



Committed to Northwest Values

NOVEMBER 6, 2012

TO BPA CUSTOMERS, TRIBES, CONSTITUENTS AND INTERESTED PARTIES:

A heartfelt thank you to all who have participated in what has been a very productive nine months of strategic program discussions.

In response to your request for an early conversation on expectations and strategies, we began in January with a public meeting to have a discussion before the Integrated Program Review (IPR). This discussion was high level and strategic, and included a review of difficult economic conditions persisting in the region, an overview of programs, future costs and rates. It gave BPA an opportunity to gain a regional perspective before the process began. The focus of this early discussion was not on the “numbers” but on the drivers leading up to this fall’s initial rate proposal.

I personally appreciated our meeting that day and your willingness to provide insights to your challenges and to engage in constructive discussions on BPA’s cost challenges. I heard very clearly that for many, the economic recovery is occurring very slowly, if at all.

March and April saw the Capital Investment Review (CIR), a process designed to provide an opportunity for all interested parties in the region to review and comment on BPA’s long-term capital forecasts and draft asset strategies.

The 2012 IPR kicked off in June with participation by a broad range of regional parties and is now culminating with this close out report. It has been an extensive, productive and, according to the comments submitted, a well-received effort. Almost everyone commented positively on the new format – thorough initial publications for both the CIR and the IPR followed by discussions on subjects chosen by the participants.

It is gratifying that we are evolving a process that most participants agree provides useful information in a timely and transparent manner. We will continue to learn from the current year’s process and make enhancements in future IPR processes.

When we entered the IPR, we realized that there were key drivers that created exposure to substantial rate increases in both power and transmission. At the time, we forecast that Power rates could increase between 12 and 21 percent for the next rate period and that Transmission rates could increase by 12 to 13 percent in that same period.

For Power Services our biggest challenge by far is the likely reduced revenues from surplus power sales. This is driven primarily by the availability of low cost natural gas, the fuel that tends to drive wholesale electricity prices in the western electricity markets. Revenue from BPA's surplus power sales are used as a credit to keep our rates to our Northwest firm power customers lower and reduced revenues results in increasing rates to our firm power customers. We also are experiencing increases in the costs of the hydropower and nuclear generating resources in order to protect long-term asset value as well as the costs of our fish and wildlife mitigation program due to implementing prior year long-term agreements.

As a result of this process and although significant uncertainty about the future remains, we believe the Power increase can be held slightly below 10 percent in our Initial Rate Proposal.

This has been made possible because Power Services with support from our partners has identified nearly \$135 million in annual average cost reductions compared to the Initial IPR forecast for FY 2014 and 2015. The reductions reflect Corps of Engineers and Bureau of Reclamation lowering their operating cost forecast by \$15 million annually and Columbia Generating Station (CGS) reflecting savings from the Depleted Uranium Enrichment Program and reduced contributions to the CGS Decommissioning Fund. Recently, the Energy Northwest Board agreed to extend CGS debt due in 2014 and 2015 and reduce the annual contributions to the CGS Decommissioning Fund due to the Nuclear Regulatory Commission decision to extend the license for the plant for another 20 years. This allows fixed costs for the plant to appropriately be spread over a longer period of time. The combination of these two reductions will reduce BPA's expenses by approximately \$95 million per year from what they would have been absent the debt extension.

Transmission rates have not increased in 8 years. The projected transmission rate increase remains at roughly the same level as the beginning of the IPR process, which is below the 17 percent we forecast when the current rates were settled two years ago. We have put in place some cost decreases but those have been offset by cost increases particularly in the area of compliance.

While the 2012 IPR may be over, our efforts to assure the agency's financial success and reduce costs prior to the initial rate proposal in November continue. Access to capital remains a significant concern. At this point, as we develop our initial rate proposal, we are including \$15 million a year in Transmission reserve financing, and we are not assuming that we will use any alternative funding tools other than lease financing. However, this may change by the final proposal.

We will know the results of the Power Prepayment Program requests for offers in early December. Depending on the results, we may need to revisit proposed investment levels and alternative funding tools prior to developing the BP-14 final proposal.

We also will continue to involve all interested parties as we develop and begin implementing a program to prioritize capital investments across the agency.

As FY 2013 financial results unfold, BPA will remain open to revisiting spending levels in an "IPR-2" process, if necessary to maintain BPA's long-term goals.

The attached close out report presents the capital and expense levels that will lead to the initial rate proposal for the 2014 and 2015 fiscal years.

We firmly believe that these collaborative processes produce better outcomes than any one organization can produce by itself. Thank you once again for your engaged participation.

Sincerely,

/s/ Stephen J. Wright

Stephen J. Wright
Administrator and Chief Executive Officer