

# backgrounder

## BPA's Capital Planning Review

This backgrounder has a dual purpose. First, to provide a general overview of how the Bonneville Power Administration plans and manages its capital spending. Second, to inform customers and constituents about an upcoming opportunity to influence BPA's future capital spending.

Capital investments are those that provide long-term value, such as infrastructure investments, and are generally recovered in rates over time. Expense programs, on the other hand, are paid within the year the cost is incurred.

### Existing investment

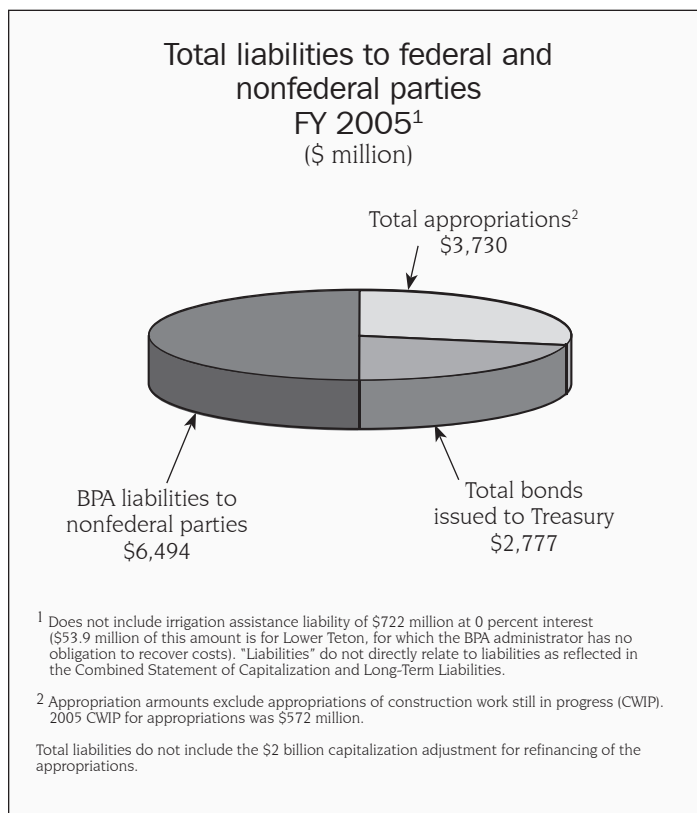
BPA is a self-financed, not-for-profit federal agency under the Department of Energy that markets wholesale electricity generated at 31 federal hydro projects in the Columbia River Basin. BPA has built one of the largest and most reliable high-voltage transmission systems in the country. The federal hydro projects and the electrical system are known collectively as the Federal Columbia River Power System (FCRPS). BPA is responsible for paying all hydroelectric-related operation and maintenance and capital recovery costs of the FCRPS projects.

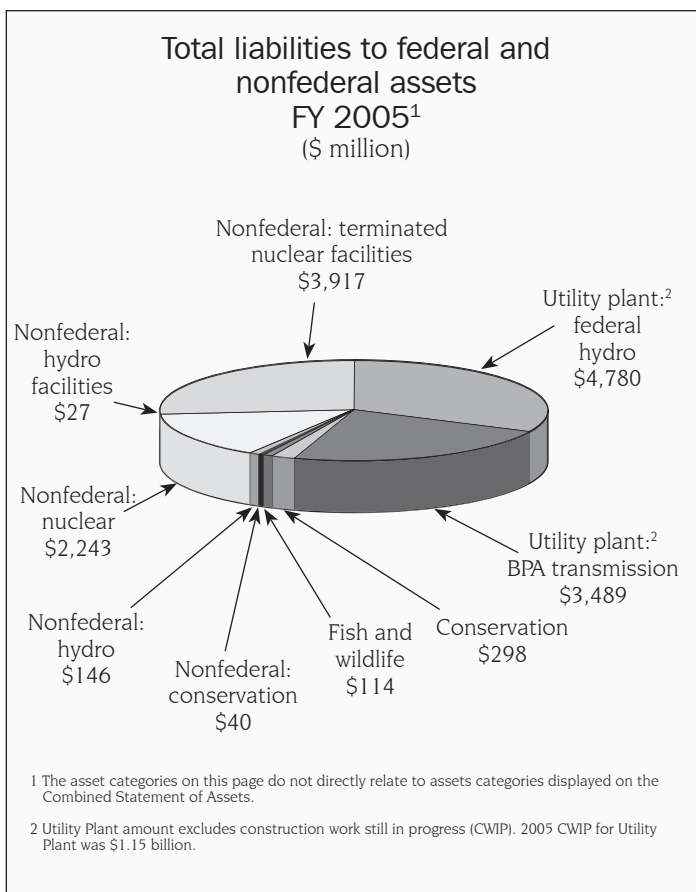
Energy Northwest, which operates the Columbia Generating Station nuclear plant, is included with the federal facilities for purposes of integrated resource planning and operation. BPA markets power from and is responsible for paying the capital costs of certain Energy Northwest nuclear projects and other non-federal projects.

