



Department of Energy

Bonneville Power Administration
P.O. Box 3621
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FINANCE

April 24, 2009

In reply refer to: F-2

To Customers, Constituents, Tribes and Other Regional Stakeholders:

The Bonneville Power Administration (BPA) is nearing conclusion of the second round of the Integrated Program Review (IPR2) for FY 2010-2011 Power and Transmission Costs which began on March 18, 2009. The purpose of this letter is to provide BPA's draft conclusions about the costs to be included in its FY 2010-2011 power and transmission rate case final proposals, based on comments and discussions in IPR2 meetings to date.

While both Power and Transmission costs are included in the scope of the IPR process, the focus of this IPR2 has been on costs that affect Power rates. This is because recent deterioration in global economic conditions and BPA's current-year financial condition have created the potential for power rates for FY 2010-2011 to be considerably higher than current rates, while the Transmission rate case appears likely to reflect a settlement for zero rate increase for most Transmission rates.

This IPR2 process has gone hand-in-glove with a collaborative power rate case process with all parties working to identify opportunities to reduce the potential power rate increase. The draft program levels identified in the attached report reflect the efforts taken by BPA, Corps of Engineers, Bureau of Reclamation, Energy Northwest, and several tribes to address the current serious economic conditions and the difficulty a large BPA Power rate increase could create in the region.

Thanks to the very focused efforts of all these parties, power cost reductions averaging \$53.5 million per year for 2010-2011 have been identified in the draft report. BPA proposes a 7 percent reduction in its internal operating costs. Energy Northwest proposes significant cuts to fuel cost expense at CGS. BPA, in conjunction with Northwest Tribes, propose \$30 million in reductions to fish and wildlife expenses in FY 2009-2010 reflecting the rate or ramp-up of programs. Finally, the Corps of Engineers and Bureau of Reclamation propose significant reductions to their O&M costs. All of these reductions will contribute in a major way to our effort to keep the size of the Power rate increase as low as possible.

BPA greatly appreciates the efforts of all these parties, who heard the testimony of customer representatives about the importance of holding rates down, and responded with these significant cost reductions. Some of the reductions carry risks that will be discussed at the final IPR2 meeting.

That meeting will be held April 29, at which Administrator Steve Wright will discuss these draft decisions and hear comments. BPA will be taking comments on this draft closeout report through May 1, 2009. Following that, final decisions will be made and a final report will be provided.

Thank you very much for your attention and input to the Integrated Program Review for FY 2010-2011 Power and Transmission costs. For further information on the IPR2 or other issues, please contact your customer account executive, constituent account executive, tribal account executive, or me at (503) 230-5111. Additional information on the process is available at <http://www.bpa.gov/corporate/Finance/IBR/IPR/>.

Sincerely,

/s/ David J. Armstrong

David J. Armstrong
Executive Vice President and Chief Financial Officer

Enclosure
IPR2 FY 2010-2011 Power and Transmission Program Levels Draft Final Report