



# OFFICES OF THE GOVERNORS

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March 22, 2006

Joshua B. Bolten, Director  
Office of Management and Budget  
725 17<sup>th</sup> Street Northwest  
Washington, D.C. 20503

Dear Director Bolten:

We write to express our opposition to the proposal in your Fiscal Year 2007 budget request to use a portion of net secondary electricity sales revenues of the Bonneville Power Administration (Bonneville) to accelerate the early repayment of Bonneville's federal bond debt. We believe this proposal, like attempts by previous administrations, will undermine one of the most successful federal-state partnerships for regional economic development and hurt the citizens and businesses of our states while providing little benefit to the federal deficit. We ask that you remove the proposal from the budget request in light of our specific concerns:

First, such a significant change in federal policy should not be attempted without Congressional action. The states have worked closely with Congress and the Administration to develop a workable policy for Bonneville and we see this recent proposal as an impediment to that partnership.

Second, the proposal would undermine months of collaborative effort among Bonneville customers, citizen groups, our offices, and others to define Bonneville's future role in power supply. This effort is nearly completed, and the agreement among the many parties is that Bonneville and its customers should share the risks *and benefits* of fluctuating water conditions and surplus electricity sales. The proposal in your budget could upset the carefully crafted compromise that is emerging.

Third, according to an analysis by the Northwest Power and Conservation Council (Council), the proposal would force Bonneville to raise its electricity rates about 7 percent beginning in 2008. This is a significant rate increase that the Council estimates would cause personal income in the Northwest to decline by \$109 million per year and also eliminate 1,120 jobs.

Fourth, while a stated purpose of the proposal is to accelerate Bonneville's debt repayment, we remind you that Bonneville already makes advance payments on its debt. In the last five years alone, these advance payments totaled more than \$1.46 billion. Only as long as these advance payments remain voluntary can Bonneville protect the financial integrity of the agency while paying down its federal debt.

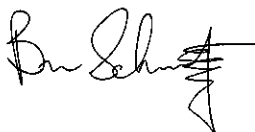
Fifth, the Administration's proposal could increase risk to the Treasury. With healthy net secondary revenues, Bonneville should have sufficient reserves to meet its obligations. But by forcing higher debt payments, the Administration could cause Bonneville's reserves to decline, thus making it more difficult to make Treasury payments during periods with poor water conditions or low electricity prices, or both. The Administration's proposal would increase the risk that Bonneville would not be able to make its annual payment to the Treasury in full.

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Finally, we want to be clear that we view the current proposal as an attempt to alter Bonneville's established practices without our consent and without the consent of Congress. In 2005, we objected to Administration proposals to force Bonneville to sell electricity at average wholesale market rates, a proposal that would have forced a 65 percent rate hike and cost the region's ratepayers more than \$1 billion, and would have limited Bonneville's access to third-party debt for needed investments such as transmission system improvements.

We urge you to withdraw the current proposal and look forward to working closely with the Administration and Congress to make equitable decisions about our energy future. Additionally, we would request that you include the Pacific Northwest Governors and other pertinent stakeholders in conversations pertaining to any change in the Bonneville federal debt policy.

Sincerely,



Brian Schweitzer  
Governor of Montana



Theodore R. Kulongoski  
Governor of Oregon



Christine O. Gregoire  
Governor of Washington

cc: Secretary Samuel W. Bodman, U.S. Department of Energy  
Montana Congressional Delegation  
Oregon Congressional Delegation  
Washington Congressional Delegation