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April 26, 2006

Paul Norman
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Bonneville Power Administration
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RE: Comments on Power Function Review II

Dear: Mr. Norman:

We have several comments about specific issues in Power Function Review II (PFR II), however at the outset we want to note that the entire PFR process (both PFR and PFR II) was one of the most useful and informative approaches of the Power Business line's program review in which we have participated. Specifically, leading into the rate case initial proposal, PFR I was a useful, thorough effort and PFR II's approach for working through the remaining undecided issues was a good addition to this process. We appreciate the amount of effort, detailed information and willingness to work on issues that BPA's staff brought to this process.

BPA's overall objective for the initial Power Function Review (PFR) was to conduct an extensive program review leading into the initial proposal for the FY 07 to 09 rate case. The objective for PFR II was to re-examine major cost categories to seek additional cost savings. Collectively PFR and PFR II provided the participants with a comprehensive review of BPA's program costs and revenue requirements. Overall, it appears that BPA will have identified approximately $115 million worth of cost savings through the process. In addition, the process has been the vehicle for reporting non-cost changes that effect rates, such as the IRS ruling on direct pay for ENW expenses.

In the future, BPA is planning a Capital Program Review and we anticipate the capital program review being as useful as the PFR process was. We appreciate BPA's demonstrated commitment to transparency and its responsiveness to customer requests on this issue.

Lowering BPA's cost or maintaining cost control at the agency is an ongoing and difficult task. There are tremendous pressures for increasing program costs and expenses. Given the success of the PFR and PFR II process and the largely satisfactory resulting decisions, we would expect BPA to conduct PFR program reviews for the FY-2010 & 2011 rate case and future rate proceedings.

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However, we would encourage the agency to consider conducting the initial program review process as far in advance of the rate proceeding as possible, with a subsequent review of outstanding issues within the case, much like PFR II. The initial PFR process was conducted just months ahead of the rate case, so many decisions had already been made and the ability to consider significant changes in program direction had already past. For example, in the FY 2007 to 2009 rate case, the amount of IOU benefits, and the basic conservation program direction and funding amounts were essentially set. These program and benefit decisions all contribute to the overall revenue requirement and it is not until all of these costs are totaled up that we get the full picture of BPA's funding.

Many parties to the current rate case called for further reductions in BPA's rates. It is PNGC's view that the best way to reduce BPA's rates is to reduce BPA's overall costs. If, as BPA contends, there are no more easy cost reductions, then a serious discussion must be started to determine whether BPA's overall revenue requirement should be reduced and which programs would need to be reduced or eliminated. This approach will also require an exchange about changing specific program goals and expectation. If parties expect, as the comments indicate, to reduce BPA's rates for the FY- 07/09 period and beyond, then initiating a discussion on changing program goals and reducing cost must begin early.

There are several additional issues in PFR II that warrant comment.

Corps and Bureau of Reclamation O&M Costs

The PFR II close out letter comments that the Corps and Bureau "worked hard to develop spending levels that reflect minimum cost requirements" … What we received instead was the initiation of a benchmarking study and commitments for follow up meetings on practices and system reliability but no commitment to cost reductions or effective use of the rate payer dollar. Instead we received $30 million funding requests for ill conceived flood control studies designed for fish rather than human life and property. To date the Corps and Bureau responses to customer concerns have been bureaucratic and less than helpful in controlling or reducing costs. This is an area where much more work is needed.

Internal Operations Charged to Power

BPA has undertaken a major effort through the Enterprise Process Improvement Process (EPIP) that represents its commitment to bring down internal costs. This is a major ongoing effort and to date BPA is proposing to capture an average of $8 million per year in cost reductions. The effort and expected reductions are commendable. However, our expectations were higher for both the amount of cost reduction and how soon that reduction could be captured. We are hopeful that this ongoing work will provide additional efficiencies and cost saving at BPA.

Fish and Wildlife

PNGC Power advocates for a fish and wildlife program that is based in the best science and is implemented cost-effectively, and concurs with BPA that the $143 million per year funding level established in the 2005 PFR is fully adequate for the agency to meet its obligations under the

Power Act and the Endangered Species Act. PNGC continues to support BPA's initiative to increase the allocation of the Direct Program to 'on-the-ground' projects, like habitat protection and enhancement, tributary passage improvements and hatchery improvements. This re-allocation serves two worthy purposes: first, by moving funds from research, monitoring and evaluation (R, M &E), more money is made available to support programs that directly benefit fish. Second, the re-allocation initiates a timely focusing of the region's R, M & E efforts by reducing redundancies and enhancing efficiencies in the Program. Regardless of BPA's revenue situation, the Fish and Wildlife Program should be based on programs that provide proven biological benefit.

Additionally, PNGC is concerned about the Corps of Engineers' Columbia River Fish Mitigation Program (CRFM) funding assumptions. PNGC is unclear about what underlies the Corps' estimate that $1.6 billion will be spent in this program before it is completed. A fully formed rationale for this estimate would help customers better understands Corps' priorities for the use of ratepayer dollars.

Renewables Program

PNGC is encouraged by BPA's inclusion of Facilitation Funds for Renewables development, and intends to actively participate in the development of the process for how those funds will be disbursed. However, PNGC remains attentive to the lack of certainty in this area and expects that as BPA refines its Regional Dialogue closeout documents, it will avoid creating disincentives to utility-developed renewable resources. PNGC also supports the use of the proceeds from the sale of Environmentally Preferred Power to support research and development efforts in the Northwest. PNGC suggests that these R & D funds be reserved for technologies in which the Northwest has a natural and/or extant competitive advantage.

DSI Service Benefits

PNGC is opposed to providing $59 million in benefits to the DSIs. We believe it is unwise to include that amount in the revenue requirement and collect it in the rates. If, as BPA suggests, the DSI are unable to claim the benefits then BPA will have over-collected approximately $1 MWh at a time when much of the region is still struggling economically. In its PFR II close out BPA implies that because it will achieve robust secondary revenues in 2006, it is reasonable to provide $59 million annually in benefits to the DSI's for FY-07,08 and 09. Based on the last four years experience, we believe it is unreasonable to presume that 2006 will be predictor of the secondary revenues for 2007, 2008 and 2009. If on the other hand BPA is expecting to withhold $177 million from 2006's secondary revenues to fund the DSI benefits, then the $59 million should not be included in the revenue requirement.

Finally, we appreciated the opportunity to participate in PFR process and to provide these comments.

Sincerely,

Douglas R. Brawley
Manager of Rates and Member Services