STATEMENT OF

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Madam Chairman and Members of the Subcommittee, I appreciate the opportunity to testify here today. My name is Steve Wright; I am the Administrator of the Bonneville Power Administration (Bonneville). I am pleased to be here today to discuss the President's Fiscal Year (FY) 2011 Budget as it relates to Bonneville.

In my testimony today, I will share with the Committee Bonneville's significant successes over the past year, how we are addressing the considerable challenges we are facing, and an overview of the FY 2011 budget.

BONNEVILLE'S RECENT SUCCESSES

FY 2009 was a successful, yet challenging year for Bonneville. Like almost every institution and business in the Nation, Bonneville did not escape economic hardships. The economic environment, combined with a below average water year, contributed to a significant drop in our revenues compared to previous years. Despite these challenges, Bonneville has retained its fundamental financial strength and stability. The same financial discipline and management principles that enabled us to recover from the West Coast Energy Crisis of 2000-2001 are ensuring that we can manage the current environment, while continuing to make substantial investments in the region's transmission, generation, energy efficiency, and fish and wildlife restoration efforts.

In FY 2009, Bonneville made its full planned payment of $845 million to the U.S. Treasury, including $234 million in advanced amortization. This payment marks the 26th year in a row that Bonneville has made its full payment to the Treasury on time. In addition, we were able to hold Transmission rates steady and reduce the expected increase in Power rates in FY 2010. Bonneville's sound financial position was rewarded with an upgrade in the ratings for bonds backed by the agency, which will enable us to serve the region in a more cost-effective manner.

This past summer, Bonneville began construction on the first project funded under the 2008 Columbia Basin Fish Accords and is well underway in implementing the full suite of restoration measures of the 10-year Accords. These Accords, and the resulting projects, represent a commitment by tribes, states, and Bonneville to work collaboratively towards achieving specific biological objectives and meeting salmon recovery requirements.

FY 2009 also saw wind power come of age in the Pacific Northwest. A total of 2,780 megawatts of wind capacity is currently integrated into Bonneville's system, an amount expected to double by 2012. Major transmission infrastructure projects accompany this expansion, including the West of McNary Group I Project (also know as McNary-John Day) which was the first of Bonneville's American Recovery and Reinvestment Act (ARRA) projects to break ground.

Bonneville captured more than 72 average megawatts of energy efficiency in FY 2009, easily exceeding its portion of the Northwest Power and Conservation Council's conservation target. The energy efficiency team was recognized as a leader in the field with multiple awards including two Energy Management Awards from the Department of Energy.

KEY CHALLENGES

I believe this is a time of great challenge and opportunity for Bonneville and the energy industry in the Northwest, driven by tough economic conditions and the increasing demand in the Western United States for clean, carbon-free electricity.

As mentioned before, Bonneville currently has over 2,700 MW of wind projects interconnected to our transmission system, and thousands of additional megawatts are lined up to take service over the next few years. It is thrilling to lead the Nation on this important topic of wind integration. But it is also a little unnerving because, as the largest transmission provider in the region, we are accountable for maintaining the reliability of the system. In response, Bonneville is building more transmission lines, which will allow more wind power to be integrated into the system.

Bringing wind, a variable energy resource, into the power grid in large amounts is one of the great engineering and economic challenges of our time. The nature of wind generation is, of course, that it increases and decreases, sometimes rapidly, depending on the weather. On our system, that can mean swings of more than 1,000 megawatts in less than an hour. These sudden ramps are creating challenges for us in terms of reliability. The need to perfectly balance generation and load in real time demands a great deal of flexibility in the system and this flexibility is being strained by variable energy resources.

Thanks to a great deal of effort within our agency and within the wind community, Bonneville is maintaining a remarkable pace of connecting wind power onto our transmission system. Much of that generation is delivered to neighboring transmission systems for use outside of Bonneville's service area.

Keeping power rates low while simultaneously setting aside more of our generation system to manage the wind fleet is an additional challenge. Adjusted for inflation, Bonneville power rates are now in the same range as they were in the late 1980s and 1990s but, we expect to have future rate challenges due to the poor economy, ongoing below normal precipitation and hydroelectric generation, and increasing cost pressure from infrastructure investment.

