Bonneville Power Administration
Power Business Line

2003 Safety-Net Cost Recovery Adjustment Clause Initial Proposal

Direct Testimony

SN-03-E-BPA-09 REVENUE FORECAST

March 2003

INDEX

TESTIMONY OF

SPENCER G. WEDLUND, JON A. HIRSCH, JANET ROSS KLIPPSTEIN,

AND ARNOLD L. WAGNER

Witnesses for Bonneville Power Administration

SUBJECT: Revenue and Purchased Power Expense Forecast

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SUBJECT: REVENUE FORECAST

Section 1. Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

A. My name is Spencer G. Wedlund. My qualifications are contained in SN-03-Q-BPA-28.

A. My name is Jon A. Hirsch. My qualifications are contained in SN-03-Q-BPA-05.

A. My name is Janet Ross Klippstein. My qualifications are contained in SN-03-Q-BPA-09.

A. My name is Arnold L. Wagner. My qualifications are contained in SN-03-E-BPA-27.

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to sponsor the revenue forecast contained in Chapter 6 of the Safety-Net Cost Recovery Adjustment Clause (SN CRAC) Study (SN-03 Study), SN-03-E-BPA-01, and in Chapter 6 of the Documentation for SN-03 Study, SN-03-E-BPA-02.

Q. How is your testimony organized?

A. Our testimony has nine sections, including this introductory section. The second section summarizes the Bonneville Power Administration's (BPA) revenue forecast. The third section describes the forecast of revenues from sales subject to the SN CRAC. The fourth section describes the forecast of revenues from sales not subject to the SN CRAC. The fifth section addresses the changes to BPA's revenue forecast methodology since BPA's 2002 power rate filing (*see* Wholesale Power Rate Development Study and Documentation (WPRDS) WP-02-FS-BPA-05 and 05A). The sixth section discusses the calculation of Fish Cost Contingency Fund (FCCF) credits. The seventh section discusses section 4(h)(10)(C) credits. The eighth section discusses the estimates of BPA's augmentation power purchases and expenses. Finally, the ninth section discusses possible changes in the forecast that would be reflected in the Final SN-03 Rate Proposal.

Section 2. Revenue Forecast

Q. What is the purpose of the revenue forecast?

A. The revenue forecast documents the revenue BPA expects to receive during the rate period given a specified set of rates. Two revenue forecasts were prepared for this proposal: revenues from current rates and revenues from proposed rates.

Q. What is the purpose of the revenue forecast at current rates?

A. The revenue forecast at current rates documents the revenues BPA expects to receive during the period fiscal year (FY) 2003 through FY 2006, using the existing rates that became effective on October 1, 2002 (*see* Wholesale Power Rate Development Study (WPRDS), WP-02-FS-BPA-05). This forecast reflects the application of the Load-Based (LB) and Financial-Based (FB) CRACs. Pursuant to U.S. Department of Energy Order RA-6120.2, the current revenue forecast is used to test whether revenues from existing rates satisfy BPA's revenue requirement.

Q. What is the purpose of the revenue forecast at proposed rates?

A. The revenue forecast at proposed rates documents the revenues BPA expects to receive from sales over the rate period (FY 2003 through 2006) from the proposed rates. The forecast of revenues at proposed rates reflects the application of the LB, FB, and SN CRACs. This forecast is used to demonstrate that the proposed rates enable BPA to meet its revenue requirement. The annual SN CRAC percentages are described and shown in the SN-03 Study, SN-03-E-BPA-01, Chapter 7, and in the testimony of McCoy, *et al.*, SN-03-E-BPA-10.

Q. What revenues are projected for FY 2002-2006 in the proposed rate revenue forecast?

A. Revenues expected over the rate period using proposed rates are $2,984 million in FY 2003, $3,217 million in FY 2004, $3,258 million in FY 2005, and $3,143 million in FY 2006. *See* Documentation for SN-03 Study, SN-03-E-BPA-02, Chapter 5. The following sections briefly describe the component parts of the revenue forecast.

