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April 26, 2006

Via Electronic Mail

Steve Wright
Administrator
Bonneville Power Administration
P.O. Box 14428
Portland, OR 97293-4428

Re: Power Function Review II Comments

Dear Mr. Wright:

The Industrial Customers of Northwest Utilities (“ICNU”) submits the following comments in response to the Bonneville Power Administration’s (“BPA”) Draft Closeout Report regarding the Power Function Review (“PFR”) II. ICNU appreciates the efforts BPA has made to reduce its costs; however, ICNU believes that BPA’s costs remain too high and that BPA should take more aggressive cost cutting measures. One significant unnecessary cost that BPA should eliminate is the proposed subsidies to the Direct Service Industries (“DSI”). BPA should not provide the DSIs with future BPA benefits.

ICNU notes that BPA’s proposed cost levels identified in the PFR process are likely to result in historically high BPA power rates if there are no modifications to the initial proposal. As recently as the late 1990s, BPA’s Priority Firm (“PF”) rates were in the low \$20 per megawatt range. BPA’s current rates have significantly increased, due in part to BPA’s increases in internal costs, overgenerous subsidies to the DSIs, very high residential exchange costs, and the impacts of the power market crisis. BPA has had sufficient time to exercise control over its own internal costs and the impacts of the power market crisis of 2000-2001 are no longer present. BPA’s overall rates should return to their historic levels.

In the Draft Closeout Report, BPA asserts that it is committed to making rates as low as possible, while still meeting its objectives. As part of the PFR II process, BPA has proposed a net reduction of \$20 million per year in annual costs for the 2007-2009 rate period, including \$29 million in cost reductions and \$9 million of cost increases. These cost reductions are in addition to the \$96 million in annual cost reductions BPA identified last year through the first phase of the PFR process. ICNU

applauds BPA for making an effort to reduce its costs and utilizing financial liquidity tools to lower its rates.

ICNU, however, does not believe that the final cost levels proposed in the Draft Closeout Report will result in rates that are as low as possible. BPA can achieve additional cost reductions while still carrying out its fundamental mission. For example, the Draft Closeout Report admits that BPA will not meet its goal of reducing internal power operations costs to its actual 2001 levels. While ICNU does not believe that actual 2001 internal costs are an appropriate benchmark because these costs exceeded the amount BPA had planned to spend, ICNU believes that it is noteworthy that BPA will not realize its entire projected internal cost reduction savings during the 2007-2009 rate period.

The Draft Closeout Report asserts that there are few “easy” cost reductions remaining for BPA. One such “easy” cost reduction identified by BPA is the removal of \$6 million per year in costs related to the Calpine Fourmile Hill geothermal power purchase contract that accounts for nearly a third of the net cost reductions in PFR II. Since the project will not be energized until fiscal year 2010, it makes sense to remove these costs. ICNU urges BPA to make more than just the “easy” cost reductions. ICNU encourages BPA to search for other opportunities to reduce costs, including savings related to the operations and management of the Army Corps of Engineers and Bureau of Reclamation, matching the debt life with the life of the investment, reducing fish and wildlife expenditures, accounting for additional savings related to the Enterprise Process Improvement Program, and allowing local public utilities to take over BPA’s responsibilities related to conservation and renewables.

A significant cost that BPA should eliminate is the proposal to provide the DSIs with more than \$60 million in subsidies per year for the 2007-2009 period. Specifically, BPA should reconsider and reject its plan to provide the aluminum company DSIs up to 560 average megawatts (“aMW”) or \$59 million in annual subsidies, plus an additional 17 aMW of annual power at a rate equivalent to the Priority Firm (“PF”) rate to Port Townsend Paper. The net impact of providing the DSIs with these subsidies will reduce the overall cost reductions that BPA has achieved through the entire PFR process by more than half. Essentially, the majority of BPA’s cost savings are not being returned to BPA’s core customers, but are being used to provide a subsidy to uneconomic DSIs and a paper company that directly competes with some of the end use customers of the publicly owned utilities.

Over the past year ICNU has repeatedly urged BPA not to provide any sales or subsidies to the DSIs that would increase BPA’s rates to the publicly owned utilities. This letter will not repeat the many sound legal and public policy rationales for why BPA should not require the customers of publicly owned utilities to pay higher rates so that BPA can simply pass this same money directly over to the DSIs. ICNU’s position remains unchanged: BPA should not offer the aluminum companies \$59 million in annual subsidies or power to Port Townsend Paper at the PF rate.

Administrator Wright

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In the Draft Closeout Report, BPA opines that actual and expected hydro and market conditions have not changed significantly enough to warrant reconsidering its previous decision to provide cash to the aluminum company DSIs. The Draft Closeout Report conspicuously ignores the potential increase in fish related costs. These potential fish costs are the most significant unknown costs that could impact the PF rate and exacerbate the harm to preference customers of providing subsidies to the DSIs. Since BPA does not know the full impact of the potential additional fish costs, BPA should not burden customers that are struggling to remain competitive with higher rates in order to provide cash to the DSIs. The jobs ICNU's members provide to the Region far exceed the remaining DSI related jobs. Even if BPA wishes to provide cash and other subsidies to the DSIs, BPA should postpone its final decision and the signing of any contracts until the fish related costs are known.

Thank you for the opportunity to comment on BPA's PFR Draft Closeout Report.

Sincerely yours,

Melinda J. Davison