June PBL Financial and Rates Update

June 25, 2004

Overview

We have been working hard to bring rates down for FY 2005. These efforts included:

- Launching the Sounding Board to pursue $100 M in expense reductions and revenue enhancements for FY 2004 and FY 2005
- Securing the IOU agreements
- Pursuing the reduction of summer spill

Since the August 28th 2003 Workshop, there have been major changes affecting the FY 2005 CRACs:

Load Based CRAC:

- The IOU agreements are complete, bringing down the LB CRAC by about 9 percentage points.
- This made FY 2005 rates 6% lower than they otherwise would have been.

Financial Based and Safety Net CRACs:

- In FY 2004:
  - In December 2003, we made corrections to the rates, reducing the SN CRAC by 1.3 percentage points.
  - The Sounding Board work has identified almost $42 M in expenses reductions for FY 2004.
  - Poor water conditions have hurt net secondary revenue resulting in $150 M less net secondary revenues at the Second Quarter Review.
  - The net result is that we are almost $100 M worse off in FY 04 than we expected to be in August 2003.
- In FY 2005:
  - The Sounding Board process has identified over $57 M in expenses reductions for FY 2005.
  - Future forecasts of gas prices have increased, raising expectations for FY 2005 and FY 2006 net secondary revenues if we get average water.

Overview

Setting Rates for FY 2005:

- ***Without Using the Administrator's Discretion to Lower the SNCRAC:***
  - o The non-slice LB CRAC is set for the first part of FY 2005 at 21.7%.
  - o This leaves the FB CRAC and SN CRAC. The FB CRAC is certain to be at its maximum because of losses in previous years.
  - o The primary remaining decision is the SNCRAC:
    - At the August 28th 2003 Workshop, the forecast of FY 2005 rates included an LB CRAC of 28.3%, an FB CRAC of 8.6% and an SNCRAC of 15.0% for an over all rate of 52.0%, which is 4.6% over FY 2004 rates.
    - In spite of cost savings identified through the Sounding Board process and securing the IOU agreements, poor water conditions in FY 2004 is likely to result in an FB CRAC of 11.2% and an SN CRAC of 17.5%, if the rates are just based on actual FY 2004 results and the Administrator does not use his discretion.
    - This, added with an annual non-slice LB CRAC of 23.3%, produces and overall rate of 52.0%, which is 4.6% over FY 2004 rates.

Overview

Setting Rates for FY 2005, continued:

- ***Using the Administrator's Discretion to Lower the SNCRAC:***

  - GRSPs gives the Administrator discretion to use the forward-looking TPP to lower the SN CRAC in FY 2005. This is a crucial decision, because FY 2004 results are worse than expected in August 2003, while FY 2005 and FY 2006 are predicted to be better than expected in August 2003 (due to the Sounding Board efforts and forecasts of higher gas prices).

  - Preliminary TPP analysis shows that an 86.2% TPP* could be met with relatively modest increases in FY 2004-2006 net revenues. These could come from:
    - Securing the summer spill reduction,
    - Realizing improvements in FY 2004 secondary revenues,
    - Recognizing expense reductions identified through the Sounding Board process, and
    - Recognizing higher gas prices in FY 2005 and FY 2006 in the TPP analysis.

*A 2-Year TPP of 86.2% is equivalent to the 3-year TPP standard of 80%.

Overview

Seeking Input:

- As we noted previously, the decision in August to exercise the Administrator's discretion to use the forward-looking TPP to lower the SN CRAC in FY 2005 is crucial. We are sharing our preliminary analysis well before that decision, to provide adequate time for comment and discussion.

- We are not yet sure what the right choice is on the SN CRAC for FY 2005. We think some key considerations are:
  - We have heard clearly from many customers that BPA should make rates this October as low as possible, preferably by eliminating the Safety Net CRAC for FY 2005.
  - We need to be careful about how much we rely on a high forecast of future secondary revenues to set rates – we did that in June 2001.
  - We are mindful that reducing the SN CRAC in FY 2005 creates more risk of a rate increase in FY 2006

From Now until August:

- It is premature to make the SN CRAC decision now. By August, we will have better information on summer spill, FY 2004 actual costs and revenues, and cash.
- It is not premature to start the discussion of the appropriate forecasts and considerations.
- That's what we are doing now and we look forward to your input on the analysis and choices.

Objectives

Section 1: Review major changes in PBL Modified Net Revenue from the August 28th Workshop to the "Unofficial June Update."

Section 2: Provide an early look at the FB and SN CRAC forecasts for FY 2005 and FY 2006 based on GRSP methodology and no use of the Administrator's discretion to use a forward looking TPP.

Section 3: Discuss and review the potential outcomes with application of the Administrator's discretion to use the forward looking TPP to lower the SN CRAC in FY 2005.

Section 4: Discuss concerns and considerations in the look-forward TPP and its potential impact on future rates.

Section 5: Review the Rates Setting Process and Summer Schedule.

Section 6: Appendix

Section 1: Changes from August 28th

Objective:

Review major changes in PBL Modified Net Revenue from the August 28th Workshop to the "Unofficial June Update."

Definition of "Unofficial June Update"

Compared to the August 28th Workshop, the **"Unofficial June Update"** is comprised of the following:

1. FY 2004, the 2nd Quarter Review PBL Modified Net Revenue (MNR) forecast.

2. FY 2005, an unofficial update
   - A slight adjustment in gas prices is included, however, while gas prices have increased further since August 28th these higher prices have not been incorporated into this forecast.
   - Lower starting reservoir elevations due to the lower than average water year in FY 2004.
   - Rates that reflect the application of the GRSPs, with no use of the Administrator's discretion to use the forward looking TPP to lower the SN CRAC in FY 2005.
   - Rates consistent with the FY 2004 MNR of $46 M in the 2nd Quarter Review.
   - LB CRAC adjustment from the June 10th workshop that includes the IOU agreements.

3. FY 2006, an unofficial update from the FY 2004 and 2005 updates described above
   - A slight adjustment in gas prices is included, however, while gas prices have increased further since August 28th these higher prices have not been incorporated into this forecast.
   - Application of the GRSPs, with no use of the Administrators discretion to use the forward looking TPP to lower the SN CRAC in FY 2006.
   - Rates consistent with the FY 2004 MNR of $46 M in the 2nd Quarter Review, and the Fy 2005 MNR of $207 M..
   - LB CRAC adjustment from the June 10th workshop that includes the IOU agreements

The table on the following page provides a summary of the changes for FY 2004 – 2006. Also see Appendix D for more information.