Section 3. Revenues from Sales Subject to the SN CRAC

Q. How did BPA calculate Priority Firm (PF) revenues from sales subject to the SN CRAC?

A. BPA applied the 2002 base rates adjusted for the LB CRAC to the forecasted billing quantities, applied any discounts, and then added the revenues expected from the combined FB and SN CRACs to those revenues. The calculation of PF revenues subject to the SN CRAC is described in greater detail in Chapter 5.2.1.1 of the SN-03 Study, SN-03-E-BPA-01. The FB and SN CRAC percentages are added together when calculating the incremental revenue to be recovered from the SN CRAC.

Q. Why are the FB CRAC and SN CRAC percentages added together to estimate PF revenues?

A. The FB and SN CRAC percentages are added together for two reasons. First, because both the FB and the SN CRAC are applied to BPA's May 2000 rates (*see* WPRDS, WP-02-FS-BPA-05), adding the percentages together saves calculations. Second, because the subsequent FB CRAC percentages can be affected by the SN CRAC percentage in the prior year, the combined revenue provides a more accurate picture of the expected revenue than that of the revenue from each CRAC separately.

Q. Is the Conservation and Renewables Discount (C&RD) included in the revenue forecast?

A. No. The C&RD is a period cost or expense rather than a reduction to revenue. BPA is giving participating customers a flat monthly dollar credit on their power bill each month for 5 years based on their forecasted load obligations *and* their agreement to provide conservation measures to their customers. Federal Accounting Standards Board (FASB) interpretations of generally accepted accounting principles (GAAP) support this conclusion.

Q. How did BPA calculate Industrial Firm Power (IP) revenues?

A. BPA applied the base IP rates adjusted for the LB CRAC to the forecasted energy and demand billing quantities subject to the IP rate, then calculated the additional revenues expected from the FB and SN CRAC adjustments, and then estimated take-or-pay damages to the extent that the adjusted prices exceeded the forecasted market price of power. The calculation of IP revenues is described in greater detail in Chapter 5.2.1.2 of the SN-03 Study, SN-03-E-BPA-01.

Q. What are take-or-pay damages?

A. Take-or-pay damages, as specified in the take-or-pay provisions of the direct service industrial (DSI) contracts, occur when IP purchases are curtailed and the reasonable market value of the curtailed amount is less than the IP-02 value. If the reasonable market value exceeds the IP-02 value for the curtailed power, no damages are assessed. The damage amount, if any, owed by a DSI is determined at the end of the contract year by summing the reasonable market value multiplied by the curtailed power amount, minus the IP-02 rate multiplied by the curtailed power amount.

Q. Did BPA include take-or-pay damages in the IP revenue calculation?

A. Yes. Take-or-pay damages are considered revenue and the calculation of those damages is described in Chapter 5.2.1.2 of the SN-03 Study, SN-03-E-BPA-01.

Q. Were take-or-pay damages included for all DSI customers?

A. No. BPA believes there is a low likelihood that BPA could recover take-or-pay damages associated with the Golden Northwest and Longview Aluminum operations because of the financial difficulties they are experiencing. Golden Northwest Aluminum currently owes take-or-pay damages for FY 2002 that have not been paid. Longview Aluminum has declared bankruptcy and any payment would need to await a bankruptcy court ruling.

BPA has not assumed any take-or-pay damages for Columbia Falls Aluminum because Columbia Falls has a one-time opportunity to reduce its purchases without incurring any damages for the reduced portion. Consequently, Alcoa may be the only DSI customer with a power purchase obligation and the financial strength to pay BPA take-or-pay damages. These damages are included in the proposed revenue forecast.

Q. How did BPA determine the FB and SN CRAC revenues from PF Exchange Subscription sales to Northwestern Energy and from Residential Load (RL) sales to Avista, Idaho Power Company, and Portland General Electric (PGE)?

