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Skyrocketing market prices are driving BPA rates up

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Bonneville Power Administration

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PORTLAND, Ore. – The Bonneville Power Administration is on a path to wholesale power rate increases averaging 60 percent over the next five years unless the region can identify and take actions to reduce power costs, BPA Acting Administrator Steve Wright said today.

"We are making this announcement today to alert the region to the challenges we face," he said. "The fundamental problem is unprecedented high market prices. Unless the region finds ways to bring costs down, steep rate increases are unavoidable."

While such rate increases are painful and actions to avoid them difficult, he said, failing to make the hard choices now would threaten the financial stability of the Federal Columbia River Power System and the economic benefits the region enjoys.

"Recent events in California demonstrate the consequences of failing to take decisive action," Wright said. "If we meet the challenge now, the region will continue to reap the advantages of a power supply that is one of the lowest cost, most reliable in the nation for many years to come."

Wright emphasized that even with the steep wholesale rate increases looming Oct. 1, BPA's rates would remain well below market levels. Resulting retail rate increases will be less than the wholesale rate hike. The retail impact will vary, depending on how much power the utility purchases from BPA and its own costs of doing business.

Given the volatility of the West Coast energy market, setting rates adequate to recover costs is difficult, BPA officials said. The agency must generate sufficient income to ensure payments to the U.S. Treasury while funding fish programs and meeting other obligations. If BPA were to collect more revenue than needed, the agency would return that amount to ratepayers.

BPA provides just under half of the electric energy consumed in the Pacific Northwest, selling to more than 130 retail utilities and large industrial customers. The remainder of the region's power is provided by individual utilities, which are also facing higher power costs. Many have already announced their own rate increases.

"Under new 10-year contracts that go into effect in October, our customers have increased their reliance

on BPA for service, exceeding the supply of federal Columbia River system power by 3000 average megawatts, or roughly one-third," Wright said. "The fact that we must purchase this power, and the shortage we are experiencing right now due to low water conditions, mean we must raise rates to keep our books in balance and maintain the reliability of our system."

Market prices are expected to stay very high for the next two years, then gradually decrease as new power plants come on line. So, the rate increases could be steeper in the first few years, and decline later. Wright said the level of the rates will be decided in a rate-setting process with customers, concluding in July.

Wright said BPA's wholesale rates remained stable through the 1990s, actually decreasing for many customers in 1996. Even after the impending increases, Northwest rates will be among the most competitive in the nation.

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