Public Power Council
825 NE Multnomah, Suite 1225
Portland, OR 97232
503.595.9770
Fax 503.239.5959

August 31, 2006

Submitted Electronically

Vickie VanZandt
Senior Vice President
Transmission Business Line
Bonneville Power Administration – T – Ditt-2
P.O. Box 491
Vancouver, WA 98666

RE: PPC Comments on Transmission Business Line's 2006 Programs in Review

Dear Ms. VanZandt:

We appreciate the opportunity to comment on TBL's 2006 Programs in Review (PIR) for the 2008-2009 rate period. One unusual aspect of the PIR process is that it is occurring along with BPA's agency-wide Capital Planning Review process, which covered both PBL and TBL capital investments. PPC has already commented in the Capital Planning Review process, and we are attaching those comments to these comments, rather than repeating the arguments we made in the Capital Planning Review. The remarks we made in the earlier comments are applicable to TBL's capital investments. It is possible that we may join in on joint public customer comments that will be filed later.

On the expense side of TBL, we appreciate the effort TBL has put into the Enterprise Process Improvement Program (EPIP), which has identified baseline cost savings of $65 to $80 million, more than 18% of TBL's baseline costs. TBL is currently doing Phase Two of EPIP, which involves reviews of TBL's supply chain and O&M costs, along with reviewing TBL's asset management procedures. We anticipate that this will result in additional savings.

PPC has two interests in the EPIP process: 1) that TBL actually achieves the cost savings that are forecasted under EPIP, and 2) that these cost-savings are actually

reflected in rates. We feel that the best way of achieving both these goals is to assume that BPA fully achieves the forecasted EPIP savings in the transmission rate case. (It is possible that some of the EPIP savings cannot be achieved until after the next transmission rate period ends in 2009 – those can legitimately be excluded from the rate case, but are likely to be a small fraction of the overall EPIP savings.) Assuming that TBL achieves the EPIP savings for ratemaking purposes will give TBL a powerful incentive to actually realize these savings, to maintain TBL's finances. Assuming that TBL only achieves a portion of these savings for ratemaking purposes will markedly decrease TBL's incentives to achieve all the savings. Achieving the EPIP savings is legitimately a TBL management function, and TBL should accept financial responsibility for achieving these savings.

Again, thank you for the opportunity to submit these comments.

Sincerely,

Marilyn Showalter
Executive Director

Cc: Rebecca Fredrickson
TBL Account Executive
refredrickson@bpa.gov

Public Power Council
825 NE Multnomah, Suite 1225
Portland, OR 97232
503.595.9770
Fax 503.239.5959

July 7, 2006

Via Electronic Mail

David J. Armstrong
Chief Financial Officer
Bonneville Power Administration
c/o Public Affairs – DKC-7
P.O. Box 14428
Portland, OR 97293-4428

RE: BPA's Capital Planning Review

Dear Mr. Armstrong:

Thank you for the opportunity to comment on BPA's capital program. These comments are submitted on behalf of PPC and are also endorsed by PNGC Power. We would like to thank BPA for initiating this process, which we have requested for several years. We consider this to be a significant step forward in allowing us to evaluate how individual capital investments would affect BPA's finances, and to be able to have a role in evaluating BPA's overall capital program. We realize that in this first, initial year there may be some glitches that we should work to correct in later years. In that connection, we will comment on the capital review process, and how to improve it in future years, as well as comment on the substance of the upcoming capital program.

Comments On Process

The Backgrounder on BPA's Capital Planning Review (CPR) asks for specific suggestions for designing the FY 2008 capital and expense planning process. Also requested is feedback on the type and level of information needed to engage in future capital planning decisions. (BPA, *Backgrounder: BPA's Capital Planning Review*, June 2006, page 4.)

The Backgrounder states that the CPR "is aimed at informing interested parties about how BPA plans for the long-term and ultimately makes decisions on its agency wide capital spending." (*Backgrounder*, page 3.) In the course of the

CPR meeting on June 22, it became clear to us that while BPA is the ultimate decision maker, capital planning decisions are made in many different forums. These include Energy Northwest, the Infrastructure Technical Review Committee for transmission investment, the Army Corps of Engineers, the Bureau of Reclamation, and the Power Planning and Conservation Council. Thus, in order for the customers, who pay for these programs, to have an effective ability to influence these decisions, participation in many different processes will be necessary.