A. BPA applied the PF Exchange Subscription rate, adjusted for the LB CRAC, to the Subscription power sale to Northwestern Energy (formerly Montana Power Company). Northwestern Energy purchased 13 aMW of power, which is offset by an equal power buyback. For Subscription power sales to Avista and Idaho Power, BPA applied the Residential Load (RL) base rates, adjusted for the LB CRAC, to the respective power sales. Avista purchased 48 aMW and Idaho Power purchased 63 aMW at the RL rate. These sales also are offset by equal amounts of power buybacks. For Subscription power sales to PGE, BPA applied the RL base rate, adjusted for the LB CRAC, to the PGE power sale. PGE purchases 258 aMW over the period FY 2004-06.

BPA multiplies the sum of the FB and SN CRAC percentages to the RL rate and PF Exchange Subscription rate and multiplies those rates by the forecasted billing quantities to calculate the RL and PF Exchange Subscription revenues from the FB and SN CRAC percentages. These are added to the base revenues from the sales of RL and PF Exchange Subscription power, adjusted for the LB CRAC, to those utilities. The FB and SN CRAC revenues from sales at the RL and PF Exchange Subscription rates are described in Chapter 5.2.1.3 of the SN-03 Study, SN-03-E-BPA-01. Monthly revenue detail is shown in the Documentation for SN-03 Study, SN-03-E-BPA-02, Chapter 5.

Q. Did BPA forecast that it would receive any FB and SN CRAC revenues from the IOU load reductions for PacifiCorp and Puget Sound Energy (Puget)?

A. No, BPA did not forecast that it would receive any FB or SN CRAC revenues from the 618 aMW combined load reductions from PacifiCorp and Puget.

Q. Does the SN CRAC impact payments to PacifiCorp and Puget under their load reduction contracts?

A. Yes, payments are reduced. In the event the SN CRAC is implemented, BPA would reduce its contract payments to PacifiCorp and Puget for their load reductions. The dollar per megawatt-hour payments are reduced by an amount equal to the increase in the lowest PF rate (at 100 percent load factor) above the maximum amount allowed under the FB CRAC; in other words, the flat block RL (or PF) rate ($19.76/MWh) times that portion of the SN CRAC after exceeding the maximum FB CRAC. *See* Attachment 1 (Contract No. 01PB-10854, Section 4(c)(1), and Contract No. 01PB-10885, Section 4(b)(1)(C)(i)).

Q. Does BPA's revenue forecast for its proposed rates reflect a reduction in payments under the PacifiCorp and Puget contracts?

A. No. BPA's revenue forecast does not reflect the reduction in payments to PacifiCorp and Puget for load reduction expenses.

Q. Why does BPA's revenue forecast not reflect any reductions in these payments?

A. The contract clauses in Attachment 1 were discovered late in the process of preparing BPA's initial proposal. Several days were required to incorporate the changes. Any reduction in load reduction expenses would have been offset by a reduction in the LB CRAC percentage. Therefore, it did not affect the SN CRAC analysis, but it will be taken into account when BPA prepares its final studies.

Q. How did BPA determine SN CRAC revenues from the monetary benefits provided in the IOUs' Residential Exchange Program settlement agreements?

A. BPA multiplied the SN CRAC percentage by the flat block RL rate of $19.76/MWh (the base RL rate at 100 percent load factor), and multiplied that adjusted rate by 900 aMW. The SN CRAC revenues from the IOU monetary benefits also are described in Chapter 5.2.1.3 of the SN-03 Study, SN-03-E-BPA-01.

Q. Did BPA forecast SN CRAC revenues from regional and extra-regional long-term contracts?

A. Yes. BPA has one such contract that is affected by the SN CRAC. For that contract with Bay Area Rapid Transit (BART), BPA added the LB, FB, and SN CRAC percentages together and multiplied one plus that sum by the rate specified in the contract, and multiplied that adjusted rate by the billing quantities. The calculation of revenues from the BART contract is described in Chapter 5.2.1.4 of the SN-03 Study, SN-03-E-BPA-01. Other contracts with Burbank, Glendale, and Pasadena that would be affected by the SN CRAC are currently not in the sales mode, so no change in revenue is expected.

