

STATEMENT OF
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BEFORE THE

SUBCOMMITTEE ON WATER AND POWER
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES

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Madam Chairwoman and Members of the Subcommittee, I appreciate the opportunity to testify here today. My name is Steve Wright; I am the Administrator of the Bonneville Power Administration (Bonneville). I am pleased to be here today to discuss the President's Fiscal Year (FY) 2009 Budget as it relates to Bonneville.

In my testimony today, I will share with the Committee Bonneville's significant successes over the past year, how we are addressing the considerable challenges we are facing, and an overview of the FY 2009 budget.

BONNEVILLE'S RECENT SUCCESSES

Bonneville has recovered from the financial effects of the West Coast energy crisis of 2000-2001. For the past five years, Bonneville has maintained its strong and increasingly solid return to financial stability. We have managed costs, lowered rates and rebuilt our financial reserves. Not only has this effort provided greater operational flexibility, but it has put us in a better position to address longer-term challenges. Overall, these gains are helping Bonneville continue its efforts to assure full recovery of its costs and to assure long-term financial stability while meeting its overall responsibilities to the Pacific Northwest and the U.S. taxpayer.

FY 2007 was a successful year for Bonneville despite below average water conditions. Bonneville made its full planned FY 2007 payment of \$1,045 million to the U.S. Treasury, including \$289 million in advanced amortization. This payment marks the

24th year in a row that Bonneville has made its full payment to the U.S. Treasury. These financial results have also enabled Bonneville to hold rates steady in FY 2008.

Bonneville's stability is increasingly important because the Federal Columbia River Power System (FCRPS), with its reliance on hydropower, is a tremendously valuable resource given the growing power loads of Bonneville's customers.

KEY CHALLENGES

I believe a momentous challenge lies ahead for the utility industry in general and for the Northwest specifically, driven by world economic growth and demand in the Western United States for clean, carbon-free resources.

Bonneville is well positioned to meet this challenge. As I mentioned, Bonneville has recovered financially from the earlier West Coast energy crisis. Adjusted for inflation, Bonneville power rates are now in the same range as they were in the late 1980's and 1990's. But keeping rates low will be very difficult.

The electricity market in the Western United States is changing. We are seeing increasing power loads while the supply of resources is constrained. It's likely that resources will face increasing constraints in the future due to emerging climate control issues.

Electricity loads are growing not just in the Northwest but throughout the West. The Northwest competes for new resources with utilities throughout the Western Interconnection, the vast electrical network that encompasses all or parts of 14 Western States, two Canadian provinces and a small part of Mexico. The North American Electric Reliability Corporation (NERC) shows three of four regions in the interconnection short of capacity by Summer 2011.

The resource choices available to Western utilities are being affected by growing regulatory changes. As one example, enacted State legislation is requiring Renewable Portfolio Standards that require utilities to use new renewable resources for specific portions of their power supply. This is significantly changing the power market and will continue to impact the availability of resources.

Growing loads and carbon-reduction mandates will lead to supply challenges as demand continues to increase. These challenges will have cost consequences putting added pressure on rates. The addition of substantial generating resources that operate intermittently and without the ability to control its generation pattern will also create substantial challenges for reliability.

LOOKING TO THE FUTURE

Bonneville is focusing on five key areas to address these changes in the Western electric market and the resulting concerns about rates and system reliability. These longer-term efforts include:

- 1) Long term contracts that create greater certainty for Bonneville's customers.
- 2) Defining a 10 year plan that addresses the needs of Endangered Species Act (ESA)-listed fish in the Columbia Basin.
- 3) Increasing our focus on Energy Efficiency.
- 4) Defining and implementing solutions for integrating wind resources.
- 5) Building more transmission.

Defining Bonneville's long-term power role is extremely important to the ongoing health of the Pacific Northwest economy and the ability of the region's utilities to provide adequate power. Bonneville's Regional Dialogue policy, which grew out of discussions with the region's utilities and other stakeholders over the past five years, defines Bonneville's electrical power supply role in the Pacific Northwest after 2011, when its current power sales contracts expire. The policy will be implemented through new, long-term contracts that will give Northwest parties the certainty they need about their responsibilities for meeting load growth beyond 2011. Getting these contracts in place will require tremendous effort and cooperation. In customer workshops this past year, Bonneville made great progress in product and rate design. This year, Bonneville will conduct the formal rate processes and offer the actual contracts.

