Common Planning Assumptions

Weak economy

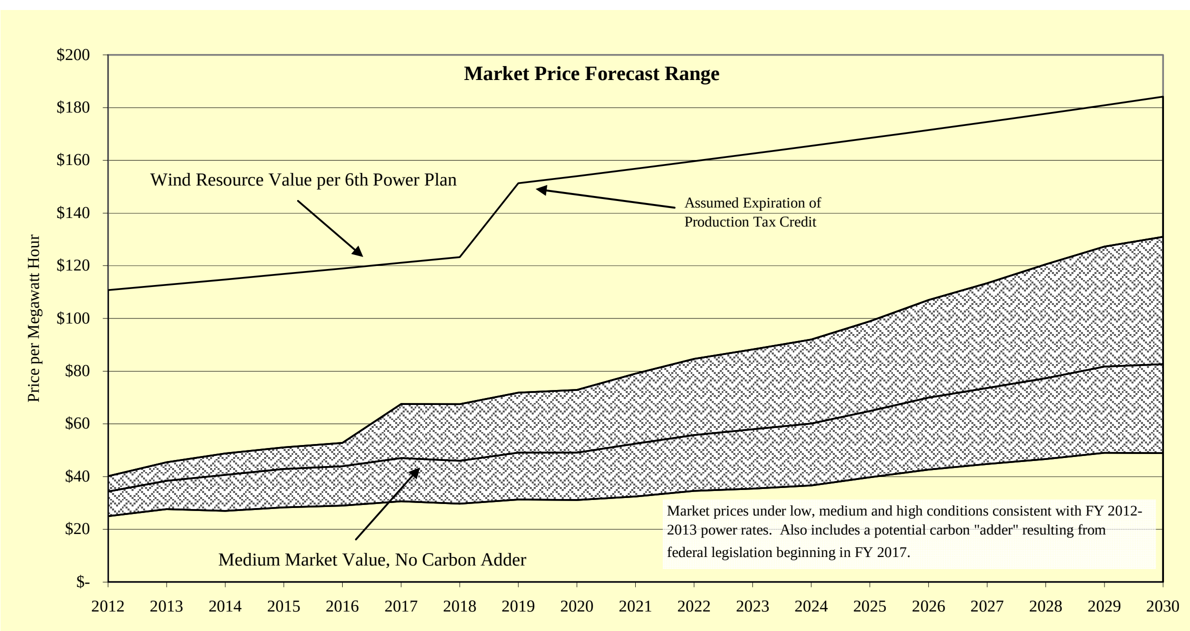
The weak economy continues to pose difficult challenges for the nation, Pacific Northwest citizens, and customer, constituent and tribal stakeholders. Several years after the start of the "Great Recession," the U.S. remains mired in record setting long-term unemployment. Slowing gross domestic product growth and concerns of a worsening debt crisis in euro-zone countries signal more difficulty ahead. Regionally, average annual unemployment more than doubled from 2007 to 2010 for Oregon, Washington, Idaho and Montana. Since 2010, regional unemployment indicators show only slight improvement and continue to trend at a level worse than the national average. Job growth will continue to be major focus for the region.

The poor economy has depressed the growth of load (power demand) nationally and regionally. Recent Northwest Power and Conservation Council load analyses show that Northwest loads declined 4 percent from 2008 to 2009 and dropped another 5 percent from 2009 to 2010. The two-year decline was the largest non-weather adjusted load decrease since the rise in electricity prices caused by the West Coast energy crisis in 2001. The analyses forecast flat to slight load growth for the next few years with some load recovery after 2015. Declining or dampened load growth may contribute to continued low wholesale energy prices in the region.

Across the industry, the absence of a broader economic recovery continues to signal the need for caution. The interest rate environment has been, and may well remain, at especially low levels..

Market price forecasts

Long-term market prices for power are highly uncertain, particularly when uncertainties about "carbon adders" from climate change legislation are taken into account. Little clarity has emerged around climate change initiatives in recent months, a pattern that is likely to continue for some time. Market price expectations affect a resource developer's access to capital and the timing and nature of new resources that are developed requiring interconnection. Market prices also affect congestion costs and the value to the region of expanding the transmission system capacity.



Common planning assumptions -- *continued*

Inflation rates

(Source: Global Insights, BPA Finance)

Year	Inflation Rate
FY 2013	1.61%
FY 2014	1.73%
FY 2015	1.72%
FY 2016	1.72%
FY 2017	1.75%
FY 2018 & beyond	1.73%

Equipment cost

Varies by equipment type

Overhead charges

(Source: BPA Finance)

Direct capital costs are normally assigned Transmission indirect and Corporate Overhead charges. Overheads are applied to direct capital costs in the following categories: BPA labor, materials/supplies/equipment, supplemental labor and service contracts, and construction/survey/turnkey contracts. Overhead rates include both a Transmission and Corporate component.

- BPA labor 23%
- Materials/supplies/equipment 23%
- Supplemental labor and service contracts 23%
- Construction, survey and turnkey contracts 23%

Allowance for Funds Used During Construction (AFUDC)

(Source: BPA Finance)

Rate: 4.08 percent

Once the overheads are applied, AFUDC is then calculated on the basis of the project's construction work in progress balances (i.e., cumulative, "fully loaded" capital expenditures.) The AFUDC rate is based on bonds and notes issued by Finance to fund capital investments. Because a construction project's full price tag includes financing costs, AFUDC is capitalized, along with most other construction work-in-progress charges.

AFUDC is calculated for investments financed by:

- bonds issued to the US Treasury
- BPA reserves
- capitalized lease

AFUDC is not calculated for:

- regulatory assets, such as spacer dampers
- investments financed in advance by customers (PFIA)
- investments financed by appropriations (such as the radio spectrum relocation project)

Discount rate

Transmission - 9 percent (base rate) and 5 percent (for sensitivity purposes)

Federal Hydro - 12 percent (base rate) and 6 percent (for sensitivity purposes)

All Others - 10.5 percent (base rate, no sensitivity required)