Q. Are any other revenues subject to the SN CRAC?

A. No.

Section 4. Revenues from Sales Not Subject to the SN CRAC

Q. Are there regional or extra-regional contracts not subject to the FB or SN CRACs?

A. Yes. BPA has many contractual arrangements that are not subject to the FB or SN CRACs. These include pre-Subscription contracts with public agencies, long-term contracts with Northwest and Southwest utilities negotiated prior to BPA's 2002 rate filing (*see* WPRDS Documentation, WP-02-FS-BPA-05A), and hundreds of short-term power sales contracts.

Q. How did BPA determine the revenues from these regional and extra-regional contracts?

A. The revenues from these long-term contracts were determined by applying the contract rates to the contract billing quantities. These quantities were summed on a month-by-month basis and divided into regional and extra-regional groups depending on the destination of the power sale. The revenues from regional and extra-regional contracts (including BART) are reported in the Documentation for SN-03 Study, SN-03-E-BPA-02, Chapter 5.

Q. How did BPA develop the forecast of secondary energy sales revenues?

A. The forecast of secondary energy sales is explained in the SN-03 Study, SN-03-E-BPA-01, Chapter 4, and in the testimony of Oliver, *et al*., SN-03-E-BPA-08.

Q. How did BPA develop its forecast of revenues from ancillary and reserve products?

A. BPA estimated the revenues from ancillary and reserve products based on the cost of providing the various services. For the most part, these revenues are costs to TBL and do not improve BPA's overall financial position. BPA's forecast of ancillary and reserve products is described in Chapter 5.4.8 of the SN-03 Study, SN-03-E-BPA-01.

Q. Does BPA receive any other credits?

A. Yes. Credits that BPA receives from the U.S. Treasury (Treasury) for payments to the Colville Tribe during the rate period are defined in legislation. The U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation (Reclamation) provide credits for payments received for downstream benefits that are equal to the amounts paid to Corps and Reclamation by the owners of downstream projects.

Q. What is the Slice True-Up Adjustment Charge?

A. The Slice True-Up Adjustment Charge is a mechanism used to recover differences between forecasted and actual costs and credits of the Slice Revenue Requirement. This mechanism ensures that Slice purchasers pay their proportionate share of BPA's actual PBL costs.

Q. How did BPA determine the magnitude of the Slice True-Up?

A. Revenues from the Slice True-Up Adjustment for FY 2003 through 2006 were calculated by computing the differences for FY 2003 through 2006 between (1) the forecasted total Slice Revenue Requirement based on the SN-03 Study costs and revenues and (2) the forecasted total Slice Revenue Requirement from BPA's May 2000 power rate filing (*see* WPRDS, WP-02-FS-BPA-05). These differences were multiplied by 0.226 (Slice purchasers bought 22.6 percent of the generation output of the federal system) to derive estimates of the revenues that BPA will collect from Slice purchasers through the Slice True-Up Adjustment Charge. In addition, $2 million was added to these amounts for each year (FY 2003-2006) to account for the Slice Implementation Expenses that will be collected from Slice purchasers directly.

Q. What models were used to forecast BPA's revenues?

A. In order to forecast revenues for this proposal, BPA used a series of linked spreadsheets. The spreadsheets calculate revenues on a contract-by-contract basis. The contracts are grouped by full requirements, partial requirements, block sales, Slice sales, and pre-Subscription sales. The linked spreadsheets incorporate results from other spreadsheets that apply rates to the sales forecasts and contract commitments. BPA's revenue forecast is based on the billing determinants from the loads associated with regional Subscription and pre-Subscription sales. The forecast also includes revenues from short-term surplus market sales that were derived using RiskMod. RiskMod also was used to derive estimates of FCCF credits, 4(h)(10)(C) credits, and purchased power expenses. RiskMod is discussed in the testimony of Conger, *et al.*, SN-03-E-BPA-07, and in the SN-03 Study, SN-03-E-BPA-01, Chapter 6.

