3/6/03

SUGGESTIONS FOR ADDRESSING BPA'S FINANCIAL SITUATION

The following is a more detailed description of the proposal advanced by John Saven at the BPA Customer Workshop on February 25th, 2003, on how to address BPA's financial situation in light of the high unemployment and dire economic circumstances that the Northwest is currently experiencing. It focuses on providing BPA with a high probability of making its Treasury payments on time and in full in 2003 and 2004, and includes the tools necessary to provide BPA a reasonable probability of making its Treasury payments in 2005 and 2006 regardless of how events unfold in the last two years of the rate period.

This document addresses an extremely complicated situation and was prepared in a very short period of time. It represents the efforts of technical representatives and staff of public and private utilities, industrial and direct service customers. Due to time constraints and BPA's request that this document be provided as soon as possible, the ideas set out in this document have not been reviewed or approved by the boards, governing bodies, regulators or management of any customer or group of customers.

Elements of the Proposal

1. There will be no rate increase effective October 1, 2003 under the recently initiated SN CRAC proceeding.

2. The current SN CRAC proceeding will be either terminated or suspended until October of 2003, at which time the SN CRAC process could be commenced if needed. The schedule for an October 2003 SN CRAC process will call for a final decision by the end of January 2004. In the event that the SN CRAC process started in October of 2003 indicates that a rate increase is required, such increase will take effect on April 1, 2004, and remain in place for a 12-month period.

3. The need for any SN CRAC rate increase in addition to that resulting from the October 2003 process will be reviewed in a new section 7(i) process on a year-to-year basis for the remainder of the rate period, using the October commencement and April effective date schedule. No SN CRAC rate increase imposed during this rate period will exceed 12 months in duration; an increase taking effect on April 1, 2006 would only last until the end of the rate period.

4. In order to achieve an acceptable probability of Treasury payment in 2003 2004 and 2005 in a manner that does not do irreparable harm to the regional economy, about $100 million of the $315 million in Energy Northwest (ENW) refinancing proceeds will be placed in a reserve of last resort to be used to ensure Treasury payment in 2003, 2004 and 2005. This amount would be released from the reserve of last resort in 2006 and will be used to prepay the Treasury consistent with the debt optimization plan. The remaining $215 million in refinancing

proceeds ($315 minus $100) not being placed in a reserve of last resort will be used to prepay Treasury immediately, consistent with the debt optimization program.

5. For 2003, in combination of the $100 million in a reserve of last resort, the following adjustments to cash will be made: (i) $15 million in cost reductions recently identified by BPA, and an additional $30 million in cost reductions from the $420 million in potential cost reductions identified by BPA as not yet achieved; (ii) increased secondary sales revenues of $23 million based on most recent snow pack information; and (iii) $75 million in additional revenues from secondary energy sales through October 2003 and increased 4(h)(10)(c) credits based on recent higher market prices. These adjustments to cash, in addition to the $100 million reserve of last resort, will produce a Treasury payment probability (TPP) of 100% for 2003, and ending reserve levels of $294 million.

6. For 2004, in combination with retaining in a reserve of last resort the portion of the $100 million of the ENW refinancing proceeds not used in 2003, the following adjustments to cash will be made: (i) $20 million in cost reductions in addition to the $45 million identified for 2003, for a total of $65 million in cost reductions in 2004; (ii) $55 million in deferred payments of Subscription monetary benefits to the investor owned utilities. These adjustments to cash, in addition to the $100 million reserve of last resort, will produce a TPP of 74% for 2004, and ending reserve levels of $210 million.

7. It is reasonable to assume that the pending litigation regarding Subscription contracts will be settled in the near future pursuant to a comprehensive settlement dealing with the issues raised by that litigation, and that such settlement will relieve BPA of its contractual obligation to pay certain investor owned utilities $200 million dollars during the remainder of this rate period. Assuming such a settlement is achieved, the following cost reductions will be available: at least $50 million per year available to BPA in 2004 through 2006, as well as the $50 million payment obligation that is currently being deferred out of 2003. This will result in a $67 million cost reduction for BPA over the remaining three years of the rate period. BPA will retain these funds using the least administratively burdensome approach, in a way that distributes the cost responsibility for this $67 million among the customers in the same manner as a $67 million increase to the SN CRAC and that does not result in a cost shift to any customer group.

8. Assuming the retention by BPA of the $67 million litigation penalty payment for the remainder of the rate period, continuation of the $55 million monetary benefit deferral by the investor owned utilities, and an additional $25 million in cost reductions in addition to those assumed for 2004, for total of cost reductions of $90 million in both 2005 and 2006, BPA would have a TPP for 2004, 2005 and 2006 of 83%, 70% and 63% respectively. The ending balances for 2004, 2005 and 2006 would be $278 million, $238 million and $203 million respectively. The foregoing TPP percentages and ending year reserve levels can be achieved

without using all of the cash tools available to BPA, which include shaping the Subscription contract buy-down payments to the investor owned utilities to match BPA's revenue stream, reducing spill operations, assuming that there will be average or better water conditions during some or all of the remaining years of the rate period, or calling on BPA's line of credit.

9. Attachment 1 sets out in spreadsheet form the year-by-year adjustments to cash and assumptions underlying the suggestions described above. In its simplest form, this document suggests that BPA position itself financially to ensure that the Treasury be paid in full and on time in 2003 and 2004 without subjecting the region and its fragile economy to an SN CRAC rate increase. It also suggests that there are sufficient additional tools available to provide a reasonable probability of Treasury payment in 2005 and 2006. It also suggests that by taking a year-by-year approach to this situation, BPA can avoid imposing a potentially catastrophic rate increase on the region based on assumed unfavorable events in later years of the rate period that may, in fact, never occur, and which the SN CRAC will remain available to address if these additional tools prove to be inadequate in the last two years of the rate period.

Attachment 1

Cash Adjustments (in millions)

	ENW Refinancing Proceeds	First Round Cost Cuts	Further Cost Cuts	IOU Deferrals	Results from Higher MAF	Higher Secondary Revenues/4h10c from Higher Prices	Further Reductions (in the form of IOU litigation settlement)	**Total**	**TPP (%)**	**Ending Reserves**
FY03	100	15	30	0	23	75	0	**243**	100%	294
FY04	0	15	50	55			67	**187**	83%	279
FY05	0	20	70	55			67	**212**	70%	238
FY06	-100	20	70	55			67	**112**	63%	203
Total	**0**	**70**	**220**	**165**	**23**	**75**	**201**	**754**		