

STATEMENT OF STEPHEN J. WRIGHT
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BEFORE THE
HOUSE COMMITTEE ON RESOURCES
SUBCOMMITTEE ON WATER AND POWER

ON
FY 2005 BUDGET FOR POWER MARKETING ADMINISTRATIONS

February 25, 2004

Testimony of Stephen J. Wright
Subcommittee Hearing on Bonneville's FY 2005 Budget
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Mr. Chairman and Members of the Subcommittee, I am Steve Wright, Administrator of the Bonneville Power Administration (Bonneville). It is a pleasure to appear before you today to present Bonneville's FY 2005 Budget and to discuss the actions our agency is undertaking to maintain a strong financial stewardship of the Federal power and transmission assets in the Pacific Northwest.

In my testimony today, I will first share with the Committee Bonneville's current financial condition and its position for the future. I will then discuss how Bonneville is linked to the Department's long-term strategic plan and its associated strategic goal related to energy security.

BONNEVILLE'S CURRENT FINANCIAL POSITION

The Federal Columbia River Power System is the core of the Pacific Northwest's power and transmission system, a system whose value has been defined by low rates, high reliability, environmental consideration, and responsiveness to citizens' desires.

The turn of the century brought some challenging years to Bonneville, as it did to the utility industry in general and the West Coast in particular. I am pleased to say we are meeting these challenges and looking to a stronger financial future. Our highest priority has been to restore our financial health after the devastating impacts of the 2000/2001 West Coast energy crisis and the Pacific Northwest drought. We improved our financial condition in FY 2003 despite a water year that was only 80 percent of normal, ending with stronger net revenues and reserves than the previous two years. This was our third straight year of below average water. Aggressive cost reductions, debt optimization efforts, cost recovery rate adjustments, and improved market conditions have all contributed to helping stabilize Bonneville's finances. These actions have recently been recognized by objective observers when Standard and Poors removed Bonneville from negative outlook.

When Bonneville set wholesale power rates for the FY 2002-2006 rate period, our customers wanted base rates to be as low as possible. To meet this need and help support economic recovery in the Northwest, Bonneville incorporated a series of cost recovery adjustment clauses (CRACs) into its rates structure to provide flexibility to make adjustments as needed to meet any financial shortfalls that might develop over the rate period. Since our initial rates were set, Bonneville has triggered each of the Cost Recovery Adjustment Clauses. On balance for FY 2004, these adjustments will result in an overall rate decrease of about one percent below FY 2003 rates. With implementation of these rate adjustments and our cost management efforts, Bonneville now has an 80

percent probability of making its U.S. Treasury payments for the remainder of the rate period. Bonneville is committed to making its debt payments to the U.S. Treasury.

Bonneville will continue its efforts toward long-term financial stability and its commitment to meeting its overall responsibilities to the Pacific Northwest including keeping rates as low as possible. Bonneville is well positioned as it looks forward to the post-2006 rate period.

LOOKING TOWARD THE FUTURE

Investment in electricity infrastructure - transmission, generation and energy efficiency - is critical to ensuring long-term generation availability and system reliability, both of which are important to the Pacific Northwest economy. Bonneville's FY 2005 budget includes transmission projects to reinforce the grid, integrate new generation, and remove system constraints. Identification and prioritization of these projects have been developed with stakeholder input and review to help ensure the best mix of projects to meet targeted goals. Additionally, Federal hydro generation efficiencies and additions, and conservation efforts are included. Bonneville remains committed to continued funding of its share of the region's fish and wildlife mitigation responsibilities through implementation of cost-effective programs with measurable objectives.

Together these projects will help Bonneville to meet its goals as a low-cost reliable power and transmission provider while assuring regional responsiveness, full cost recovery, and environmental stewardship.

FY 2005 BUDGET HIGHLIGHTS

Bonneville's FY 2005 budget reflects Bonneville's business-line basis for utility enterprise activities. Bonneville's major areas of activity on a consolidated budget and accounting basis include Power and Transmission with administrative costs included. The Power Business Line includes line items for Fish and Wildlife, Conservation and Energy Efficiency, Residential Exchange, Associated Projects O&M Costs and Council.

	FY 2003	FY 2004	FY 2005
CAPITAL INVESTMENTS			
Power Business Line	135,591	177,400	188,000
Transmission Business Line	318,619	386,000	268,600
Capital Equipment & Bond Premium	19,156	34,200	30,300
Total Capital Investments	473,366	597,600	486,900
Accrued expenditures will require budget obligations of	473,366	597,600	486,900
Operating Expenses	2,859,568	3,080,439	3,149,561
Projects Funded in Advance	11,212	27,600	89,800
Total Obligations	3,344,146	3,705,639	3,726,261
CAPITAL TRANSFERS (cash)	543,687	246,508	303,098
BONNEVILLE NET OUTLAYS	-462,000	-30,000	-10,000
BONNEVILLE STAFFING (FTE)	3,153	3,205	3,166

Notes:

These budget estimates are subject to continual change due to changing economic and institutional conditions in the electric utility industry in the Pacific Northwest. FY 2003 data reflects audited actuals.

Net Outlay estimates are based on forecasted market conditions; current cost savings to date, and anticipated use of rate adjustment and financial management tools. Net Outlays will change throughout the rate period as Bonneville experiences actual market and hydro conditions and responds with management actions.

LINK TO DEPARTMENT OF ENERGY’S STRATEGIC ENERGY PLAN

Consistent with this Administration’s National Energy Policy, the Department of Energy has developed a long-term strategic plan that includes an energy security related goal that is supported by Bonneville. This goal - that “Customers receive the benefits of Federal power that produce sufficient revenues to repay the American taxpayer’s investments allocated to power” - is supported by Bonneville in numerous ways, including Bonneville’s ongoing commitment to manage costs and set rates so that ratepayers repay the Federal infrastructure investments. I am pleased to report that Bonneville’s FY 2003 payment to the U.S. Treasury of over \$1 billion marks the twentieth year in a row that

Bonneville has made its payment in full and on time. In addition, Bonneville's power and transmission infrastructure program is a key program component that helps ensure sufficient resources to meet needs and with full cost recovery through revenues.

Bonneville is currently re-examining its overall business strategy as part of its annual planning process in support of the Department of Energy's long-term strategic outlook. As part of this process, Bonneville will examine industry benchmarking techniques and development of associated efficiency measures to enhance our ability to improve performance and achieve targeted goals.

CONCLUSION

In closing, I would reiterate our continuing commitment to a financially healthy organization and our ongoing stewardship of the federal power and transmission assets in the Pacific Northwest while seeking to keep our rates as low as possible. We will continue our efforts in support of infrastructure development including transmission, generation and energy efficiency, as well as our commitment to repay our obligations to the U.S. Treasury. Bonneville's FY 2005 budget reflects our efforts to achieve these goals.

Mr. Chairman, this concludes my testimony. I would be pleased to address any questions the Committee may have.