Changes from August 28th Workshop

FY 2004- August to 2nd Quarter Review

- Modified Net Revenue declined from $129 M to $46 M
- Net secondary sales declined from $556 M to $404 M due to:
  - Hydro volume forecast decreased from 134 to 112 maf
  - Average annual weighted net sales price increased from $28.7/MWh to $37.1/MWh
- F&W expenses increased by $14 M per agreement
- Net interest expense decreased by $45 M
- Internal operations expenses decreased from $106 M to $103 M

FY 2005- August to "Unofficial June Update"

- Based on GRSP methodology and no use of the Administrator's discretion to use a forward looking TPP, Modified Net Revenue increased from $8 M to $207 M.
- This increase is driven by a higher SN CRAC due to lower FY 2004 Modified Net Revenue
- Net secondary sales declined from $518 M to $501 M due to:
  - Hydro volume forecast remained at 134 maf
  - Starting reservoir elevations reduced due to lower than average water year in FY 2004
  - Annual average weighted net sales price increased from $23.9/MWh to $26.0/MWh.
- F&W expenses decreased by $7 M due to the FY 2004 F&W budget increase
- Internal operations expenses stayed at $108 M
- Columbia Generating Station expenses decreased by $8 M
- Net interest expense decreased by $30 M

FY 2006- August to "Unofficial June Update"

- Modified Net Revenue declined from $5 M to ($5 M)
- Net secondary sales increased from $488 M to $490 M due to:
  - Hydro volume forecast remained at 134 maf
  - Annual average weighted net sales price increased from $23.8 /MWh to $25.8 /MWh
- F&W expenses decreased by $7M due to the FY 2004 F&W budget increase
- Net interest expense decreased by $27 M
- Internal operations expenses stayed at $110 M
- Columbia Generating Station expenses increased by $19 M

Section 2: June Early Release Results

Objective:

Provide an early look at the FB and SN CRAC forecasts for FY 2005 and 2006 based on GRSP methodology and no use of the Administrator's discretion to use a forward looking TPP.

Key Points

Good News:

1. Rate reduction in the LB CRAC of $200 M.

Forecasted LB CRAC	December 2003	"Unofficial June Update" 2004
FY 2005	31.97%	23.34%
FY 2006	30.30%	23.67%

2. Over $100 M in savings identified by the Sounding Board for FY 2004 and FY 2005. See Appendix A.
3. In FY 2004 we are managing our internal operations expenses below FY 2001 actuals.
4. We are managing our expense levels to below the expense limits set in the SN CRAC rate case. See Appendix B.

Bad News:

4. FY 2004 is the 5th year in a row of below average Jan-July run-off and the second lowest set of four consecutive water years on record.
5. Net secondary revenues are $150 M lower than forecast in the August 28th or December Workshop. See Appendix C.

Results:

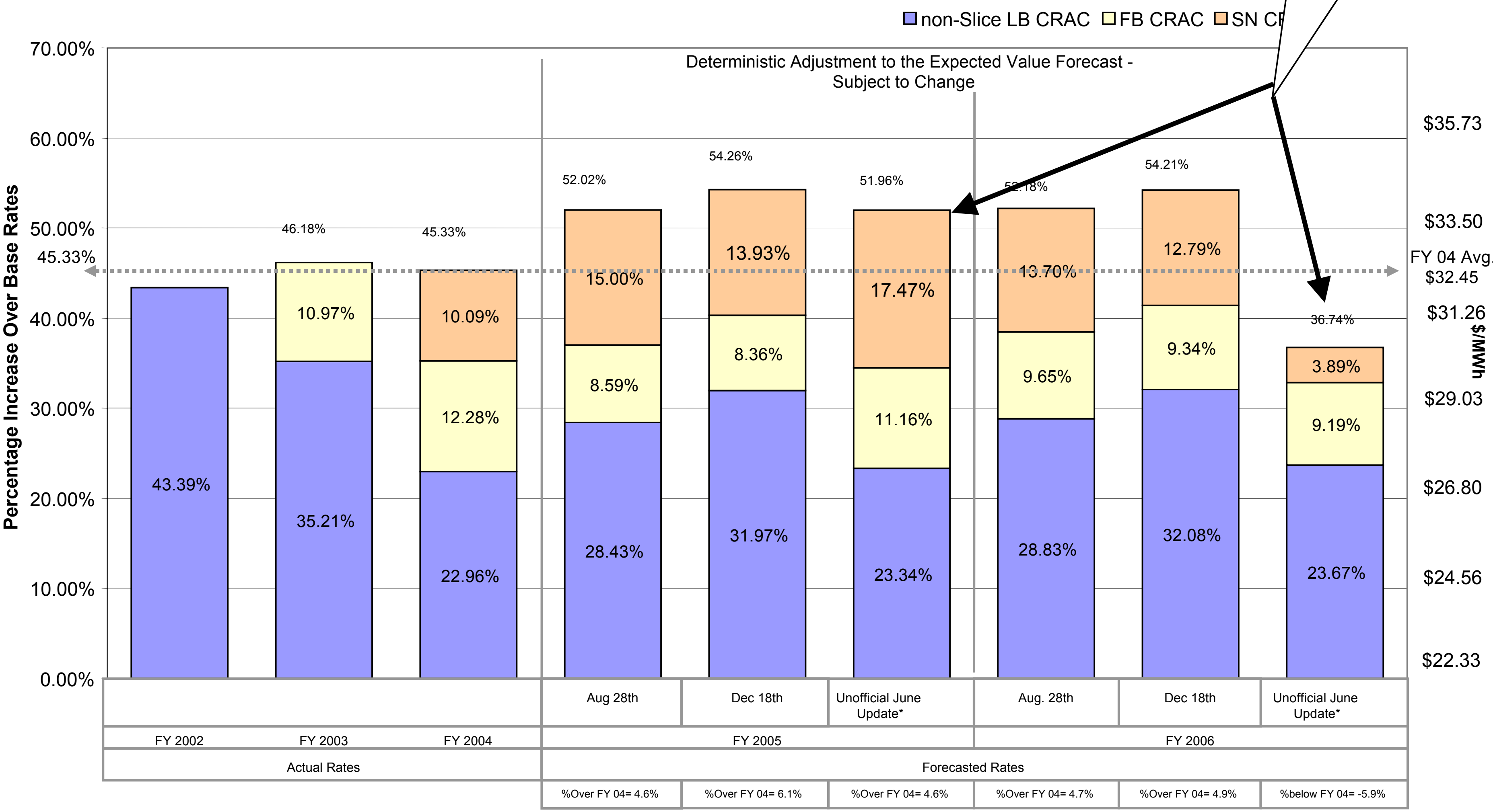
6. Even with the LB CRAC reduction, using the forecasts outlined previously and using the GRSP methodology with no use of the Administrator's discretion to use a forward looking TPP, the combined forecasted total rates for FY 2005 are forecast to be higher than in FY 2004. However, FY 2006 forecast rates are substantially lower. See page 8.

