



Department of Energy

Bonneville Power Administration
P.O. Box 3621
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January 10, 2013

In reply refer to: F-2

To: Customers, Constituents, Tribes and Other Stakeholders:

I offer a sincere thank you to all who have joined us in developing an Access to Capital Strategy for the agency. The task is not simple, but the goal is important – to develop a comprehensive strategy that will provide BPA with reliable access to cost-effective sources of capital over a rolling 10-year period.

The Federal Columbia River Power System's (FCRPS) capital requirements have been growing with the need to replace and modernize aging infrastructure, add capacity to integrate renewable resources and fulfill regional commitments for energy efficiency and fish and wildlife restoration. Traditionally, BPA has relied on its authority to borrow from the U.S. Treasury to finance FCRPS investments, but this source of capital is capped by law and, without further actions, may be depleted as early as 2017. Most agree that BPA must develop other funding sources if investment in the power and transmission systems is to meet future needs.

As we developed the strategy, we identified and discussed various alternative sources of capital. Each alternative source has its limitations and uncertainties. Most alternatives to Treasury borrowing have higher financing costs and a long-term impact on rates. The challenge for BPA is to manage its investment costs and develop a financing strategy to ensure that capital will be sufficient and economical.

In its simplest form, our strategy assumes a minimal amount of transmission reserve financing, 50 percent transmission lease financing, a Power Prepay Program, third-party conservation financing beginning in FY 2015, the use of anticipated accumulation of cash for power projects when it is available and implementation of a cross agency capital prioritization process.

To develop the strategy, we held an access to capital workshop in July 2012 and then published a draft Access to Capital Strategy in September that took into account what we heard over the past year. We invited comments from all stakeholders and received responses from eight different entities.

In general, the comments were either neutral or showed support for the approach outlined in the draft strategy. Some comments have resulted in changes to or clarification of elements in the

draft strategy. Yet other comments suggested kinds of communication or analysis a party would like to see in the future.

In responding to comments, we either have addressed them specifically or provided a response that covers all similar comments. We have attached a copy of the final Access to Capital Strategy for your convenience.

We received one question I would like to address here. Western Public Agencies Group (WPAG) suggested in its comments on this topic and in its comments about the Integrated Program Review that BPA appoint preference customers to the Capital Allocation Board (CAB). The CAB functions as a decision body rather than an advisory body, with BPA executives explicitly defined as voting members and exercising decision authority delegated from the Administrator. WPAG suggested that the public customer representatives be chosen by the preference customers. The purpose of such representation would be to give BPA management the preference customer perspective on ranking capital projects and to allow preference customers an opportunity to build knowledgeable staff to address capital allocation issues.

BPA has previously decided against adopting approaches involving appointment of stakeholder representatives to internal business management committees. BPA based that decision in part on expected challenges in reaching stakeholder agreement on the size and composition of such a group. WPAG now narrows the scope of its idea to representatives of preference customers only, arguing that preference customers “ultimately pay” for the capital projects under consideration. BPA believes that this approach invites new conflict among stakeholders who would not be represented while failing to address the challenges of reaching agreement among preference customers on the size and composition of the representative group.

More importantly, BPA decided against previous approaches involving stakeholder representatives because BPA is ultimately responsible for its cost decisions and the Administrator cannot delegate authority over BPA decisions to a nongovernmental party. If BPA were to redefine the CAB to operate in an advisory capacity and include nongovernmental members, BPA could then face untenable administrative burdens under the Federal Advisory Committee Act.

When BPA developed the Integrated Program Review and the Quarterly Business Review processes with input from stakeholders, we developed several quarterly and periodic reports to describe future and in-progress capital projects. We developed detailed asset strategies designed to set the course for the ensuing 10 years and update those strategies every two years. We have also launched a capital prioritization process after conducting a workshop and receiving significant input from stakeholders. We have taken an approach to sharing information broadly with all interested parties, including preference customers. In the 2012 cost review, we created the Capital Investment Review to provide the long-term perspective on BPA’s asset strategies accompanied by long-term spending forecasts. BPA provides considerable opportunity to offer the perspective suggested by WPAG and has the benefit of allowing all stakeholders to

participate. BPA understands and supports WPAG's goal of increasing the preference customer knowledge base regarding capital spending, and I am renewing our offer to provide training on the techniques BPA uses to develop and analyze businesses cases supporting capital projects.

It is because of extensive involvement in this access to capital effort that we are clear on which actions we want to pursue and can focus our efforts on those with the highest likelihood of success in assuring we have access to capital at low cost.

Thank you again for your active engagement over the past year on this very important endeavor.

Sincerely,

A handwritten signature in cursive script that reads "Claudia R. Andrews". The signature is written in black ink and is positioned above the printed name and title.

Claudia R Andrews,
Executive Vice President and Chief Financial Officer