Section 5. Changes to the Revenue Forecast since BPA's 2002 Rate Filing

Q. Have there been any significant changes to the revenue forecast methodology since BPA prepared its 2002 rate proposal (see WPRDS and Documentation, WP-02-FS-BPA-05 and 05A)?

A. Yes. In the past, revenues had been estimated within the revenue forecast spreadsheet. Now revenues are estimated on a contract-by-contract basis except for secondary energy sales. Secondary energy sales are not made on a contract-by-contract basis because the power for such sales is the power remaining after firm loads have been served, which may be available depending upon water conditions. The forecast of revenues from secondary energy sales is described in the testimony of Oliver, *et al*., SN-03-E-BPA-08.

Q. Why was this change made?

A. This change was made for three reasons: (1) when BPA's rates were developed in May 2000, there was not enough information to develop revenues on a contract-by-contract basis because contracts had not been signed; (2) the product choices are different now with full, partial, block and Slice products; and (3) the rate choices are different. For example, some requirements customers (and partial requirements customers) are served at a stepped rate and others at a flat rate.

Q. Are these detailed spreadsheets included in the documentation?

A. No. These spreadsheets contain confidential information, but summary tables are provided in the SN-03 Study Documentation, SN-03-E-BPA-02, Chapter 5.

Q. Has BPA made any other changes to the revenue forecast methodology?

A. Yes. The estimated low-density discount (LDD) calculation in BPA's 2002 rate filing was replaced by a more detailed LDD calculation that shows the LDD for each revenue category.

Q. Why was this done?

A. BPA's previous load forecast did not include customer or contract-specific data, so BPA estimated the LDD for all customers as a group. In BPA's current forecast, the contract-specific data was available and therefore the LDD was calculated for each contract and the data is summarized by customer categories such as full requirements, partial requirements, block sales, and Slice.

Q. *Are there any other changes to the revenue forecast methodology?*

A. Yes. In BPA's prior rate filing (*see* WPRDS Documentation, WP-02-FS-BPA-05A), the loads and revenues of the generating utilities and full requirements customers were aggregated prior to applying rates and estimating revenues. In the current proceeding, the loads and revenues of the generating utilities and full requirements customers are reported separately.

Q. *Why are the loads and revenues of the full and partial requirements customers reported separately?*

A. This is because the full requirements and partial requirements products are different. Separate groupings allow for more direct product comparisons and analysis of changes in product sales over time.

Q. *Are there any other changes since BPA's 2002 WP-02 power rate filing?*

A. Yes. In BPA's 2002 rate filing (*see* WPRDS Documentation, WP-02-FS-BP-05A), revenues from regional pre-Subscription contracts were estimated by applying the PF billing determinants (*i.e.*, HLH energy, LLH energy, demand, and load variance) to the sum of the forecasted contract billing quantities. In the current rate proposal, the revenues from each contract are calculated and then summed prior to reporting them.

Q. *Is the revenue detail behind the pre-Subscription contracts publicly available?*

A. No. Many of the contracts contain provisions for maintaining confidentiality of certain contract terms. Summary data is available in the Documentation for SN-03 Study, SN-03-E-BPA-02, Chapter 5.

Section 6. Fish Cost Contingency Fund

Q. What is the Fish Cost Contingency Fund (FCCF)?

A. The FCCF is a finite fund of credits earned prior to 1994 under section 4(h)(10)(C) of the Northwest Power Act. BPA may access these credits as a result of an agreement between BPA and the Clinton Administration that was formalized in a Memorandum of Agreement (MOA) dated September 13, 1996. The MOA provides BPA access to these credits under certain conditions. The credits are designed to compensate power customers for fish and wildlife expenditures BPA has made at projects where costs are not allocated entirely to power. BPA is allowed to take a credit for the fraction of the expenditures equal to the proportion of cost allocation assigned to non-power uses.