Total Rate above FY 2004	December 2003	"Unofficial June Update" 2004
FY 2005	6.1%	4.6%
FY 2006	4.9%	-5.9%

Summary of Rates Forecasts Over Time

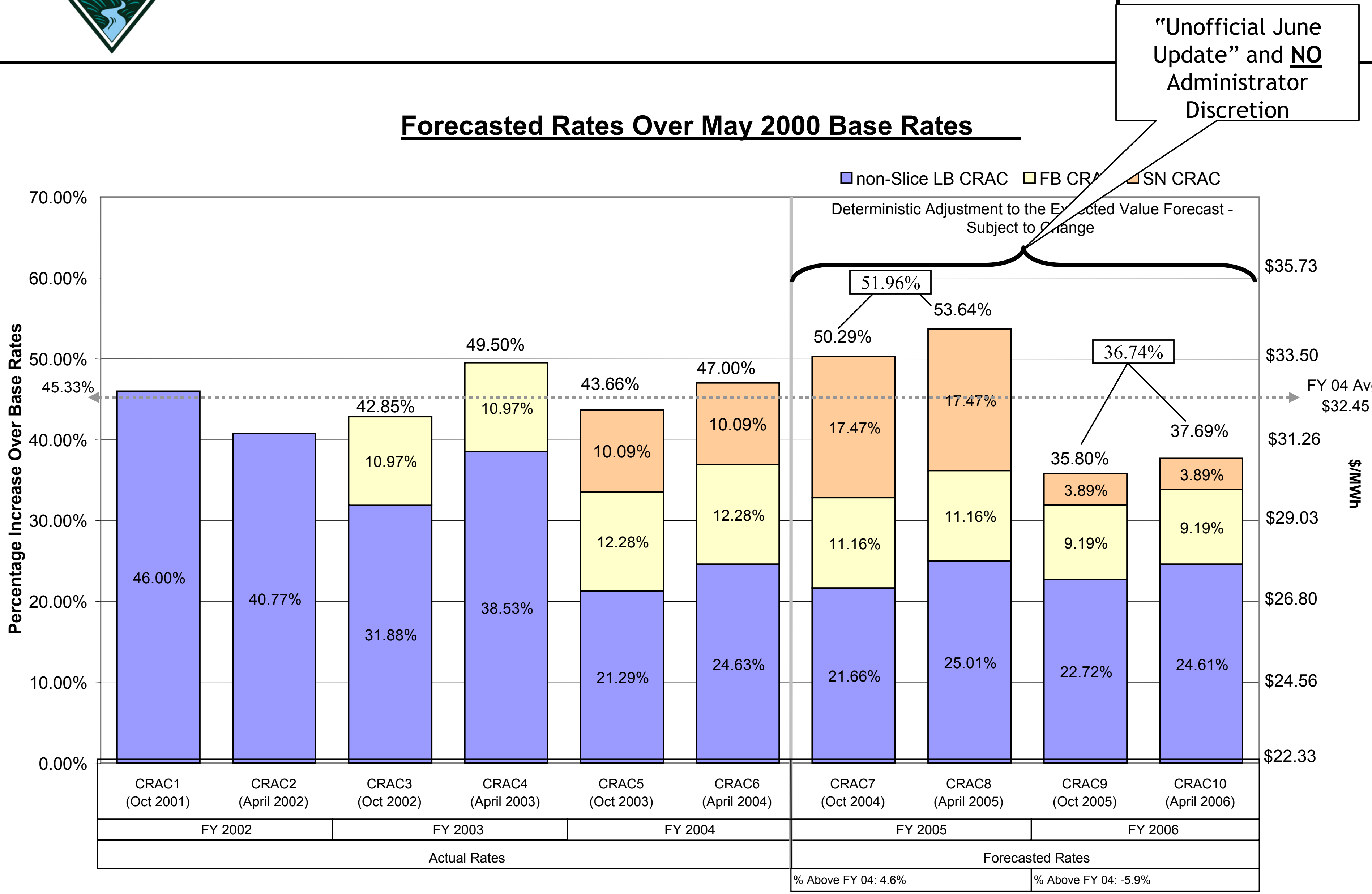
"Unofficial June Update" and **NO** Administrator Discretion

Forecasted Rates Over May 2000 Base Rates



* Rebalanced to maximize the FB CRAC before setting the FB CRAC on an expected value basis.

Breakdown of the "Unofficial June Update"



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Effects of Potential Improvements From "Unofficial June Update" Without Using the Administrator's Discretion

This table represents the rate impacts of various combinations of outcomes if the rates were set using the GRSP methodology without using the Administrator's discretion to lower the SN CRAC in FY 2005

GRSP Language

		Changes from "Unofficial June Update" ($ in Milions)			Two-year	Ending	Total Rates		Total Rates, % compared to 04	
		2004	2005	2006	TPP	06 Rsrvs	2005	2006	2005	2006
1	"Unofficial June Update" (w/o Admin. Discretion)	$ -	$ -	$ -	93.5%	$ 458	52.0%	36.7%	4.7%	-5.9%
2	Add'l Revenue in FY 2005 & 2006	$ -	$ 35	$ 35	96.4%	$ 507	52.0%	34.6%	4.7%	-7.4%
3	Add'l Revenue in FY 2005 & 2006	$ -	$ 100	$ 100	99.2%	$ 601	52.0%	31.0%	4.7%	-9.8%
4	All't Revenue in FY 2004 Only	$ 50	$ -	$ -	94.1%	$ 462	47.4%	36.4%	1.5%	-6.2%
5	Add'l Revenue in 2004, 2005 & 2006	$ 50	$ 35	$ 35	96.8%	$ 511	47.4%	34.2%	1.5%	-7.6%
6	Add'l Revenue in 2004, 2005 & 2006	$ 50	$ 100	$ 100	99.4%	$ 607	47.4%	30.7%	1.5%	-10.1%

Expected values, wide range of outcomes possible…
FB and SN CRAC are rebalanced to maximize FB CRAC before calculating the SN CRAC Rate.

Key Points:

- All the scenarios presented above represent improvements in net revenue, however, negative outcomes are just as possible.
- Please note that these are for illustrative purposes only and simply represent changes in the expected value. The analysis above does not yet factor for changes in the distribution associated with changes in secondary revenue. (e.g., increased gas price forecasts). Incorporating a higher gas price forecast, for instance, will lower TPP thereby requiring more net revenue to reduce the SNCRAC to zero. See "Effects of A Changed Distribution" for an illustration of the impact.
- In all scenarios, there is a rate increase in FY 2005 compared to FY 2004 rates and a substantial decrease in FY 2006.
- A 2-Year TPP of 86.2% is equivalent to the 3-year TPP standard of 80%.

Section 3: Reducing the SN CRAC

Objective:

Discuss and review the potential outcomes with application of the Administrator's discretion to use the forward looking TPP to lower the SN CRAC in FY 2005.

