



April 26, 2006

Mr. Paul Norman, Senior Vice President
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

VIA Fax (503) 230-7333

Dear Mr. Norman:

The Northwest Coalition for Affordable Power appreciates the opportunity to provide comments on the draft Power Function Review II (PFR II) closeout letter. Prior to BPA's release of its draft PFR II closeout letter, the Coalition wrote and requested that BPA identify a total of \$50 million in program cost savings. We reiterate that request today.

The Coalition was launched last fall with a single goal: To urge BPA to adopt a budget based upon a target wholesale power rate of \$27 per megawatt hour. This goal represents a 10 percent reduction from BPA's proposed rate announced last fall. As small and large businesses, municipalities, labor unions, school districts, economic development associations and public utilities, we no longer can afford to pay record high electrical rates.

We congratulate BPA on its recent announcement that it will reduce its initial rate proposal by 5 percent through the adoption of innovative financial tools. In addition, we are pleased that BPA has identified an additional \$20 million in program cost savings through the PFR II workshops. We continue to urge BPA to identify an additional \$30 million in savings for a total of \$50 million. That savings, coupled with the liquidity tools, will allow BPA to meet a wholesale rate target of \$27 per megawatt hour without relying on secondary sales or above average water.

Earlier this year, BPA took an important step when it outlined general scenarios to achieve a 10 percent rate reduction. However, BPA has not provided multiple rate targets for regional consideration as requested last fall by 18 members of the Northwest Congressional Delegation.

In addition, we believe that BPA must reinstitute a revenue requirement for future rate cases as suggested by the Northwest Congressional Delegation. This change will allow for BPA and its customers, through a formal and legal rate-making exercise, to understand and discuss all factors affecting rates within a single process. We are

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confident that this step has the ability to contribute to lower rates in the future and increase BPA's credibility and transparency with ratepayers.

The Northwest Coalition for Affordable Power believes our regional economic stability depends on reduced wholesale power rates. Since 2001, power rates throughout the Northwest have gone up by an average of 50 percent due in part to the costly power contracts BPA entered into to meet its obligations. With those contracts expiring this year, and the resulting hundreds of millions of dollars in annual savings, we believe a 10 percent reduction is both necessary and achievable.

Finding an additional \$30 million in program cost savings is within the options summarized by BPA in its final scorecard before its draft closeout letter. We urge BPA to review these areas again and make the necessary adjustments to lower program costs. We are disappointed that of the six specific budget items categorized as "to be determined" on the March 22 PFR II scorecard, none of those were listed by BPA as potential opportunities for cost savings in the draft closeout letter.

We continue to believe that a potential place for additional cost savings is the Enterprise Process Improvement Program (EPIP). Studies of five of the 23 budget areas have been completed, identifying potential annual savings of between \$65 and \$80 million, of which approximately 40 percent are related to the Power Business Line. However, in the recently released draft PFR II closeout letter, BPA includes just \$8 million in expected annual savings from EPIP in the next rate period.

We believe that BPA should take an aggressive stance on these potential reductions and efficiencies. BPA has indicated that EPIP Phase Two studies suggest "significant savings." We believe BPA should establish a target for FY2007-2009 that incorporates these EPIP studies and includes additional reductions in the rate case. We recognize that this target may require BPA to escalate the savings over subsequent fiscal years as additional savings are obtained.

As BPA concludes its PFR II report, the Coalition encourages BPA to include the additional \$30 million in savings and present multiple rate targets for regional consideration.

In closing, we wish to thank you for your work to ensure lower rates in the upcoming rate case and urge you again to incorporate the maximum cost savings possible into BPA's final rate for the 2007-2009 rate case.

Sincerely,

NW Coalition for Affordable Power

cc: The Northwest Congressional Delegation

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