The CPR process will be valuable in that it will bring together these many processes and enable us to review the combined results. Unfortunately relying on this process alone will mean that we will be able to review only the results of decisions that have already been made. Thus, it is incumbent upon the customers to be involved at all levels of capital planning, both with those entities that rely on BPA for funding at the outset and with BPA as all of these programs come together. The customers at that point must be able to weigh the different funding requests across the agency and across and the various entities that rely on BPA for funding. And it is important that such a process be set up in a manner that makes customer participation administratively feasible.

In the discussion under "Planning and Implementing the Capital Budget" (*Backgrounder*, page 2.), we were concerned to find that there was no point mentioned at which the customers' views on capital funding would be heard. The approach outlined there included a December memo from the Chief Financial Officer (CFO) that would provide guidance to the organizations that would then send financial program targets on to the Administrator for a final decision in August on the capital budget for the upcoming fiscal year. The diagram on page four of the Backgrounder indicates that there will be opportunities for stakeholder input, but there is no discussion of the specific points in time between December and August when this would occur. As a result it is still unclear how and in what manner customer input would be brought into this agency planning process.

We suggest that this customer input should be incorporated at several points:

(a) before the CFO issues his or her request to the organizations, regarding the guidelines established in the CFO's December memo,
(b) as each organization applies the guidelines to develop its proposed budget (*e.g.*, transmission technical workgroups), and
(c) when the various budgets come together into an agency capital plan in the following summer.

Substantive Comments

We encourage BPA to update the graph showing how much time it will take for the agency's borrowing authority to run out, under a variety of different assumptions relating to use of debt optimization and third-party financing. (This is slide 90 in BPA's presentation, entitled "Amount remaining of BPA's ability to borrow from the U.S. Treasury".) An updated graph, with supporting calculations and assumptions, would provide a good overview of the overall demands that BPA's capital program makes on BPA's remaining borrowing authority.

The relationship between BPA's remaining borrowing authority and third-party financing needs to be explored in more detail. Third-party financing conserves borrowing authority, but does so at a greater cost than using Federal funds. This implies an important trade-off: the region is effectively purchasing extended access to lower cost debt by using some higher cost debt in the interim. We are not sure how BPA calculates an internal rate of return (IRR) for evaluating capital investments, but we think that the relevant hurdle rate used to determine whether an investment is made or not needs to be related to the cost of third-party financing for all projects, even if Federal financing is used for that particular project. If BPA is relying on third-party financing on the margin to finance some of its projects, due to the scarcity of Federal capital, then all projects should be justifiable using the third-party financing costs – projects that cannot be justified using BPA's capital costs on the margin should not become justifiable just because scarce lower-cost capital is allocated to that particular project. (It should be noted that this financial standard should be applied to BPA capital projects primarily intended for commercial purposes – we support BPA making capital investments necessary for reliability.)

Furthermore, BPA should look much more closely at whether BPA's consumer-owned utilities can make capital available for certain projects. The success of the prepayment program associated with the current power rate case indicates that there may be more opportunities for BPA and its customers to collaborate to lower BPA's overall costs.

Another issue that BPA should cover in more detail in the future is the relationship between what is contained in the Federal budget proposal and what actually gets spent in any given year. We realize that BPA is obligated to include all possible capital spending in the budget proposal, but we also realize that BPA's actual spending is normally less than the budget amount due to delays in projects and other reasons. In particular, for the purposes of setting rates, capital spending estimates should be realistic estimates of likely capital spending, not the numbers that may be in the specific budget proposal.

BPA should provide detailed information about the transmission rate impacts of the debt-optimization program. It would be useful to know what transmission rates would be with and without the debt optimization program.

Regarding capital costs of other Federal agencies, we are concerned that BPA is picking up the lion's share of certain capital costs for Federal agencies without a guarantee that the other Federal agencies would reimburse BPA. BPA should get guarantees of reimbursement before making such security-related capital investments.

Finally, there are a number of areas where BPA has not provided enough information to allow us to provide meaningful comments. In the areas of fish and wildlife and conservation, BPA has not provided information on individual projects, but rather has provided placeholder amounts for total capital spending. In order to provide meaningful comments, we need to know what specific fish and wildlife and conservation investments are planned. We also need more specific information about Corps and Bureau investments paid for by BPA direct funding.

We look forward to continued collaboration on this important project, and ask finally that you establish specific opportunities to review the above substantive questions.

Thank you for the opportunity to submit these comments.

Sincerely,

/s/

Marilyn Showalter
Executive Director