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**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*

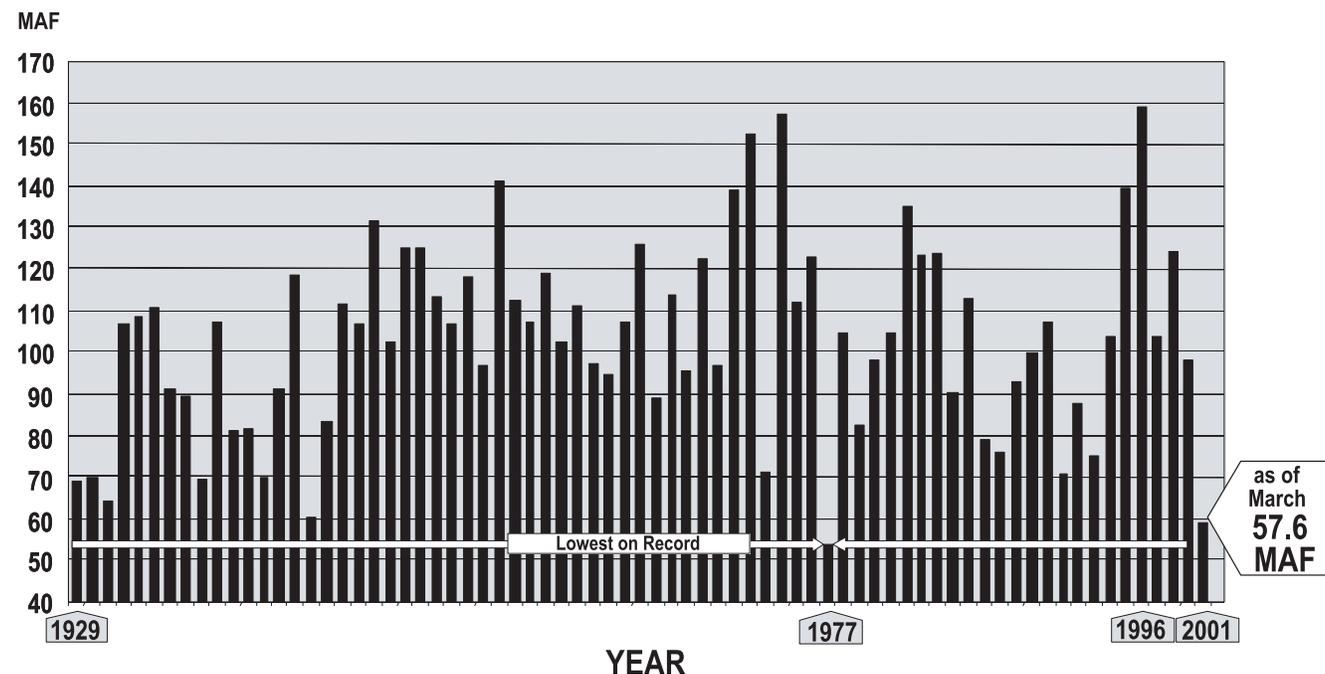
At the end of February, the National Weather Service River Forecast Center revised downward its forecast of the volume of Columbia Basin water runoff for 2001 to only 55 percent of normal, the second-lowest runoff in the 72-year record of this measurement (see Graph 1 below).

*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 black-outs 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

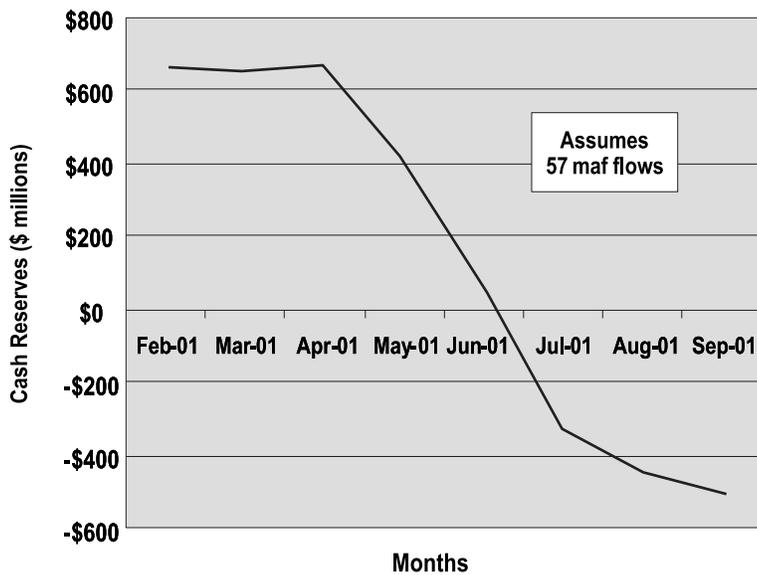
Our analysis now shows that we cannot meet the standard operations called for in the Biological Opinion, maintain reliability, refill reservoirs and stay in the black financially under the latest runoff forecast. Unless the water situation turns around dramatically within the next few weeks, the region 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-*

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\* 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](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.

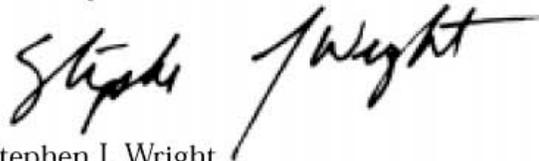
We intend to move forward to implement the plans called for in the Biological Opinions in those areas that are not affected by this year's conditions.

## 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 ratepayers support the region's hydropower system, and that it does not lean on U.S. taxpayers.