BPA customers have expressed an interest in being able to influence how the agency makes capital investments that affect future power and transmission rates. To that end, it is essential to understand how BPA's existing

capital investments affect current and future rates and how capital spending decisions going forward may incrementally influence the big picture. The following charts are a snapshot of BPA's total liabilities at the end of fiscal year 2005.

The current structure of BPA's liabilities will likely remain until 2018 when a significant portion of BPA's nonfederal debt, primarily Energy Northwest bonds, will be paid down. All of BPA's Energy Northwest debt, or about half of BPA's total existing liabilities, will be retired by 2024.





## How capital investments affect BPA rates

The main factor driving depreciation expenses are obligations acquired prior to 2005. Capital levels currently forecast for FY 2007-2009 would have a much smaller impact on BPA's depreciation expenses and, therefore, on rates than the historical component.

BPA seeks to maintain a balance among its various programs that must compete for a limited amount of capital funds. Examples include: dealing with congestion management; meeting forecast load growth; ensuring that system reliability criteria are met; funding for nonwires, renewable energy and other alternative energy sources; promoting energy efficiency, and fulfilling fish and wildlife responsibilities.

Capitalizing a project means being able to recover its costs over time. If the project is financed using borrowed funds, there will be a future interest and depreciation

component as well. Therefore, additional capital investments may affect future rates as a result of an incremental change in BPA's total capital investment.

However, additional capital investments do not necessarily mean that a rate increase is assured because some of these investments add revenues or reduce annual expenses. Moreover, other financial management factors and additional revenues could more than offset the need for additional revenues needed to cover new capital investments.

## Estimating how capital investments may influence rates

The tables on page 3 illustrate a basic rule of thumb for estimating the potential effect a capital investment could have on transmission or power rates.

## Planning and implementing the capital budget

During the next two years, BPA will implement a new integrated agency capital planning process. Beginning in December of each year, the agency's chief financial officer will initiate the annual budget planning cycle by issuing a memorandum to organizations across the agency. The memorandum will provide guidelines for preparing capital and expense budgets for the next five years based on the agency's strategic direction, asset management and performance expectations, financial performance targets, discount rate, available capital and nonfinancial targets.

Each organization will apply the guidelines in developing its own financial and non-financial program targets and develop ranking criteria. The process will conclude in August when the administrator makes the final decision on spending for the capital budget for the next fiscal year.

By 2008, BPA intends to align the timing of the power and transmission rate cases and combine the capital and expense review processes for these two organizations.

### Sample capital investment and associated annual costs (millions)

	Investment	Interest %	Interest cost/yr	Depreciation life	Depreciation cost/yr
Sample investment of \$200 @ 40 yrs	\$ 200	5.30%	\$ 10.6	40	\$ 5.0
Sample investment of \$200 @ 75 yrs	\$ 200	5.30%	\$ 10.6	75	\$ 2.7
Sample investment of \$200 @ 15 yrs	\$ 200	5.30%	\$ 10.6	15	\$ 13.3
Sample investment of \$200 @ 5 yrs	\$ 200	5.30%	\$ 10.6	5	\$ 40.0

	\$Value/mill	Millions	Mill base	Rate % change
Transmission rate rule of thumb	\$ 6.4	N/A	N/A	1.0%
Sample investment of \$200 @ 40 yrs	\$ 15.6	N/A	N/A	2.4%
Power rate rule of thumb	\$ 59.0	1.00	30.3	3.3%
Sample investment of \$200 @ 75 yrs	\$ 13.3	1.00	30.3	0.74%

## Transitioning to a single capital review

Because of this transition, this year's Capital Planning Review will focus on taking a long-term look at BPA's capital program. The Capital Planning Review will focus particularly on capital programs and projects that are likely to affect post-FY 2009 rates.

The graphic on page 4 is an overview of how BPA's capital spending is determined and where in that process customers and stakeholders have opportunities to influence it.

## Getting involved

BPA will hold four public meetings, including one policy-level meeting to discuss plans for capital spending in the 2007-2012 period. Times and locations were chosen to coincide with other public meetings, such as for transmission's Programs in Review public process, to make attendance as convenient as possible for customers and interested parties.

### Spokane public meeting

June 14, 9 a.m. to noon  
Modern Electric  
904 N. Pines Road  
Spokane Valley, Wash.

### Tacoma public meeting

June 21, 1:30 to 4:30 p.m.  
Tacoma Auditorium  
3628 S. 35th St.  
Tacoma, Wash.