Potential Changes from the "Unofficial June Update"

Using the GRSP methodology without the Administrator's discretion would likely result in higher rates in FY 2005 relative to FY 2004. However, the Administrator is willing to consider the forecasted financial performance in FY 2005 and FY 2006 in setting the FY 2005 SN CRAC. Below is a table of potential considerations.

For more information see Appendix D.

PBL Modified Net Revenues ($ in Millions)

		FY04	FY05	FY06
1	"June Unofficial Update"	$ 46	$ 207	$ (5)

This calculation is consistent with the public estimate of $33-$44 M in additional revenue and $13 M in offsetting expenses adjusted for Slice.

See subsequent slides for more information

Potential PBL Modified Net Revenue Changes from "Unofficial June Update"

		FY04	FY05	FY06
2	Expense Changes*	$ 2	$ 4	$ -
3	Summer Spill Changes	$ 18	$ -	$ -
4	Market Price Changes			
6	Medium gas prices	$ -	$ 196	$ 141
5	Low gas prices	$ -	$ 103	$ 62
7	Net Impact on 4(h)(10)(C)			
9	Medium gas prices	$ -	$ 11	$ 9
8	Low gas prices	$ -	$ 6	$ 4

*Changes are from FY04-05 internal operations reductions [$7M] and FY04 LB CRAC true-up [($1.5M)]

Unknown Factors that will be updated in August :

List does not include everything that will be updated in August

- Changes in cash
- Starting reservoir elevations for FY 2005
- Changes in FY 2004 hydro volume
- Changes in net secondary sales
- Changes in Net Interest expense
- Changes in other expenses

Effects of Potential Improvements From "Unofficial June Update" Using the Administrator's Discretion

The table below illustrates that $68-88 M in modified net revenues over FY 2005 and FY 2006 are needed to retain a 86.2% TPP if the Administrator exercises his discretion to reduce the FY 2005 SN CRAC to zero percent.

		Changes from "Unofficial June Update" ($ in Milions)			Two-year	Ending	Total Rates		Total Rates, % compared to 04	
		2004	2005	2006	TPP	06 Rsrvs	2005	2006	2005	2006
1	"Unofficial June Update" (w/o Admin. Discretion)	$ -	$ -	$ -	93.5%	$ 458	52.0%	36.7%	4.7%	-5.9%
2	FY05 SN=0%, Add'l Revenue in 2005 & 2006	$ -	$ 44	$ 44	86.2%	$ 453	33.9%	46.5%	-7.7%	0.3%
3	FY05 SN=0%, Add'l Revenue in 2004 & 2005	$ 34	$ 34	$ -	86.2%	$ 418	33.5%	45.1%	-8.1%	-0.6%
4	FY05 SN=0%, Add'l Revenue in 2004, 2005 & 2006	$ 26	$ 26	$ 26	86.2%	$ 437	33.5%	46.5%	-8.1%	0.3%
5	FY05 SN=0%, Add'l Revenue in 2004 Only	$ 68	$ -	$ -	86.2%	$ 416	32.9%	45.3%	-8.5%	-0.5%
6	FY05 SN=0%, Add'l Revenue in 2005 Only	$ -	$ 71	$ -	86.2%	$ 421	33.9%	46.5%	-7.8%	-0.8%

Expected values, wide range of outcomes possible…
FB and SN CRAC are rebalanced to maximize FB CRAC before calculating the SN CRAC Rate.

Key Points:

- Meets the minimum two year TPP standard of 86.2%.
- Ending FY 2006 reserves does not change substantially from the base case.
- FY 2005 drops between 7.7% and 8.5% from FY 2004 average rates, but FY 2006 increases compared to FY 2005.
- The results in the table above are expected value changes only and do not incorporate any impacts that would change the distribution (water, gas prices, etc.).
- Higher levels of net revenue would be necessary to achieve a 86.2% 2 year TPP if the revenue improvements were due to a change in the gas price forecast which drives net secondary revenue. See "Effects of A Changed Distribution" for an illustration of the impact.

Effects of A Changed Distribution

The table below illustrates the impact on rates if improvements are solely due to increased gas price forecasts. A higher gas price forecast broadens the distribution thereby increasing the range of possible outcomes and reducing TPP

		Changes from "Unofficial June Update" ($ in Milions)			Two-year	Ending	Total Rates		Total Rates, % compared to 04	
		2004	2005	2006	TPP	06 Rsrvs	2005	2006	2005	2006
1	"Unofficial June Update" (w/o Admin. Discretion	$ -	$ -	$ -	93.5%	$ 458	52.0%	36.7%	4.7%	-5.9%
2	Medium Gas									
3	2005/6 Medium gas, E.V. change only	$ -	$ 196	$ 141	99.7%	$ 691	52.0%	28.1%	4.7%	-12.3%
4	*2005/6 Medium gas, est. new distribution*	$ -	$ 196	$ 141	95.9%	$ 716	52.0%	30.9%	4.7%	-9.9%
5	Low Gas									
6	2005/6 low gas, E.V. change only	$ -	$ 103	$ 62	98.2%	$ 563	52.0%	30.9%	4.7%	-9.9%
7	*2005/6 low gas, est. new distribution*	*$ -*	*$ 103*	*$ 62*	*94.1%*	*$ 578*	52.0%	33.5%	4.7%	*-8.2%*

Italics - new distribution; non-Italics - E.V. change only

FB and SN CRAC are rebalanced to maximize FB CRAC before calculating the SN CRAC Rate

Note that when the distribution around the new gas price forecast is incorporated, TPP falls **almost 4 percentage points** relative to just increasing the expected value.

