

January 12, 2015

Mr. Elliot Mainzer
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

Dear Elliot,

On January 8th representatives of BPA met with the Public Power Council to address issues relating to the future funding of conservation, the BPA capital program, and a potential IPR II process. We appreciated the discussion with Mark Gendron and Nancy Mitman. We believe there is a broad based interest within the public power community to engage with BPA in an Integrated Program Review (IPR) II process. The purpose of the IPR II process would be two fold. First, it would thoroughly examine the options to shift the funding of conservation programs from capital to expense. Second, it would re-examine the revenue requirement for Power to determine if there are opportunities to mitigate what may otherwise be the size of the BP-16 average rate increase.

We understand that BPA has included a \$20 million undistributed reduction in the Power revenue requirement and has generally expressed a disinterest in re-examining the financial issues covered in the initial IPR. Nonetheless, given continued economic hardship in many areas of the Northwest and given the potential of higher rates in the short term associated with expensing conservation, we have an obligation to press further to see if there is an opportunity to forge a rates and capital funding package that BPA and the customers can support. We recognize there is only a brief window of time to undertake an IPR II process. While it will create additional work for everyone, the potential benefits are significant and the opportunity should not be lost.

During the course of the conversation with Mark and Nancy, they posed a number of questions as policy choices regarding the preferred strategy for considering expensing conservation. In order to respond effectively, we will need information on a number of interrelated topics so that our members can make prudent decisions. These topics to be included in an IPR II process or other related processes are listed below.

Components of an IPR II Process and Related Topics to Simultaneously Address

First, we request that the Agency provide an initial projection of the change in average power rates for BP-18 compared to the BP-16 Initial Rates Proposal, expressed as a percent difference. This should include a best estimate, as well as a bandwidth for variance, based on currently known or anticipated conditions.

Second, there are alternatives for shifting conservation funding from capital to expense that public power and BPA can consider. In reviewing the different alternatives, is there a minimum initial percentage conversion and timeframe that BPA would want the customers to support as a

prerequisite for the Agency dropping third party financing of conservation? For example, does 40%-60% over two rate periods work, but 20% over five periods not work?

Third, considering the refinancing of Energy Northwest debt for Columbia Generating Station and WNP #1 and #3, and the current capital program, and assuming no third party financing of conservation, what is the projection of remaining U.S. Treasury borrowing authority assuming 1) a 40% - 60% conversion of conservation to expense during the next two rate periods compared to 2) use of Treasury authority in lieu of expensing conservation.

Fourth, what additional information can BPA provide regarding the \$20 million in undistributed reductions assumed in the revenue requirement for Power Services? Do these represent savings that would be built into future rate periods or one time savings that would otherwise have to be included in the revenue requirement for future periods?

Fifth, notwithstanding the undistributed reduction amount, it appears the agency may be overestimating its personnel-related expenses for the upcoming rate period. Therefore, we encourage BPA to review this issue in IPR II and provide the information the customers need to properly assess it.

Finally, we urge BPA to engage in a further review of the revenue requirement for the Power rates to determine if there are opportunities for newly identified savings and to mitigate the rate impact of beginning to shift conservation from capital to expense. To that end, we request BPA:

- Analyze and respond to any proposals from the public power community intended to reduce the size of the rate increase. We will work with you to help ensure that the requests are manageable.
- Reconsider whether BPA can identify additional savings to mitigate the size of the rate increase.

As part of an IPR II process we believe it would be useful for BPA to restate what the business relationship would be between the BPA customer and the third party financing entity. While BPA published a November 2014 “Fact Sheet” covering third-party financing, we perceive that a number of utilities may not fully understand the changes that would be made to their Energy Conservation Agreements.

We are prepared to meet with you or any other representatives of BPA to discuss this request at your earliest convenience. Please let us know if we can provide any additional information.

Sincerely,



John Saven
Chief Executive Officer
Northwest Requirements
Utilities



Scott Corwin
Executive Director
Public Power Council



John Prescott
President and CEO
PNGC Power