A key challenge for our hydro system is how we address salmon restoration. Federal agencies have developed a plan, which the National Oceanic and Atmospheric Administration (NOAA) is now reviewing. NOAA's final Biological Opinion is due to be submitted by May 5th to the U.S. District Court in Oregon, which will rule on the adequacy of the proposed federal actions. The plan adopts the court's guidance not to just avoid extinction but to build toward recovery. The federal plan proposes an aggressive set of actions that also recognize the value of the hydro system as a non CO2-emitting generating resource that has tremendous value for integrating renewable resources.

Energy efficiency helps meet increasing resource needs cost effectively without increasing carbon emissions. Bonneville has already added over 1,000 average megawatts (aMW) of energy efficiency to the region's power portfolio since the Northwest Power Act passed in 1980. As the prices for generating resources increase, it creates more energy efficiency that becomes cost effective.

In partnership with our customers, energy efficiency can contribute significantly to meeting load growth at reasonable cost. In addition, demand-side management also can help control or reduce the variability of loads, thereby helping with the capacity problem associated with new developing intermittent resources.

There is a very large amount of wind power coming into the Northwest system. We just passed 1,400 megawatts of installed wind capacity in Bonneville's control area this past January; we had 125 MW on line just three years ago.

Wind is a very valuable energy resource but it requires back-up generation for when the wind is not available. The Northwest Wind Integration Action Plan, sponsored by Bonneville and the Northwest Power Planning Council last year, found that it is technically feasible to integrate 6,000 MW of wind in the Northwest. Substantial progress is being made to implement the Action Plan recommendations.

Bonneville has been building a good amount of transmission over the past few years, primarily for reliability, but more will be needed. In accordance with transmission open access principles, Bonneville is committed to working with its customers to meet their needs for transmission services. We are now looking at the next big projects. These will be challenging projects but they will help provide the backbone to support generation throughout the Northwest. Bonneville has engaged the region over the past year to develop a viable model to increase commercial access to transmission as well as assess the value and costs of proposed new transmission infrastructure. The outcome of these discussions, Bonneville's proposed "Network Open Season," is being discussed nationally as a concept that may address transmission request backlogs that have been challenging for the industry since the beginning of open access transmission in the 1990s.

Bonneville is also working to revamp the Residential Exchange Program in response to court rulings of May 2007. Last fall, Bonneville facilitated discussions among publicly owned and investor-owned utilities that led to their conceptual agreement on a proposed approach to the residential exchange program. Bonneville is now proceeding with the

formal processes to reach a conclusion that both clearly follows the law and is right for the region. Resolution of this issue is a critical component to achieving long-term contractual certainty for all of Bonneville's regional customers.

FY 2009 BUDGET OVERVIEW

The President's FY 2009 budget is a business based budget that strongly supports both Department of Energy Strategic Theme 1: Energy Security; Promoting America's energy security through reliable clean and affordable energy, and Strategic Goal 1.3 Energy Infrastructure: Creating a more flexible, more reliable and higher capacity U.S. energy infrastructure.

This budget does not contain the proposal for use of net secondary revenues to pre-pay a portion of bond debt to U.S. Treasury when revenues exceed \$500 million. Consistent with last year's budget there is no proposal on scoring of third-party financing for infrastructure investments against Treasury borrowing authority.

A new table in the Bonneville budget provides increased transparency regarding potential Bonneville third-party financing activity which is estimated at about \$1 billion during the FY 2007 through FY 2013 period. With full utilization of such estimated third-party financing, existing borrowing authority can be preserved and potentially not run out at least through FY 2015.

The President's FY 2009 budget proposes Bonneville accrued expenditures of \$2,866 million for operating expenses, \$125 million for Projects Funded in Advance, and \$560 million for capital investments.

Bonneville's commitment to fish and wildlife mitigation and enhancement is exemplified in its substantial direct program budget of \$179 million, capital and expense.