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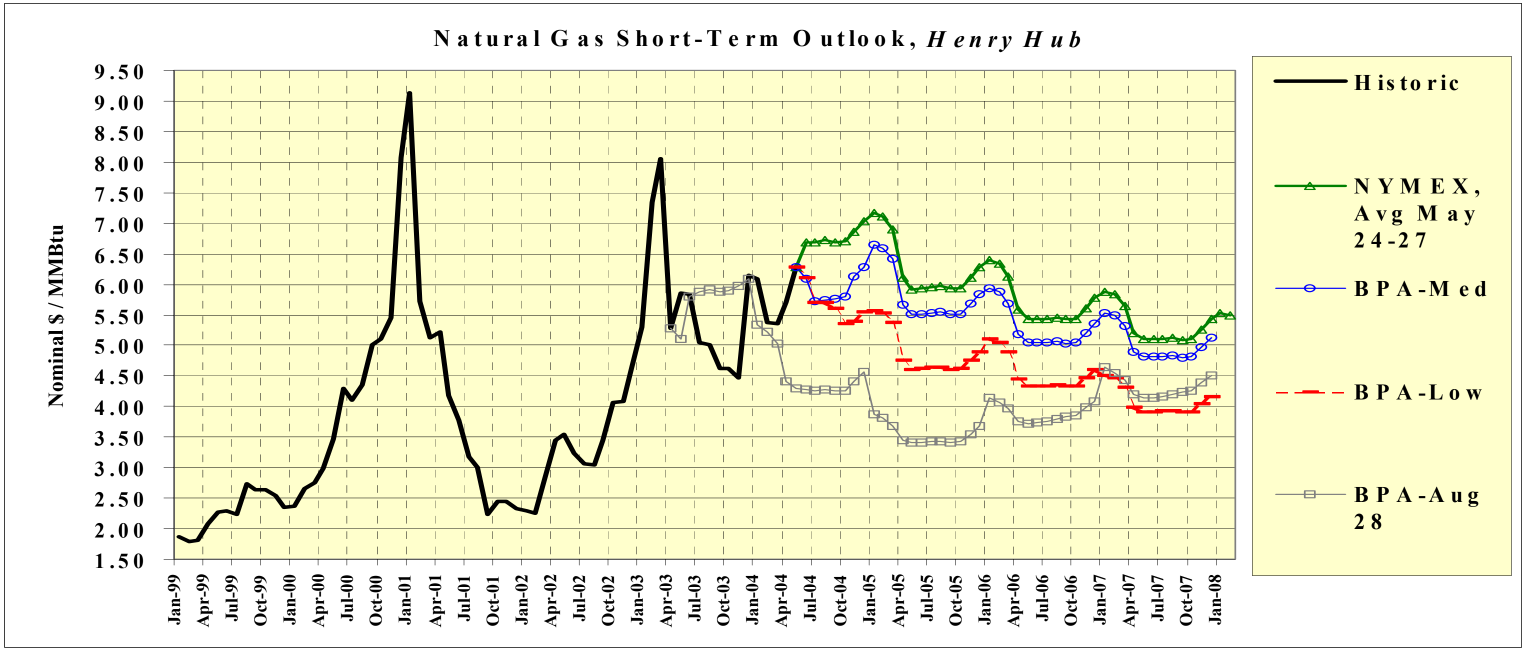
Natural Gas Prices

- The gas price forecast has been increased from the August 28 outlook
- BPA is testing the use of natural gas price forecast ranges
- PNW Gas Hub Prices are about $0.60 to $0.70 less than Henry Hub

Natural Gas Price Forecasts				
Henry Hub, Nominal $ / MMBtu				
	BPA-Aug 28	BPA-Low	BPA-Med	NYMEX
2005	3.54	4.88	5.83	6.27
2006	3.89	4.55	5.29	5.70
2007	4.32	4.08	5.01	5.32
NYMEX: Avg - May 24, 26, 27				



Market Prices With Two Gas Price Forecasts

Flat Market Price Forecasts

FY 2004

Flat	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Ave
August 28th	52.53	55.16	52.11	40.64	43.15	38.30	31.96	23.46	15.63	24.64	33.81	40.08	37.62
1st Qtr	34.75	35.44	39.22	47.90	43.17	35.55	30.78	24.05	14.88	24.50	33.89	37.56	33.47
2nd Qtr	34.75	35.44	39.22	44.62	40.93	36.90	43.43	35.16	36.17	38.10	44.43	44.72	39.49

Prices Highlighted in Gray Represent Actual Mid-C Prices

FY 2005

Flat	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Ave
August 28th	35.48	38.38	37.19	34.06	33.84	30.72	26.69	19.90	14.92	22.96	26.98	32.22	29.44
June (Med Case)	48.60	54.09	51.63	54.46	55.18	51.80	44.30	30.39	21.25	37.29	45.78	54.95	45.81
June (Low Case)	44.72	47.32	45.49	46.23	46.78	43.89	37.58	26.40	18.90	31.88	38.56	46.24	39.50

FY 2006

Flat	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Ave
August 28th	30.43	31.65	31.89	36.88	37.08	34.25	29.62	18.67	16.45	25.76	30.53	36.07	29.94
June (Med Case)	52.56	54.67	54.66	50.83	51.87	49.23	42.38	25.28	21.71	36.16	43.70	51.22	44.52
June (Low Case)	44.21	46.04	46.12	44.16	45.14	42.73	36.93	22.48	19.60	31.81	38.01	44.54	38.48

Major Drivers FY 2004: Hydro Generation Levels, Natural Gas Prices

Major Drivers FY 2005 & 2006: Natural Gas Prices

Section 4: Concerns & Considerations

Objective:

Discuss concerns and considerations in the look- forward TPP and its potential impact on future rates.

Concerns & Considerations

GRSPs give the Administrator discretion to use the forward-looking TPP to lower the SN CRAC in FY 2005. This is a crucial decision because FY 2004 results are worse than expected in August 2003, while FY 2005 and FY 2006 are predicted to be better than expected in August 2003.

By August, some financial changes will be known, and some will still be uncertain. The known changes will include:

- Whether changes in FY 2004 summer spill have been made
- FY 2004 & 2005 expense reductions and revenue enhancements identified through the Sounding Board process
- FY 2004 actual net secondary revenues through June

On the other hand, gas prices and net secondary revenue changes in 2005 and 2006 will still be forecasts. We are considering how much weight to give improvements in forecasts vs. known changes and would appreciate comment on this topic.

Concerns & Considerations

- Both lower and stable rates are priorities to the region. This makes it important to understand the relationship between FY 2005 and FY 2006 rates if the Administrator reduces or does NOT reduce the FY 2005 SN CRAC. Both cases may produce large swings in rates between the two years.
  1. On one hand, if the Administrator reduces the FY 2005 SN CRAC, customers will see a 7.7% rate reduction compared to FY 2004. However, this would increase the chance of a rate increase in FY 2006. As shown below, the expected value result would be FY 2006 rates increasing back up to roughly the FY 2004 level, assuming $88 million in modified net revenue improvements and no use of the Administrator's discretion in FY 2006 (line 3).
  2. On the other hand, if the Administrator does NOT reduce the FY 2005 SN CRAC, customers will see a 4.7% rate increase compared to FY 2004. However, in FY 2006 the expected value of FY 2006 rates would be almost 6% below the FY 2004 level (line 1).
- In addition to the points made above, the table below illustrates the effect of reducing the FY 2005 rates to roughly equal those of FY 2004. This would reduce the year-to-year swings in rates seen in the other cases (line 2).