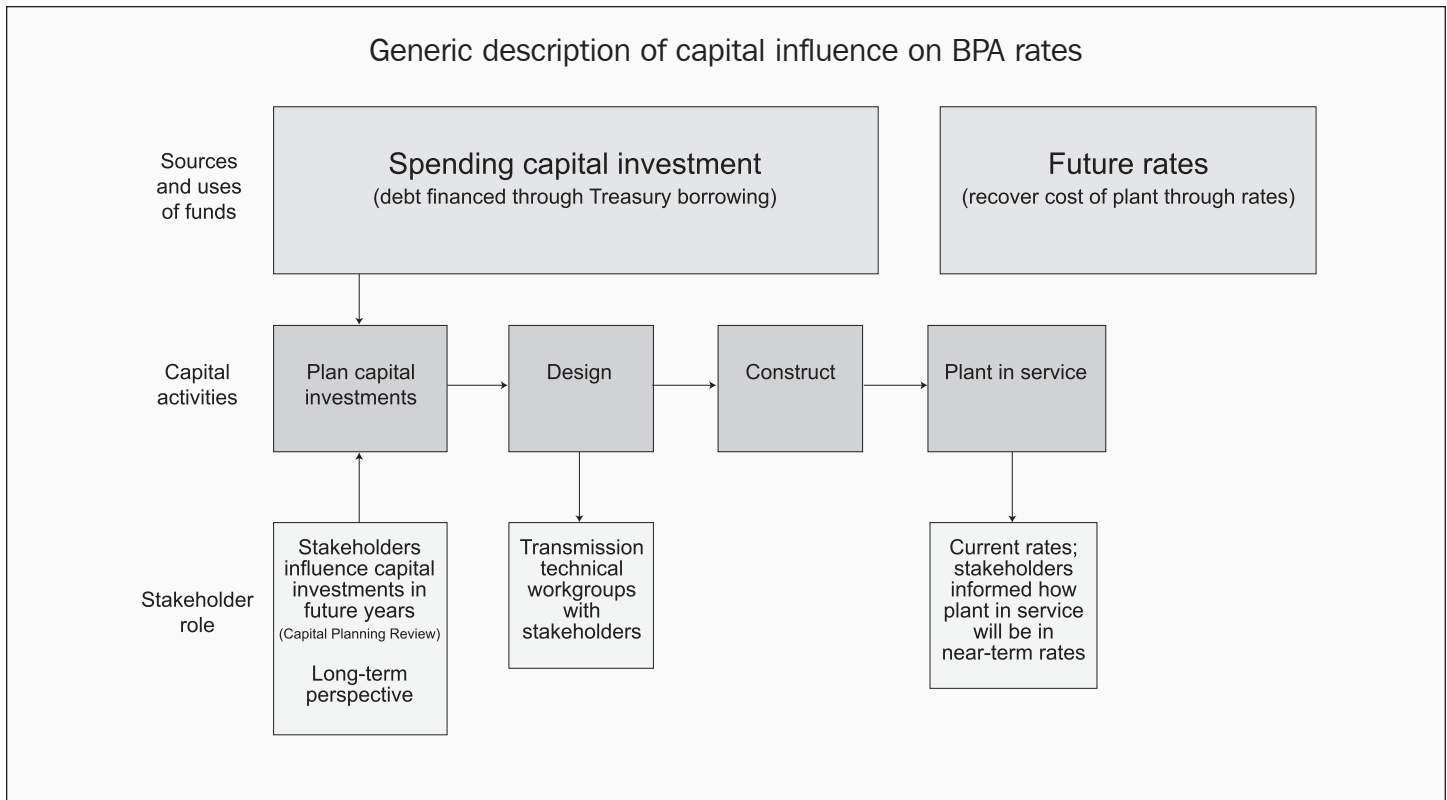
### Portland public meeting

June 22, 1:30 to 4:30 p.m.  
BPA Rates Hearing Room  
911 N.E. 11th Ave.  
Portland, Ore.

### Policy-level meeting

June 27, 9 a.m. to 2 p.m.  
Rates Hearing Room  
911 N.E. 11th Ave.  
Portland, Ore.

The Capital Planning Review is separate and distinct from the recently completed Power Function Review II and the current Programs in Review. These forums provide opportunities for interested parties to influence both near-term capital and expense at the program level for the power and transmission functions respectively. The Capital Planning Review is aimed at informing interested parties about how BPA plans for the long-term and ultimately makes decisions on its agencywide capital spending.



For the Capital Planning Review to have a successful outcome, it is important that policy-level representatives of interested parties attend at least one of the informational meetings scheduled for June 14, 21 and 22 so they can be prepared to provide feedback on what type and level of information is needed to engage in future capital funding decisions. At the June 27 policy-level meeting, BPA asks that participants come prepared to offer specific suggestions for designing the FY 2008 capital and expense planning process.

A public comment period on the capital planning review will open June 5, 2006, and close July 7, 2006. Informa-

tion on BPA's proposed capital investments for 2007-2011 will be posted at [www.bpa.gov/corporate/Finance/Capital\\_Planning/](http://www.bpa.gov/corporate/Finance/Capital_Planning/). This information may be used as the basis for comment and will be reviewed at the public meetings. Comments can be submitted online at [www.bpa.gov/comment](http://www.bpa.gov/comment); via e-mail to [comment@bpa.gov](mailto:comment@bpa.gov); via mail to Bonneville Power Administration, Public Affairs – DKC-7, P.O. Box 14428, Portland, OR, 97293-4428, or faxed to (503) 230-3285. You can also call us with your comment toll free at (800) 622-4519. Please reference the Capital Planning Review with your comments.

*BPA financial disclosure: All financial information was provided in June 2006 and is consistent with BPA's 2005 Annual Report.*