Q. Have there been any changes to the table of FCCF credit values since BPA's May 2000 rate case study (see WPRDS Documentation, WP-02-FS-BP-05A)?

A. Yes. The starting balance in the FCCF fund has been revised from $325 million to $79 million due to credits claimed in FY 2001 during the drought.

Q. Has BPA changed the methodology for computing FCCF credits?

A. No. The methodology is the same as used in the WPRDS Documentation, WP-02-FS-BP-05A.

Q. Does the FCCF credit calculation in the current proposal consider the volume runoff forecast for January through July of 2003?

A. Yes. The 50 historical water years have been assigned weights to represent the volume runoff forecast for January through July of 2003. *See* Documentation for SN-03 Study, SN-03-E-BPA-02, Chapter 5. The expected value of FCCF credits is calculated using the weights assigned to each of the water years and limits the credits to the remaining FCCF balance of $79 million.

Q. How are FCCF credits taken into account in the revenue forecast?

A. An estimate of the FCCF credits that can be claimed is made and those credits are added to BPA's revenues. At the beginning of FY 2004, BPA expects that only $79 million will remain in the FCCF fund. That amount can only be accessed if relatively poor net revenue conditions occur, and only up to $79 million. If any amount is accessed in 2004, it is unavailable in subsequent years. The determination of the FCCF credits is discussed in Chapter 6 of the SN-03 Study, SN-03-E-BPA-01, and in the testimony of Conger, *et al*., SN-03-E-BPA-07.

Section 7. Section 4(h)(10)(C) Credits

Q. What are section 4(h)(10)(C) credits?

A. Section 4(h)(10)(C) credits are credits provided by the Treasury to offset a portion of the additional costs BPA incurs for fish and wildlife recovery efforts. For a complete discussion of section 4(h)(10)(C) credits, *see* Lefler, *et al*., SN-03-E-BPA-06.

Q. What are the components of section 4(h)(10)(C) credits?

A. There are three components to the credits: the capital cost component, the expense component, and the operational audit component. Values for each of these components are provided in Chapter 5 of the Documentation of the SN-03 Study, SN-03-E-BPA-02.

Q. What are section 4(h)(10)(C) operational credits?

A. Section 4(h)(10)(C) operational credits are credits provided to offset a portion of the additional purchased power expenses BPA incurs due to changed operations for fish and wildlife recovery. The credits do not include lost revenues due to fish and wildlife recovery operations.

Q. *Are the operational credits affected by runoff conditions?*

A. Yes. The operational credits are affected by runoff conditions because the combination of low runoff with changed hydro operations can significantly increase purchased power expenses.

Q. *What are the operational credits that are incorporated in BPA's rate proposal?*

A. The operational credits in this proposal average slightly less than $28 million per year. *See* Documentation for SN-03 Study, SN-03-E-BPA-02, Chapter 5.

Q. *Does BPA's current forecast revise the way operational credits are calculated?*

A. No, but BPA intends to reflect actual water conditions through March in its final estimate of 4(h)(10)(C) credits rather than wait until the end of this year to prepare that calculation. Since the operational credits are based on purchased power expenses, most of them occur during this period. Consequently, the 4(h)(10)(C) credits estimated for the final proposal should closely approximate the actual credits for the year.

Q. *Does BPA's 4(h)(10)(C) credit forecast reflect the January through July volume runoff forecast?*

A. Yes. The 4(h)(10)(C) credits are calculated based on the weighted water years used in the January through July volume runoff forecast.

Section 8. Augmentation Purchased Power Expenses

Q. *What are BPA's forecasted augmentation power purchases and expenses for FY 2004 through 2006?*

A. BPA's average augmentation purchase forecast for the FY 2004-2006 period, excluding load reductions and renewable resources, is 1,305 aMW, or 2,126 aMW with load reductions. The total average annual cost of all augmentation purchases, including load reductions but excluding renewable resources, is $754 million.

