

April 3, 2009

Mr. Vic Parrish, CEO
Energy Northwest
P.O. Box 968
Richland, Washington, 99352-0968

Dear Mr. Parrish,

Thank you for the opportunity for Northwest Requirements Utilities (NRU) and Public Power Council (PPC) staff to participate in the Energy Northwest (EN) budget deliberations for FY 2010. During the last year public power representatives have had a number of meaningful chances to participate in meetings and major document reviews regarding the financial performance and planning processes for EN. Based on Geoff Carr's and Kayce Spear's feedback and what we have heard from a number of EN Members, the work session you held on March 23rd and 24th was very constructive. We also appreciate the liaison work you and the staff have undertaken with public power to help ensure we have the best possible information regarding your plans and objectives, financial picture, and business relationship with BPA.

The Importance of Energy Northwest in Determining Rates and Power Supply for BPA Customers

Columbia Generating Station's (CGS) operating costs represent 10% of BPA's power related revenue requirement. When debt service costs are included, Energy Northwest related costs represent nearly 25% of BPA's costs. From another perspective, the increase in costs for CGS from 2009 to the average of FY 2010/2011 leads to about 20 percent of the total BPA revenue requirement increase between these two rate periods. This cost increase is a major factor in BPA's overall rate increase that is now being discussed between BPA and its customers.

CGS holds a very important place in BPA's resource portfolio. For our member utilities the safe, reliable and cost effective operation of CGS is essential over the long term. We also support the relicensing effort that is currently under way because the continued operation of this resource is a critical component of our members' pending Tier 1 Contract High Water Marks. This resource will provide for a carbon free and generally predictable power supply through 2043, which is very valuable in the context of other resources the region may need.

General Observations

Our staff members were pleased to be able to attend the Energy Northwest budget meetings and to be able to provide comments about the budgets at that meeting. A number of observations stood out for us. First, CGS has done a good job of living within the FY 2010 budget set as part of the Long Range plan in the FY 2009 budget process. This is important since BPA develops its revenue requirements

using the EN Long Range Plan (LRP) for CGS. If forecast spending in a given year increases above these LRP dollar amounts, BPA either will need to draw down reserves to cover these costs, will need to trigger a cost recovery adjustment clause, or will need to reopen its rate proceedings. All of these have occurred in the past as BPA has tried to keep up with CGS cost changes. This year CGS will be operating under its LRP budget amounts set in FY 2009 and incorporated in BPA's Initial Proposal for the Power rate proceeding. The second observation is EN's prompt response to the recent and continuing economic decline. EN recognized the severity of this and is now aggressively working to reduce its costs for 2009, 2010 and 2011. This will help to bring down BPA power related rate pressures for that period and is appreciated by the customers.

Use of inflation

CGS uses inflation assumptions that equate to 4.1% for non-labor related expenses and 9.0% for health care related expenses. This is in contrast to BPA's stated inflation rate assumption for FY 2010 of 3.5%. The Federal Congressional Budget Office (CBO) recently released its updated Economic Outlook. <http://www.cbo.gov/doc.cfm?index=10014> There the CBO shows an inflation rate of less than 1% for FY 2010 based on the Gross Domestic Product (GDP) price index. The GDP price index for FY 2009 is 1.5%. The consumer price index for FY 2010 is forecast to be 1.2% and -0.7 percent for 2009. We request that EN take another look at its inflation assumptions for FY 2010 in light of the current economic conditions. Absent other information that would justify a higher inflation level, we would request that EN reduce its inflation assumptions to at least the BPA forecast inflation rate.

Headcount

We had expected to see a reduction in headcount from FY 2009 to FY 2010. Instead the headcount has increased by 30 full time equivalent positions from the original FY 2009 budget to the proposed FY 2010 budget up to 1,076 FTE. This increase in FTE was explained by the need to comply with the new NRC Fatigue Order and the increase in FTE necessary to maintain the control room operator "pipeline". EN staff further explained that they expect to see FTE decline after the R 20 outage. In performing general staff analysis, we are not in a position to second guess the staffing requirements tied to various NRC orders and the like. However, the information from the Wolf Creek benchmarking study will be valuable in this endeavor. We will be interested in seeing the analysis EN performs to determine whether a headcount reduction in the near future is achievable.

The Strategic Communications Plan

The FY 2010 budget requests 3 additional FTE and a total of \$657,000 to develop a Strategic Communications Plan. The stated goal of the Strategic Communications Plan is to "Create broad regional awareness of energy issues and build informed key audience support of Energy Northwest." The cost of the FTE for this plan, development of the plan and its implementation is slated to be borne through Corporate Programs within Administrative and General Expenses. CGS picks up nearly 85% of these costs. Holding aside the merit of the proposal, we question whether these costs should be allocated to CGS because it is difficult to see how these costs are related to the safe, efficient and cost effective operation of the plant. While an objective of the plan is to support "Critical Columbia Needs for Relicensing, Condenser Replacement and Recruitment and Retention" it is difficult to see how the plan itself will confer these particular benefits absent seeing the tasks to be performed. We suggest

that the cost of this Strategic Communications Plan be allocated to the business development fund until a study can be completed to show how much the Plan will assist the safe, reliable and cost effective operation of CGS. Any costs assignable to these benefits could be specifically allocated to CGS.

For what it is worth, the investment of a relatively significant amount of money for this new communications activity seems to stick out somewhat from what otherwise appears to be a careful job of cost examination. Hopefully this approach and the cost will be subject to further discussion.

Again we appreciate the opportunity to comment on Energy Northwest's FY 2010 budget and look forward to our continued participation in these efforts. Hopefully you find these comments constructive. They are offered in the spirit of collaboration and within the context of BPA customers who want to preserve in the long term the resources of BPA's Tier 1 portfolio at the lowest reasonable cost and consistent with prudent utility practice. If you have any questions, please let us know.

Best Regards,



John D. Saven
CEO, Northwest Requirements Utilities



Scott Corwin
Executive Director, Public Power Council

Cc: Energy Northwest Board of Directors
Participants Review Board
Brent Ridge, CGS
Paul Norman, BPA
Andy Rapacz, BPA
NRU Members