		Changes from "Unofficial June Update" ($ in Milions)			Two-year	Ending	Total Rates		Total Rates, % compared to 04	
		2004	2005	2006	TPP	06 Rsrvs	2005	2006	2005	2006
1	"Unofficial June Update" (w/o Admin. Discretion)	$ -	$ -	$ -	93.5%	$ 458	52.0%	36.7%	4.7%	-5.9%
2	Levelizing the Rates compared to FY04	$ -	$ -	$ -	89.3%	$ 438	47.1%	40.7%	1.3%	-3.4%
3	Zero SN w/ Required Revenue in 05 & 06	$ -	$ 44	$ 44	86.2%	$ 453	33.9%	46.5%	-7.7%	0.3%

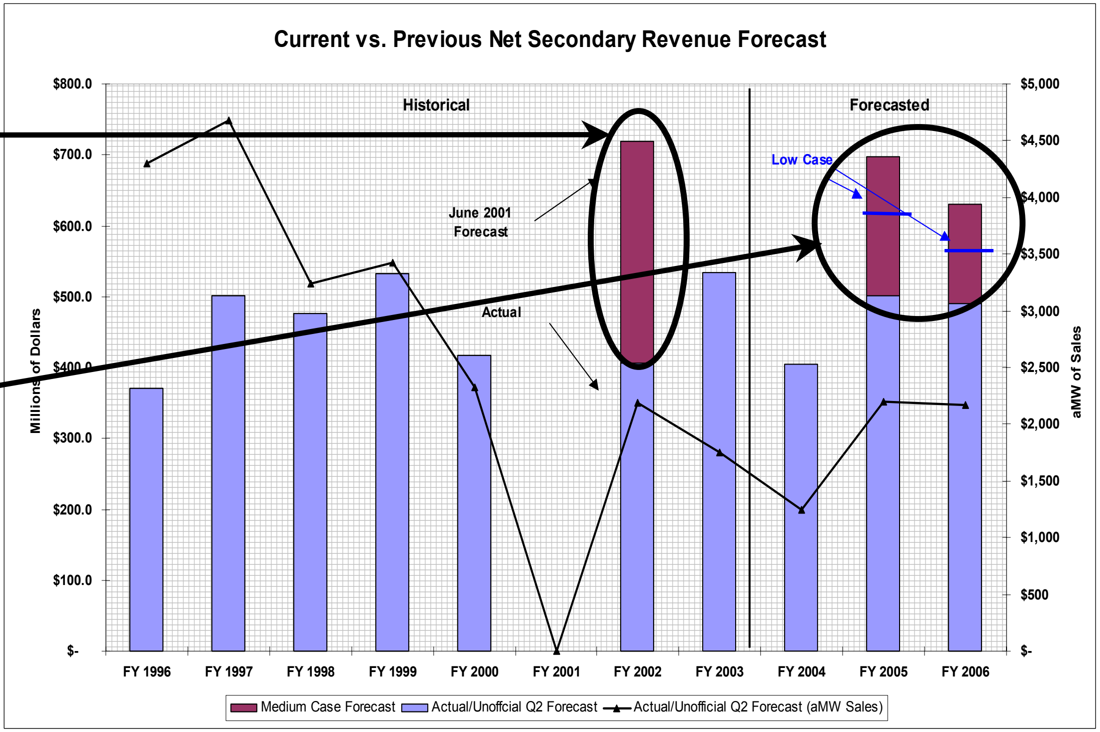
Expected values, wide range of outcomes possible…
Reduce the SN CRAC Cap from $290M to $130M to get on an expected value basis level rates compared to FY 2004.
FB and SN CRAC are rebalanced to maximize FB CRAC before calculating the SN CRAC Rate which results in a slight increase compared to FY 2004

Concerns & Considerations

- We are cautious about relying on high-levels of uncertain net secondary revenue when setting rates.
- When we established rates in June 2001, we relied on high net secondary revenues in FY 2002 in our assessment of ensuring a high TPP.
- The graph illustrates that we had forecast over $700 M in net secondary revenues in FY 2002 and actually received only $400 M. This has contributed to the financial difficulties we and the region lived through the past 2 years.
- We are facing a somewhat similar choice today. A key consideration is how much reliance on net secondary sales is prudent when setting rates, especially given that, as the graphic shows below, the highest level of net secondary revenues we've seen historically is about $530 M.

BPA actually received over $300 M less in net secondary revenues in FY 2002 compared to the forecast when it set rates.

Estimated level of additional net secondary revenues above the "Unofficial June Update" associated with the medium gas prices forecast



Concerns & Considerations

- Relying too heavily on net secondary revenues to set the FY 2005 SN CRAC:
  - o Creates more risk of a rate increase in FY 2006.
  - o Exacerbates the FY 2006 rate if we experience another low water year in FY 2005 and the Administrator had used his discretion to reduce the SN CRAC to zero in FY 2005 based on uncertain revenues.

- The table illustrates the potential rate impacts in FY 2006 and TPP from losing $50 M and $100 M in FY 2005 relative to the "Unofficial June Update" if the Administrator reduces the SN CRAC for FY 2005.

		Changes from "Unofficial June Update" ($ in Milions)			Two-year	Ending	Total Rates		Total Rates, % compared to 04	
		2004	2005	2006	TPP	06 Rsrvs	2005	2006	2005	2006
1	"Unofficial June Update" (w/o Admin. Discretion)	$ -	$ -	$ -	93.5%	$ 458	52.0%	36.7%	4.7%	-5.9%
2	FY05 SN=0%, Losing $50M in FY05	$ -	$ (50)	$ -	75.6%	$ 362	33.9%	52.3%	-7.7%	3.9%
3	FY05 SN=0%, Losing $100M in FY05	$ -	$ (100)	$ -	69.5%	$ 334	33.9%	55.1%	-7.7%	5.7%

Expected values, wide range of outcomes possible…

FB and SN CRAC are rebalanced to maximize FB CRAC before calculating the SN CRAC Rate.

- Increase the risk of low ending reserves in FY 2006 which puts pressure on rates through the next rate period.

Feedback

Given what we know today, the Administrator is inclined to use his discretion because otherwise, the GRSPs would

1. Result in a rate increase in FY 2005 and an expected value result of a rate decrease in FY 2006.
2. Not take into consideration the expense reductions identified through the Sounding Board process for FY 2005.
3. Not take into consideration potential for higher net secondary revenue in FY 2005 and FY 2006 given the change in the gas price outlook.

Again, given what we know today and the Administrator uses his discretion, it most likely means there would be no rate increase in FY 2005.

However, whether, and to what extent, we have a rate decrease depends on the following factors and considerations:

1. Securing the reduction of summer spill.
2. Actual net secondary revenues in FY 2004.
3. The risk of increasing the FY 2006 rate if the FY 2005 rate is set too low.
4. The level of reliance BPA should have on the forecast of net secondary revenues in FY 2005 and FY 2006.

