

Customers weigh in on BPA costs

Remember the impact you have on the region's citizens, particularly in these tough economic times and particularly on those who are struggling to make ends meet.

That was the message BPA's customer general managers and trade group representatives delivered at the final meeting of the Integrated Program Review July 13. They also strongly urged that each BPA employee hear their message and asked that each work group examine how it could reduce costs and save money.

The approximately 60 attendees read the draft close-out [report](#) and then made their comments in person or by phone. The near unanimous response was that they want the agency to make further cost reductions to lower the anticipated rate increase for Power and Transmission customers in the 2012-2013 fiscal years. Many said that they don't have the expertise to know where BPA could make cost reductions but urged the agency to set priorities based on the overall level of the rate impact given the state of the regional economy.

BPA provided information at the meeting that described cost reductions and debt restructuring modifications to the initial proposal in the integrated program review process. To cover the cost categories addressed in the process so far, BPA would need an approximately 7 percent rate increase in 2012 for its power business. That does not, however, include what will be needed to address the significant reduction in financial reserves stemming from below average water conditions in 2009 and 2010 that reduced the output of the federal hydro system. Customers expressed great concern about the potential for a double-digit percentage rate increase.

The message about the need to limit rate increases was reinforced by passionate portrayals of the conditions utilities and their customers are experiencing. Utility manager after manager described the economic challenges their communities face. Some locales are seeing unemployment levels over 13 percent; utility disconnects are accelerating and businesses are closing. Local utilities lose revenue when customers don't or can't pay their bills, yet those utilities still must not only cover their fixed costs but also pay BPA for energy purchases. In response, many utilities are cutting staffs, cutting salaries and/or reducing maintenance and capital budgets.

In a bit of black humor, one general manager asked another if he could put in an offer on a 1987 bucket truck the PUD planned to retire this year after keeping the truck in service well past its expected life. This exchange illustrates the pain that many local utilities are experiencing as their loads drop and revenues decline. Many customers challenged BPA to adopt an ethic of cost restraint reflecting the difficult economic circumstances throughout the region.



In his opening remarks and during the comment period, Administrator Steve Wright explained that the agency is aiming to balance the short-term economic hardship with the long-term need to ensure BPA can cover its costs and also sustain the value that the aging hydro system, nuclear plant and transmission assets provide to the region for the long-term.

He outlined some programs that he thought were necessary but said that the agency would be willing to “suspend” until conditions improve. The costs of a suspended program would not be included in rates, but BPA would retain the ability to restore the spending if BPA’s revenues and the region’s economic circumstances improve. Wright noted that the major drivers of agency cost increases are low water, which reduced both secondary sales and net interest; needed investments in hydro and nuclear generation and increased environmental costs. The power business is expected to lose approximately \$600 million over the 2009-2010 fiscal years, and that has reduced

BPA’s reserves. The loss of reserves must be addressed if the agency is to stay financially healthy in the future.

While promising to be vigilant about increases in BPA’s costs, Wright urged the customers in turn to consider the impact of short-term cuts that could harm the long-term value of the generation and transmission system. He emphasized that BPA and its employees are the stewards of this valuable system on the region’s behalf and want to implement programs that preserve and enhance the value of the system for the long-term benefit of the region.

-Reported by Ian Templeton July 22, 2010