Bonneville's Full Time Equivalent (FTE) staffing projection included in this budget is 3,000 for FY 2009. Bonneville's cost management initiatives have brought FTE levels down from prior levels, which had increased as we ramped up our infrastructure expansion program.

The following table provides budget data based on current services for FYs 2007 through 2009^{1/}:

(accrued expenditures in thousands of dollars)

	Fiscal Year				
	2007 (Audited Actuals)	2008 Original ^{2/}	2008 Adjustments	2008 Revised ^{2/}	2009 Proposed
Capital Investment Obligations					
Associated Project Costs ^{3/}	108,351	N/A	-	158,675	137,330
Fish & Wildlife	35,186	N/A	-	36,000	36,000
Conservation & Energy Efficiency ^{3/}	6,955	N/A	-	42,000	42,000
Subtotal, Power Services ^{4/}	150,492	N/A	-	236,675	215,330
Transmission Services	140,965			242,370	293,533
Capital Equipment & Bond Premium	20,610	N/A	-	31,017	51,123
Total, Capital Obligations ^{3/ 5/}	312,067	538,480	-	510,062	559,986
Expensed and Other Obligations					
Expensed	2,349,791	2,464,963	-	2,718,980	2,865,884
Projects Funded in Advance	107,269	94,989	-	71,775	125,318
Total, Obligations	2,769,127	3,098,432		3,300,817	3,551,188
Capital Transfers (cash) ^{5/}	623,400	877,573	-	408,264	275,723
BPA Total	3,392,527	3,976,005	-	3,709,081	3,826,911

The accompanying notes are an integral part of this table.

¹ This budget has been prepared in accordance with the Budget Enforcement Act (BEA) of 1990. Under this Act all Bonneville budget estimates are treated as mandatory and are not subject to the discretionary caps included in the BEA. These estimates support activities which are legally separate from discretionary activities and accounts. Thus, any changes to Bonneville estimates cannot be used to affect any other budget categories

which have their own legal dollar caps. Because Bonneville operates within existing legislative authority, Bonneville is not subject to a Budget Enforcement "pay-as-you-go" test regarding its revision of current-law funding estimates.

² Original estimates reflect Bonneville's FY 2008 Congressional Budget Submission.

Revised estimates, consistent with Bonneville's annual near-term funding review process, provide notification to the Administration and Congress of updated capital and expense funding levels for FY 2008.

³ Includes infrastructure investments designed to address the long-term needs of the Northwest and to reflect significant changes affecting Bonneville's power and transmission markets.

⁴ Power Services includes Fish & Wildlife, Residential Exchange, Planning Council, Conservation & Energy Efficiency and Associated Project Costs which have been shown separately for display purposes.

⁵ This FY 2009 budget includes capital and expense estimates for Power Services based on forecasted FY 2007 Final Power Rate Proposal and associated outyear estimates for FYs 2010-2013. The Transmission Services capital and expense estimates are based on forecasted Transmission 2008 Rate Case estimates and associated outyear estimates for FYs 2010-2013.

Capital funding levels also reflect Bonneville's Capital Planning Review Process and external factors such as the significant changes affecting West Coast power and transmission markets, along with planned infrastructure investments designed to address the long-term needs of the region. Capital investment levels in this FY 2009 budget

have been updated to reflect executive management decisions from Bonneville's Capital Allocation Board.

The cumulative amount of actual advance amortization payments as of the end of FY 2007 is \$2,091 million.

Refer to 16 USC Chapters 12B, 12G, 12H, and Bonneville's other organic laws, including P.L. 100-371, Title III, Sec. 300, 102 Stat. 869, July 18, 1988 regarding Bonneville's ability to obligate funds.

CONCLUSION

In conclusion, I would reiterate that through the past year, Bonneville has maintained its strong and increasingly solid return to financial stability. Looking ahead, Bonneville will continue its efforts to assure the necessary investments in infrastructure are made to meet customer needs and to help assure a growing economy. Bonneville has tremendous challenges ahead but is well positioned as it moves forward.

Thank you. I would be pleased to answer any questions that you may have.