Q. *Do augmentation purchased power expenses change in the forecast of revenues at proposed rates?*

A. These expenses do not change in BPA's initial proposal. If there had been sufficient time to reflect the IOU load reductions, the augmentation expenses would have declined by about $30 million per year and the LB CRAC would have been adjusted such that revenues subject to the LB CRAC would have declined by a similar amount.

Q. *What is the total amount of load reductions included in the augmentation forecast?*

A. Total load reductions during the FY 2004-2006 period average 821 aMW. The cost of these reductions is included in the forecast of augmentation expenses.

Q. *How are augmentation expenses used?*

A. Augmentation expenses are one component of total expenses. Augmentation expenses are used to determine the LB CRAC percentages.

Q. *What is the amount of renewable resources used to serve augmented system loads?*

A. Renewable resource purchases used to serve augmented system loads average 62 aMW over the period FY 2004-2006.

Q. *Are renewable resource expenses included in the original calculation of augmentation purchases?*

A. No. Renewable resource expenses were excluded from the original total of augmentation purchases because they are captured in the renewable resource program as an expense line item.

Section 9. Changes to Revenue Forecast and Augmentation Purchased Power Expense Forecast

Q. *Are any elements of the revenue forecast likely to change prior to BPA's Final SN-03 Rate Proposal?*

A. Yes. Before new rates are filed with FERC, BPA will have received updated information on revenues during FY 2003, so the current FY 2003 forecast will be replaced in part by actual revenues. This includes the revised estimate of 4(h)(10)(C) credits based on actual streamflows through March of this year. This will have the effect of changing the level of expected reserves at the beginning of FY 2004. If there are changes in the load forecast or in the augmentation purchases for the period FY 2004-2006, those revisions also would be reflected. BPA will fully reflect the effect of the IOU load reductions on both augmentation expenses and the LB CRAC. Also, if the level of the SN CRAC changes for the final proposal, corresponding revisions would be made to the revenue forecast.

Q. Does this conclude your testimony?

A. Yes.

ATTACHMENT 1

AUTHENTICATED

Contract No. 01PB-10854

FINANCIAL SETTLEMENT AGREEMENT
executed by the
BONNEVILLE POWER ADMINISTRATION
and
PACIFICORP

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This FINANCIAL SETTLEMENT AGREEMENT (Agreement) is executed by the UNITED STATES OF AMERICA, Department of Energy, acting by and through the BONNEVILLE POWER ADMINISTRATION (BPA), and PACIFICORP (PacifiCorp). PacifiCorp is a corporation organized under the laws of the State of Oregon. BPA and PacifiCorp are sometimes referred to in the singular as "Party" or in the plural as "Parties."

4. CASH PAYMENTS

BPA shall make monthly cash payments to PacifiCorp as follows:

(a) **October 1, 2001, through September 30, 2002**

During the period that begins October 1, 2001, and continues through September 30, 2002, BPA shall pay PacifiCorp monthly amounts equal to:

Payment Type	Monthly Amount ($)
Total Payment	$6,634,240[*/]

[*/] If it is determined that one or more load reduction contingency provisions under sections 4(e)(1), 4(e)(2), 4(e)(3), 4(e)(4), and 4(e)(5) have occurred, then this total monthly payment shall be increased to $6,962,740 on the earliest date specified in an applicable section.

(b) **October 1, 2002, through September 30, 2006**

During the period that begins October 1, 2002, and continues through September 30, 2006, BPA shall pay PacifiCorp monthly amounts equal to:

Payment Type	Monthly Amount ($)
Base Payment	$8,644,058 [1/]
Reduction of Risk Discount	$1,681,318
Net Payment:	$6,962,740 [2/]

[1/] This amount shall be equal to $8,667,740 during a leap year.

[2/] If, by December 1, 2001, PacifiCorp has entered into a settlement agreement with any of BPA's publicly-owned utility and cooperative customers that waives and dismisses legal challenges to any of the following: (1) the Settlement Agreement; (2) this Agreement; (3) the Residential Purchase and Sale Agreement Record of Decision (ROD); (4) the Power Subscription Strategy RODs, including the Residential Exchange Program Settlement ROD; and (5) the application of the 7(b)(2) surcharge to BPA's WP-02 rates, then this payment shall be reduced to $6,962,740 ($6,981,876 during a leap year).

