our partnership has enhanced our ability to restore the generating assets to the performance that the region expects from us at costs that are among the lowest in the industry. We are committed to achieving the desired performance for these assets in the long term for the benefit of the region, while also being responsive to regional concerns about impacts of potential additional rate increases.

Sincerely,

/s/ Stephen J. Wright

Stephen J. Wright
Administrator and Chief Executive Officer

Enclosure

Enclosure

While in a mission-critical mode, expenditures are limited to those deemed required or essential in order to avoid:

- Significant risk of revenue loss or rate increase
- Significant risk of reliability and infrastructure degradation
- Significant impairment of relationships with customers, constituents, Tribes and other governments
- Significant environmental degradation
- Significant internal system failure (that could result in any of the above)
- Significant risk that national or regional policy decisions will cause any of the above to occur unless BPA is represented in a meeting
- Breach of legal or contract obligation
- Personal injury or breach of safety requirements
- Significant loss to BPA's HPO program and structure (that could result in any of the above)

DEPARTMENT OF THE ARMY
NORTHWESTERN DIVISION, CORPS OF ENGINEERS
P.O. BOX 2870
PORTLAND, OREGON 97208-2870

Reply to
Attention of:

MAY 9 2 2003

Operations Division

Mr. Stephen J. Wright
Administrator and Chief Executive Officer
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

Dear Mr. Wright,

Thank you for the opportunity to provide you our assessment of what the impacts would be if our Operation & Maintenance budgets were reduced by an additional 5 or 10% beyond the budgets that were developed during the Financial Choices process. Our goal in managing the O&M budget for our hydropower assets is to maintain and enhance the short to long term safety, reliabilility and economic value of these assets in as cost effective manner as possible.

The productive capability of the Federal Columbia River Power System (FCRPS) is only now recovering from the effects of aging and limited appropriations. Prior to direct funding of the O&M and capital investment programs, the system was operating well below industry standards and was failing to provide the quantity and reliability of power that the region should expect. With the advent of direct funding, we have jointly aligned our purposes and management philosophies and developed aggressive management approaches that result in O&M investments driven by expected results not the vagaries of the appropriations process. Over the past two years our staffs have worked very hard to develop baseline budgets with little, if any, flexibility to accommodate reductions without increasing risk to our operating efficiency and system reliability.

I have thoroughly reviewed the 5-10% budget reduction scenario with my staff. My judgment is that such reductions would be imprudent and expose the FCRPS to unacceptable reliability risks. There are several reasons for this conclusion:

First, through cost benchmarking analyses we have determined that our costs for hydropower operations, maintenance and capital investments are generally at or below expected costs for similar utilities in North America and Canada.

Second, the Joint Operating Committee has put in place many management systems to ensure that we set and then manage to clear performance objectives with clear accountability. The budget setting process itself is an example of where BPA and The Corps now jointly develop the budgets given the material condition of the plants, the performance objectives established for the plants and data from benchmarking and best practices

Third, the capital investment program is only now beginning to address the deteriorated machine condition. We are not yet ahead of the curve, meaning that we still face significant probability of failed or under performing equipment, which will tax our budgets in unplanned ways.

Fourth, several other cost pressures are looming on the horizon: critical extraordinary maintenance requirements, post-911 security infrastructure improvements, future operation and maintenance on those security improvements, increased requirements for guards and additional Fish & Wildlife Program activities associated with the Willamette Biological Opinion. We have committed to you, and recommit by this letter, to look for every way possible to manage these costs within the agreed to budgets for the rate period without risking unduly the productive capability of the system to meet its power and joint use purposes.

Given these underlying budget pressures, if we were asked to absorb an additional 5 or 10% budget reduction, we would first look to crucial expenditures such as O&M funded efficiency investments which are critical to the future stability and efficiency of the FCRPS. Another area for reduction we would consider is reduced responsiveness of repair efforts when unplanned, forced outages occur that are within our current staffing levels and material resources to address; current methods include utilizing craft overtime and deferring other essential activities. Deferring either of these requirements for extended periods will surely jeopardize the power system itself and those other services the public rightly expects us to provide in a safe and reliable manner. Our third area of reduction would be to consider actions to the foundational O&M program such as deferring operational and preventative maintenance – the very action that caused the system to perform so poorly during the last decade prior to direct funding.

The forecasted budgets for the FCRPS will deliver power at $2.60 per MWh. Given the information we have from benchmarking, our history of an under-performing system, the development of management systems designed to ensure cost and performance management, and the cost pressures we have both built into the budgets plus those likely to develop, I conclude that it is imprudent to further reduce the budgets.

Direct funding has greatly increased the ability to make astute investment and management decisions resulting in markedly improved sustainability of the system in terms of reliability and operability. It is our perspective that the region views the Federal hydropower projects as true regional assets providing a tremendous benefit in the form of low cost electric power that is the envy of other regions. However, within the context of the current regional economy, I fully understand the mounting pressure to reduce budgets. We stand ready to work in partnership with you to help define a course that is in the best interests of the public we serve.

Sincerely,

/s/ David A. Fastabend

David A. Fastabend
Brigadier General, U.S. Army
Division Engineer