Section 5: Review the Rates Setting Process and Summer Schedule

Review of Summer Schedule

- June 25th- "Unofficial June Update" Package Released
- July 1st Workshop
- Public Comments will be taken on the "Unofficial June Update" package through the end of July (See June 18, 2004, Norman letter)
- July 31st – Possible Judge Redden decision on spill
- End of July – Post 3rd Quarter Review results
- Mid August – FB/SN Workshop #1 and second public comment period begins
- Early September – Close of comment period
- Early/Mid September – Announce rates, FB/SN Workshop #2

Section 6: Appendix

Appendix A: June 16, 2004
Sounding Board Progress on $100 M Savings

	Discussion Date	Avg % of Categories	Expense Reduction/Revenue Enhancement Categories	August 28th FY 2004	August 28th FY 2005	"Unofficial June Update" FY 2004	"Unofficial June Update" FY 2005	Sounding Board June 16, 2004 Update FY 2004	Sounding Board June 16, 2004 Update FY 2005	"Unofficial June Update" vs. August 28th FY 2004	"Unofficial June Update" vs. August 28th FY 2005	"Unofficial June Update" $100 M Progress FY 2004-05	Delta "Unofficial June Update" to Sounding Board June 16, 2004 Update
1	6/15/2004	11%	Internal Operations Expenses Charged to Power Rates	$ 106.5	$ 108.5	$ 103.3	$ 108.5	$ 100.0	$ 104.8	$ (3.2)	$ 0.0	$ 3.2	$ 7.0
2	6/15/2004	2%	Generation Conservation Expense	$ 28.9	$ 29.0	$ 30.4	$ 29.0	$ 30.3	$ 31.7	$ 1.5	$ -	$ (1.5)	$ (2.7)
2a	6/15/2004		Generation Conservation Revenue	$ (9.3)	$ (9.3)	$ (10.8)	$ (9.3)	$ (10.8)	$ (12.0)	$ (1.6)	$ -	$ 1.6	$ 2.7
3	4/22/2004	25%	Columbia Generating Station O&M	$ 216.9	$ 251.7	$ 222.7	$ 243.2	$ 222.7	$ 243.2	$ 5.8	$ (8.5)	$ 2.7	$ -
4	6/15/2004	22%	Bureau of Reclamation O&M	$ 61.3	$ 63.3	$ 60.3	$ 63.3	$ 60.3	$ 63.3	$ (1.0)	$ -	$ 1.0	$ -
5	6/15/2004		Corps of Engineers O&M	$ 140.5	$ 144.5	$ 138.5	$ 144.5	$ 138.5	$ 144.5	$ (2.0)	$ -	$ 2.0	$ -
6	6/15/2004	1%	Renewable Generation Expense**	$ 23.8	$ 48.7	$ 21.1	$ 23.2	$ 20.9	$ 23.5	$ (2.7)	$ (25.4)	$ 28.1	$ (0.1)
6a	6/15/2004		Renewable Generation Revenue	$ (20.1)	$ (32.1)	$ (17.8)	$ (17.8)	$ (17.8)	$ (17.8)	$ 2.3	$ 14.4	$ (16.6)	$ -
7	6/15/2004	1%	Trojan Decommissioning	$ 12.2	$ 8.4	$ 1.4	$ 8.4	$ 1.4	$ 8.4	$ (10.8)	$ -	$ 10.8	$ -
8	6/15/2004	15%	BPA Fish & Wildlife ***	$ 139.0	$ 139.0	$ 153.9	$ 131.3	$ 153.9	$ 131.3	$ 14.9	$ (7.8)	$ (7.1)	$ -
9	6/15/2004	24%	Net Interest Expense	$ 217.8	$ 235.1	$ 172.9	$ 205.1	$ 172.9	$ 205.1	$ (44.8)	$ (30.0)	$ 74.8	$ -
10	6/15/2004	0%	Revenue Enhancements	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$
11											Total	$ 99.0	$ 7.0
12			Other Expense Categories (excluding augmentation p.p, other power purchases, Transmission, and ENW debt service)*	$ 478.7	$ 485.9	$ 477.9	$ 489.1	$ 477.9	$ 489.1	$ (0.7)	$ 3.3	$ (2.5)	$ -

*August 28th Base Other Expense Categories Includes: Canadian entitlement ($2 M), Hedging/Mitigation ($3 M), Residential Exchange costs ($144 M), Other generating projects ($32 M), Civil Service Retirement ($14 M), WNP 1&3 O&M ($0 M), Conservation and Renewable Discount ($37 M), Planning Council ($9 M), USF&W Lower Snake Hatcheries ($17 M), Colville Generation Settlement ($17 M), Non-Federal Debt Service (not including ENW) ($27 M), Depreciation ($107 M), Amortization ($74 M), and Non Project Expense Adjustments ($0 M). *[Numbers are average of FY04-05 August 28th Base]*

** The change in renewable cost will impact the LB CRAC calculation, but the magnitude of this impact is uncertain.

***Includes High Priority/Action Plan projects of $.9 M for FY04 in the 2nd Qtr Review estimate. The actual F&W budget is $153 M (not including High Priority/Action Plan projects) f FY04 and $131 M for FY05-06, averaging $139 M over the rate period.

Total through June 16, 2004 Update for Sounding Board Progress = $106 M

Important: $99M of the $106M in savings for FY 2004 and FY 2005 is already included in the "Unofficial June Update".