As a hydro-based system, Bonneville's finances depend on the magnitude of the precipitation in the Columbia Basin and are impacted by the variability of weather. For the fourth consecutive year, the Pacific Northwest is experiencing lower than average precipitation which is adversely affecting Bonneville's projected revenues for FY 2010. Our 1st Quarter Review forecast has the agency expecting to essentially break even for

the year; however, hydro conditions have declined since that forecast. Despite the projected hydro deficit, Bonneville still expects to make its full scheduled payment to the Treasury due to strong financial reserves. Nevertheless, more years of below average water would be a cause for concern.

Bonneville recognized the unfavorable weather pattern earlier this year and has worked with its partner agencies, the U.S. Army Corps of Engineers and Bureau of Reclamation, to manage reservoir levels to help ensure water will be available for salmon flows and to support power production later in the year.

LOOKING TO THE FUTURE

The coming years will see fundamental changes in the Pacific Northwest power system. Growing demand and increased wind development are combining to put new strains on our transmission system. Bonneville is working closely with partners throughout the West and looking for opportunities to meet these new demands. Efforts already underway include using existing Federal and non-Federal assets in the region more effectively, implementing energy efficiency and conservation initiatives, and, in some cases, developing new infrastructure.

The Pacific Northwest has long been a national leader in energy efficiency and Bonneville has been an integral part of this successful effort. Bonneville is committed to energy efficiency and conservation efforts and is seeing a significant increase in investment in the years to come which will support the Administration's goals of enhancing the economy, securing energy independence, and reducing greenhouse gases.

In its 6th Power Plan, the Northwest Power and Conservation Council finds that 85 percent of regional electricity load growth can be met with cost-effective energy conservation over the next 20 years and calls for the regional acquisition of 1,200 average megawatts of conservation savings (enough to power a city the size of Seattle) by 2015. This represents the most aggressive megawatt target yet set in the region.

Bonneville is committed to work in partnership with our public utility customers to achieve the public power portion of this regional target and we are engaged in several regional forums towards this goal. Bonneville is also a partner in a Pacific Northwest regional Smart Grid demonstration project that the Department of Energy selected for a cost-shared grant.

Bonneville will continue to explore creative engineering and technological solutions to the complex problems we face. Pumped storage is being explored as one way to facilitate wind integration service. Bonneville's hydroelectric generation portfolio may provide valuable opportunities to take advantage of this bulk storage solution which could help

provide the flexibility that will be required to integrate all of the planned intermittent renewable resources. In addition to pumped storage, Bonneville is working with the Pacific Northwest National Laboratory to assess other storage options such as compressed air storage, batteries, and flywheels.

In accordance with transmission open access principles, Bonneville is committed to providing the transmission its customers need to meet their loads while also meeting the requests of wind developers to connect to the system. Enabled by the ARRA and begun in FY 2009, West of McNary Group I is a $343 million 500-kilovolt transmission infrastructure project that will add 79 miles of high voltage transmission allowing Bonneville to provide firm transmission service for various transmission requests, including more than 575 megawatts of new wind energy. This project is the first of many ARRA initiatives Bonneville has planned.

In total, Bonneville has proposed approximately $2.3 billion in capital projects to be attributed to ARRA. Projects include major infrastructure investment in both Bonneville transmission and in the 31 federal hydro projects throughout the Northwest, and capital investment in fish and wildlife and energy efficiency initiatives. In addition to bringing jobs to the region, these projects align with the Administration's emphasis on developing clean, renewable energy and environmental stewardship.

FY 2011 BUDGET OVERVIEW

Bonneville is in sound financial condition and is well positioned for the future. Bonneville's FY 2011 budget proposes accrued expenditures of $3,219 million for operating expenses, $77 million for Projects Funded in Advance, and $758 million for capital investments.

Bonneville's commitment to fish and wildlife mitigation and enhancement is exemplified in its substantial direct program budget of $296 million, capital and expense.

Bonneville's Full Time Equivalent (FTE) staffing projection included in this budget is 3,100 for FY 2011. We expect to maintain FTE at approximately this level, even as we increase our infrastructure expansion significantly, through efficiencies and potential outsourcing opportunities.

