February 2003

Bonneville Power Administration
Power Business Line

FY 2002 Generation Audited Accumulated Net Revenues for Financial-Based Cost Recovery Adjustment Clause (FB CRAC)

FY 2002 Audited Actuals
$ In Millions

The threshold for triggering an FY 2004 FB CRAC is a forecast of negative $265 million for ending FY 2003 net revenues. Audited actual FY 2002 net revenues for generation (as defined for FB CRAC purposes) were negative $638. This is within $150 million of the end-of-year threshold. The 2002 GRSPs require that if actual accumulated net revenues by the end of a fiscal year are within $150 million of the FB CRAC threshold for the subsequent year, BPA will prepare an analysis for the causes of BPA's financial decline and propose actions to avert or mitigate the need for FB CRAC. That analysis follows.

		FY 2002 Forecasted Third Quarter Results	FY 2002 Audited ANR
1	FY 2000 FB CRAC Audited Net Revenues	$170	$170
2	FY 2001 FB CRAC Audited Net Revenues	($418)	($418)
3	FY 2002 Audited Net Revenues	($95)	($87)
4	*Energy Northwest Debt Service Adjustment for FY 2002*	($272)	($265)
5	*SFAS 133 Adjustment*	($22)	($38)
6	**FY 2002 Audited Accumulated Net Revenues**	**($637)**	**($638)**
7	**FB CRAC FY 2003 Trigger Point**	**($265)**	

FY 2001 August ANR Trigger Point was ($386 M).
FY 2002 August ANR Trigger Point was ($408 M)

In the summer of 2002, BPA began a public forum called "Financial Choices," in response to a worsening financial situation for the FY03-06 period. Through this process, BPA laid out the reasons for the financial decline, an estimate of the magnitude of the financial problem, and several alternative actions that could be taken to help solve the problem. We asked for and received many comments. BPA also identified and described cost cuts taken in FY 2002 and those BPA is taking in FY 2003 to relieve the situation. Many of these materials are posted on our web site, at http://www.bpa.gov/power/financialchoices.

The drivers of the decline in BPA's financial situation are primarily:

1. The after-effects of the 2001 drought and a current forecast of much lower than average hydro conditions for 2003;
2. Lower fish credits than forecasted in the rate case caused by a change in the allocation to non-power purposes of the FCRPS in calculating 4(h)(10)(C), and a lower balance of the Fish Cost Contingency Fund from the FY01 drought; and
3. Lower prices for secondary sales along with higher expenses than forecasted in the rate case in FY 2002, and a forecast of higher expenses than forecasted in the rate case for FY 2003.

BPA brought to the region a variety of potential actions that could help the financial situation and asked for guidance and feedback. The potential actions BPA asked for comment on were to 1) simply let the established rate mechanisms (LB, FB, and SN CRAC) play out over the rest of the rate period, including capital and expense reductions already taken; 2) take more cost cuts down to levels that put mission accomplishment at risk, and raise rates as necessary to cover the remaining gap; 3) take more risk to paying Treasury, and do not raise rates through a Safety-Net CRAC; 4) use financial tools to manage net revenues and cash shortfalls and to push the financial problem into the future; and 5) make a one-time adjustment to rates for the FY 2003-2006 period through the SN CRAC to achieve a five-year 80% TPP, then applying no further FB or SN CRAC adjustments, potentially combined with using cash tools to increase the probability of making the FY 2003 Treasury payment.

Expense Reductions, Expense Deferrals, and Other Actions

	FY 2003-2006 ($ in millions)	
Expense Reductions		
PBL Internal Operations	$	107
Agency Internal Operations Assigned to Power	$	30
Energy Web	$	4
Conservation Augmentation	$	13
Corps/Reclamation	$	20
Columbia Generating Station (CGS)	$	15
Incentive Payments (Corps/Reclamation/ENW)	$	24
Renewables	$	4
Other	$	4
Subtotal	**$**	**221**
Expense Deferrals		
CGS Fuel Strategy	$	37
CGS Condenser Tube Replacement	$	35
Subtotal	**$**	**72**
Other Actions		
Energy Northwest Bond Reserve Fund Free-ups	$	56
Subtotal	**$**	**56**
TOTAL*	**$**	**350**

**Does not total exactly due to rounding*

After receiving comments, the Administrator announced decisions that include a combination of some of the alternatives. BPA had identified $350 million in actions that were put into place immediately, and is working to secure an additional $500 million including additional expense reductions, deferrals, and other actions. However, the Administrator has continued to consider an additional rate increase, since our surplus revenue outlook continues to decline.

Given the current outlook, while BPA is continuing to look for additional ways to cut costs, it does not appear likely the financial situation will improve sufficiently to avoid triggering the FB CRAC to the maximum in August of FY2003.