(c) **Cash Payment Adjustments Due to Application of Safety-Net Cost Recovery Adjustment Clause (SN CRAC) and Dividend Distribution Clause (DDC) to BPA Firm Power Sales**

(1) **Adjustment to Cash Payments Resulting from SN CRAC and SN CRAC Balancing Account**

In the event of imposition of the SN CRAC to BPA's firm power sales, BPA shall reduce the monthly payment to PacifiCorp in section 4(a) or section 4(b) above by an amount equal to the hours in the month times the mills/kilowatthour (kWh) increase in the Lowest PF Rate at 100 percent load factor above the maximum millage amount allowed for the Lowest PF Rate for such month under the Financial-Based CRAC, times 226 average megawatts (aMW) in Contract Year 2002 and 251 aMW in each year of Contract Years 2003-2006. BPA shall record the amounts of reduction in such monthly payments in a SN CRAC balancing account (the "SN CRAC Account").

Contract No. 01PB-10885

AUTHENTICATED

AMENDED
SETTLEMENT AGREEMENT
executed by the
BONNEVILLEPOWER ADMINISTRATION
and
PUGET SOUND ENERGY, INC.

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This AMENDED SETTLEMENT AGREEMENT (Agreement) is executed by the UNITED STATES OF AMERICA, Department of Energy, acting by and through the BONNEVILLE POWER ADMINISTRATION (BPA), and PUGET SOUND ENERGY, INC. (Puget). Puget is a corporation organized under the laws of the State of Washington. BPA and Puget are sometimes referred to in the singular as "Party" or in the plural as "Parties."

challenges, if any, to: (a) the Residential Purchase and Sale Agreement Record of Decision (ROD); (b) the Power Subscription Strategy RODs, including the Residential Exchange Program Settlement ROD; and (c) the application of the 7(b)(2) surcharge to BPA's WP-02 rates; or (iii) legislation having the effect of the legislation described in Exhibit C is enacted prior to December 1, 2001, then the Base Payment shall be reduced by the Reduction of Risk Discount to this Net Payment amount of $10,208,320 ($10,236,288 during a leap year).

(C) **Cash Payment Adjustments Due to Application of Safety-Net Cost Recovery Adjustment Clause (SN CRAC) and Dividend Distribution Clause (DDC) to BPA Firm Power Sales**

(i) **Adjustment to Cash Paymets Resulting from SN CRAC and SN CRAC Balancing Account**
In the event of imposition of the SN CRAC to BPA's firm power sales, BPA shall reduce the monthly payment to Puget in section 4(b)(1)(A) or section 4(b)(1)(B) above by an amount equal to the hours in the month times the mills/kilowatthour (kWh) increase in the Lowest PF Rate at 100 percent load factor above the maximum millage amount allowed for the Lowest PF Rate for such month under the Financial-Based CRAC, times 331 aMW in Contract Year 2002 and 368 aMW in each year of Contract Years 2003 through 2006. BPA shall record the amounts of reduction in such monthly payments in a SN CRAC balancing account (the "SN CRAC Account").

(ii) **DDC Balancing Account**
If BPA makes a monthly DDC payment as established in the WP-02 rate case, BPA shall calculate the amount BPA would have paid to a purchaser of 331 aMW of power in Contract Year 2002 and 368 aMW in each year of Contract Years 2003 through 2006 at the Lowest PF Rate at 100 percent load factor. BPA shall record each such monthly amount in a DDC balancing account (the "DDC Account").

(iii) **Adjustment to Cash Payments Resulting from Amounts in SN CRAC Account and DDC Account**
If and to the extent in any month during the period after September 30, 2001 and prior to October 1, 2006, there are balances in both the SN CRAC Account and the DDC Account, BPA shall be obligated to pay to