Bonneville's FY 2011 budget is a business based budget that strongly supports both Department of Energy Economic Prosperity Secretarial Priority and the Strategic Goal to Market and Deliver Federal Power.

As an important means of financing infrastructure and energy efficiency needs of the region, we continue to seek all available opportunities for alternative funding sources with third parties. Table BP-5 in Bonneville's FY 2011 Congressional Budget

submission provides increased transparency regarding potential Bonneville third-party financing activity, which is estimated at about $455 million during the FY 2009 through FY 2015 period. This use of third-party financing allows Bonneville to stretch the use of its Treasury borrowing authority over a longer period of time.

The following table provides budget data based on current services for FY 2009 - FY 2011:

Funding Profile by Subprogram 1/

(accrued expenditures in thousands of dollars)

	Fiscal Year				
	2009 Audited Actuals	2010 Original /2	2010 Adjustments	2010 Revised /2	2011 Proposed
Capital Investment Obligations					
Associated Project Costs 3/	139,552	N/A	-	158,884	172,477
Fish & Wildlife	27,795	N/A	-	70,000	60,000
Conservation & Energy Efficiency 3/	17,988	N/A	-	33,495	40,331
Subtotal, Power Services 4/	185,335	N/A	-	262,379	272,808
Transmission Services	192,731			450,498	462,213
Capital Equipment & Bond Premium	31,092	N/A	-	23,723	23,889
Total, Capital Obligations 3/ 5/	409,158	845,566	-	736,600	758,910
Expensed and Other Obligations					
Expensed	2,410,146	3,029,504	-	2,983,698	3,219,446
Projects Funded in Advance	184,000	105,164	-	77,403	77,179
Total, Obligations	3,003,304	3,980,234		3,797,701	4,055,535
Capital Transfers (cash) 5/	432,019	419,996	-	459,829	386,870
BPA Total	3,435,323	4,400,230	-	4,257,530	4,442,405
Full-time Equivalents (FTEs)	3,021	3,061	-	3,100	3,100

The accompanying notes are an integral part of this table.

1 This budget has been prepared in accordance with the Budget Enforcement Act (BEA) of 1990. Under this Act all Bonneville budget estimates are treated as mandatory and are not subject to the discretionary caps included in the BEA. These estimates support activities which are legally separate from discretionary activities and accounts. Thus, any changes to Bonneville estimates cannot be used to affect any other budget categories which have their own legal dollar caps. Because Bonneville operates within existing legislative authority, Bonneville is not subject to a Budget Enforcement "pay-as-you-go" test regarding its revision of current-law funding estimates.

2 Original estimates reflect Bonneville's FY 2010 Congressional Budget Submission. Revised estimates, consistent with Bonneville's annual near-term funding review process, provide notification to the Administration and Congress of updated capital and expense funding levels for FY 2010.

[3] Includes infrastructure investments designed to address the long-term needs of the Northwest, to reflect significant changes affecting Bonneville's power and transmission markets, and to reflect project implementation schedules. Actual expenditures may vary.

[4] Power Services includes Fish & Wildlife, Residential Exchange, Planning Council, Conservation & Energy Efficiency and Associated Project Costs which have been shown separately for display purposes.

[5] This FY 2011 budget includes capital and expense estimates based on IPR 2 forecasted data for FY 2010- FY 2015 and consistent with estimates from the 2010 final transmission and power rate cases.

Capital funding levels reflect external factors such as the significant changes affecting West Coast power and transmission markets, along with planned infrastructure investments designed to address the long-term needs of the region.

The cumulative amount of actual advance amortization payments as of the end of FY 2009 is $2,536 million.

Refer to 16 USC Chapters 12B, 12G, 12H, and Bonneville's other organic laws, including P.L. 100-371, Title III, Sec. 300, 102 Stat. 869, July 18, 1988 regarding Bonneville's ability to obligate funds.

CONCLUSION

That concludes my prepared remarks Madame Chairman. I am excited by the role Bonneville is playing to achieve regional and national goals for clean and reliable electricity supplies while managing the operation in a fiscally prudent manner. I would be happy to respond to any questions from the Committee.