

July 17, 2008

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Sent via email

Re: Northwest Requirements Utilities Comments on BPA's 2008 Financial Plan

Northwest Requirements Utilities ("NRU") appreciates this opportunity to respond to BPA's 2008 Financial Plan. NRU represents the interests of 53 load following customers on issues related to power supply and transmission service. NRU members account for over 1,900 aMW of load, roughly a quarter of BPA's public power loads. Load following customers rely upon BPA primarily or exclusively for both power supply and transmission services and pay for these services through BPA's power and transmission rates. Such issues as access to capital in the future and maintaining equity between BPA's customer classes are critical to NRU. As a result, the questions raised and proposals made in this Financial Plan are important to our membership and the retail customers they serve. NRU supports the Public Power Council's comments on the Financial Plan.

NRU stands ready to assist BPA as it explores different capital financing structures and tools. We are also prepared to work with the agency as it obtains access to these tools. Examples of past actions we have taken in partnership with BPA include our support for increased borrowing authority for the agency, supporting the direct pay arrangement with the Corps and Bureau, the direct pay arrangement with Energy Northwest and the flexible PF program that is in place to assist BPA with cash flow issues. We offer these examples as ways that we can work with BPA to assist the agency in the future as it looks to such options as increasing borrowing authority.

BPA has stated two capital access objectives:

- Ensure that capital needs are covered on a rolling ten year basis
- Develop strategies and tools that will extend BPA's Treasury borrowing authority over a rolling 20-year period.

While both of these objectives are appropriate, how they are carried out is critically important to maintaining steady, reliable and least cost access to capital over time. For example, BPA raises the possibility of revenue and reserve financing. For obvious reasons related to near term rate impacts, this is the least favored approach to financing long-lived assets from a customer perspective. However, consideration of inter-customer equity is as important here as inter-generational equity. To

the extent revenue financing is pursued to pay for BPA's generation assets, it needs to be included as a specific adder to the overall revenue requirement as opposed to a drawdown from BPA's financial reserves. A financial reserve drawdown suffers from the same infirmity as the recent OMB proposal to devote surplus revenues to the early repayment of debt since it would lead to a cost shift from Slice to non-Slice customers.

BPA's reserves on the power side are largely the reserves of the non-Slice customers. As noted in the Tiered Rates Methodology, Slice customers have not contributed to the accretion of BPA's reserves since 2002. Statements such as "use of reserves for funding capital investments" and "use of reserves to fund targeted program spending" are unacceptable without a corresponding statement that BPA will also increase the Slice rate or true-up to advance fund these capital programs on an equitable basis. Therefore, in the section about good year and bad year planning recognition is needed that this needs to be dealt with equitably between Slice and non-Slice customers.

We encourage BPA's review of the costs and benefits of extending CGS debt to 2024 for debt optimization purposes. We would appreciate early involvement in this review.

The inclusion of the replacement for the Columbia Generating Station in the revenue requirement is an issue that will grow in importance over time. Currently the revenue requirement study assumes that the plant ends operation in 2024 and is replaced by the costs of a new nuclear plant in 2025. It should be noted that this will occur during the term of the new BPA power sales contracts scheduled to be signed in 2008. The most appropriate assumption here *may* be that the license for the plant will be extended to 2044 and that the revenue requirement study should be modeled using this assumption. However, we need to better understand the implications of assuming license extension for the repayment studies and on borrowing authority availability. Any discussion of revenue financing in this context must be cognizant of the Slice Non-Slice cost shift issues discussed above.

With regard to the issue of minimum required net revenues (MRNR) and rate setting, we suggest that the most appropriate way to address this issue is the formation of a small customer-BPA working group to study this issue and bring the results back to the larger groups. NRU staff would be happy to participate in this effort.