



Department of Energy

Bonneville Power Administration
P.O. Box 3621
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FINANCE

July 23, 2008

In reply refer to: F-2

To Customers, Constituents, Tribes and Other Stakeholders:

The Bonneville Power Administration (BPA) is now concluding the Integrated Program Review (IPR) review of FY 2009 Power Costs, which began on May 15, 2008. After the opening "Overview" workshop that covered both Power and Transmission costs through FY 2011, seven technical workshops were held over a two-week period, covering all costs affecting the Power FY 2009 program levels. A management-level meeting was held June 11, 2008, to allow the Administrator to hear comments personally, and a public comment period was held from May 15, through June 19, 2008. Through this process, BPA sought to provide interested parties with meaningful opportunities to examine, understand, and provide input on the cost projections that would form the basis for the final Supplemental Proposal for FY 2009 Power rates, which is expected in September 2008.

Several of the comments BPA received noted that more time should have been factored into this process, and that BPA should provide alternative scenarios to participants for evaluation and comment. We agree that allowing both more time and providing options can facilitate meaningful comment, and for the upcoming review of the FY 2010-2011 Power and Transmission program levels we will be doing both of those things. Unfortunately, circumstances required that we conduct an expedited process in order for decisions to be made prior to development of BPA's final Supplemental Proposal for FY 2009 Power rates. This expedited process, in the midst of numerous other processes, meant that participants did not have as much time as would be ideal to examine and comment on these program levels. Nonetheless, BPA found this process to be beneficial and appreciates the time, energy and attention participants gave to this effort.

BPA and its partner agencies set spending levels for the FY 2007-2009 power rate period in the 2005-2006 Power Function Review, and are holding costs to those levels through the end of FY 2008. We put great emphasis on managing our costs to the levels we include in rates, and do not deviate from those levels unless there are compelling reasons to do so. After much deliberation and consideration of your input, we have reluctantly concluded that the business and regulatory environment has changed sufficiently that we do not believe we can maintain the FY 2009 programs at the levels proposed in the Power Function Review without seriously jeopardizing the ability of BPA to meet its obligations, including providing reliable and cost-effective power to the region. BPA's proposed program levels reflect the need to invest in an aging Federal hydro system, improve reliability and safety at Columbia Generating Station, and meet increasing environmental and regulatory obligations and safety and security needs, as well as internal infrastructure necessary to support the business.

The program levels included in the attached report represent BPA's decisions after carefully considering the comments received. Partly in response to comments on the draft IPR spending levels, we have identified reductions in internal costs and in conservation that we believe will not reduce the long-term capability of Power programs. These reductions, along with some changes in capital costs unrelated to IPR decisions, will decrease FY 2009 expenses by roughly \$12 million compared to draft IPR levels, and are detailed in the enclosed report. We will continue to look for ways to achieve program results efficiently and effectively.

Thank you very much for your attention and input to the Integrated Program Review for FY 2009 Power costs. We look forward to your continued involvement in the ongoing IPR process on FY 2010 and 2011 Power and Transmission costs. For further information on the IPR or other issues, please contact your customer account executive, constituent account executive, tribal account executive, or me at (503) 230-5111. The final IPR report and additional information on the process is available at <http://www.bpa.gov/corporate/Finance/IBR/IPR/>.

Sincerely,

/s/ David J. Armstrong, 7/23/2008

David J. Armstrong
Executive Vice President and Chief Financial Officer

Enclosure:
Close-out Report