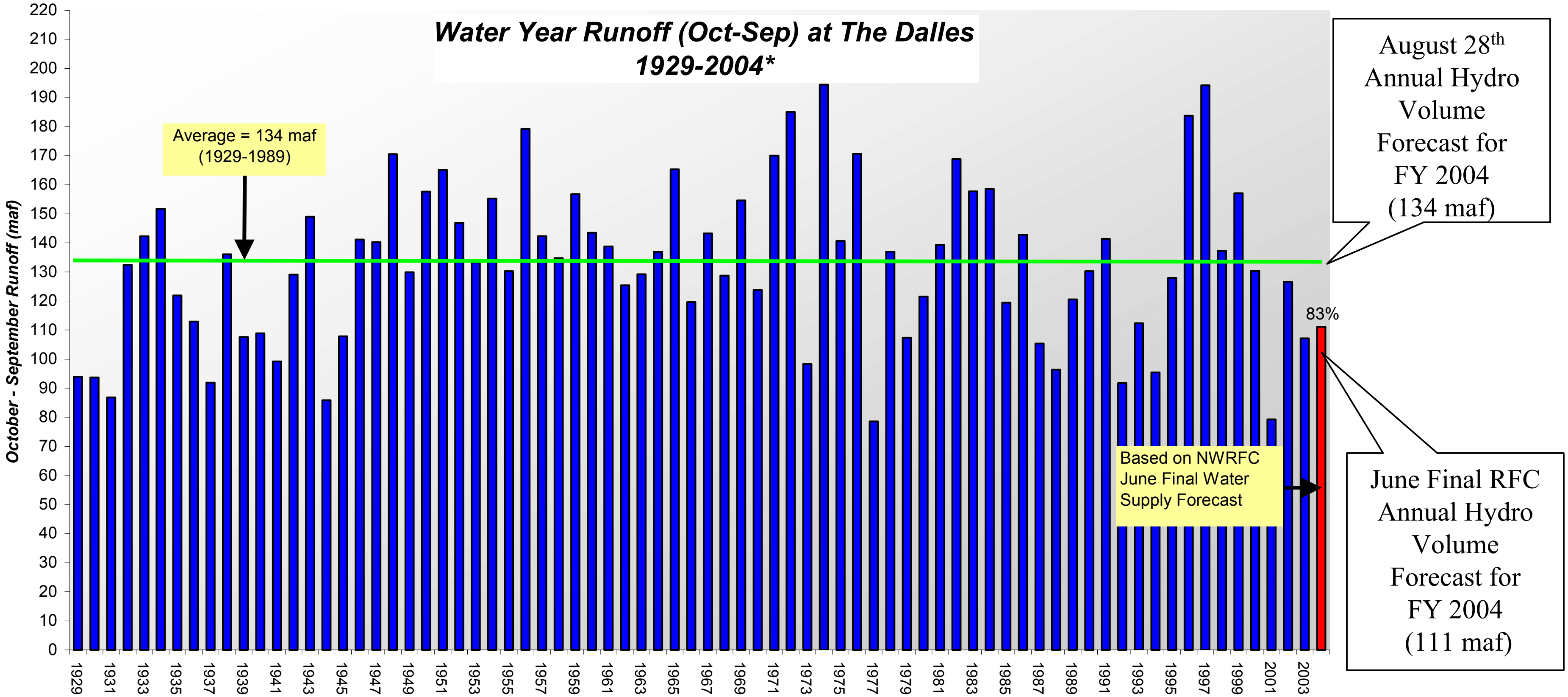
Appendix B: Expense Limits

	Final Rod FY 2004 ($M)	"Unofficial June Update" FY 2004 ($M)	Delta ($M)	Final Rod FY 2005 ($M)	"Unofficial June Update" FY 2005 ($M)	Delta ($M)
PBL Internal Ops & Corp.[1]	$105.3	$101.1	$(4.2)	$107.4	$106.0	$(1.4)
Conservation Initiatives[2]	$19.7	$19.5	$(.2)	$19.7	$19.7	$0
Residential Exchange[3]	$143.8	$129.4	$(14.4)	$143.8	$117.0	$(26.8)
Corps and Bureau O&M[4]	$164.8	$161.8	$(3.0)	$169.7	$169.7	$0
Other Generating Projects	$31.3	$27.8	$(3.5)	$31.9	$32.2	$.3
Renewable Projects	$23.8	$21.1	$(2.7)	$48.7	$23.2	$(25.5)
Civil Service Retirement Payment	$15.5	$15.5	$0	$13.3	$13.3	$0
TOTAL:	**$504.2**	**$476.2**	**$(28.0)**	**$534.5**	**$481.1**	**$(53.4)**

This is the only category we are forecasting to exceed its Expense Limits: Increased wheeling cost of Cowlitz Falls project is driving this increase.

Footnotes:
1. Does not include Slice implementation expenses
2. Does not include reimbursable contract expenses
3. Residential Exchange are the amounts of the 900 aMW of financial benefits provided under the financial portion of the REP settlement, excluding any payments by BPA to the IOUs repaying Residential Exchange expenses deferred by contract from a prior fiscal year
4. Does not include Fish & Wildlife expenses

Appendix C:
What Is Happening to Hydro in FY 2004?



*2004 projection done using NWRFC's June final forecast

- Since FY 2004 rates were set in September of 2003, the FY 2004 annual forecast of the water year runoff at the Dalles has eroded 23 maf (111 vs. 134) resulting in less revenue in FY 2004 than originally forecasted when setting rates.

Appendix D: Overview- Forecast Comparisons

	$ in Millions	FY 2004 Aug 28th Workshop	FY 2004 Dec Update to Aug 28th	FY 2004 "Unofficial June Update"	FY 2005 Aug 28th Workshop	FY 2005 Dec Update to Aug 28th	FY 2005 "Unofficial June Update"	FY 2006 Aug 28th Workshop	FY 2006 Dec Update to Aug 28th	FY 2006 "Unofficial June Update"
1	PBL Modified Net Revenue	$ 129	$ 129	$ 46	$ (9)	$ (9)	$ 207	$ (22)	$ (22)	$ (5)
2	FB/SN Accumulated Net Revenue (ANR)	$ (469)	$ (469)	$ (552)	$ (478)	$ (478)	$ (345)	$ (500)	$ (500)	$ (350)
3	Ending BPA Reserves	$ 447	$ 451	$ 492	$ 363	$ 364	$ 478	$ 325	$ 328	$ 458
4	1-Year TPP	96%	96%	100%	87%	87%	99%	80%	80%	94%
5	Total Rate	49.4%	44.8%	45.7%	52.0%	54.3%	52.0%	52.5%	54.2%	36.8%
6	*LB CRAC**	*25.6%*	*22.4%*	*23.3%*	*28.4%*	*32.0%*	*23.3%*	*29.2%*	*32.1%*	*23.7%*
7	*FB CRAC*	*12.3%*	*12.3%*	*12.3%*	*8.6%*	*8.4%*	*11.2%*	*9.6%*	*9.3%*	*9.2%*
8	*SN CRAC*	*11.5%*	*10.1%*	*10.1%*	*15.0%*	*13.9%*	*17.5%*	*13.7%*	*12.8%*	*3.9%*
9	Net Secondary Sales Forecast	$ 636	$ 556	$ 404	$ 502	$ 518	$ 501	$ 472	$ 488	$ 490
10	Gas Prices ($/MMBtu)	$ 4.6	$ 4.6	$ 4.9	$ 3.5	$ 3.5	$ 4.3	$ 3.9	$ 3.9	$ 4.4
11	Annual Weighted Avg Net Sales Price ($/MWh)	$ 28.7	$ 28.7	$ 37.1	$ 23.9	$ 23.9	$ 26.0	$ 23.8	$ 23.8	$ 25.8
12	Hydro Volume Forecast (maf)									
12a	Oct - Sept (RFC)	134	134	112	134	134	134	134	134	134
12b	Jan - July (RFC)	103	103	84	103	103	103	103	103	103
13	Summer Spill Assumption	BiOp	BiOp	BiOp	BiOp	BiOp	BiOp	BiOp	BiOp	BiOp
14	Internal Operations Expenses	$ 106	$ 106	$ 103	$ 108	$ 108	$ 108	$ 110	$ 110	$ 110

**LB CRAC from June 16, 2004 Workshop*

FB/SN CRAC ANR Caps and Thresholds:

- FY 2004 FB/SN CRAC Threshold = ($264 M)
- FY 2005 FB?SN CRAC Threshold = ($252 M)

- FY 2004 FB Cap = $150 M
- FY 2005 FB Cap = $175 M
- FY 2004 SN Cap = $290 M
- FY 2005 SN Cap = $290 M