Bonneville Power Administration
Power Function Review Technical Workshop
March 1, 2005

BPA Rates Hearing Room, Portland, Oregon
Approximate Attendance: 30

Internal Operations Charged to Power, Depreciation/Amortization, Federal Net Interest, Non-Federal Debt Service, Debt Management

[The handouts for this meeting are available at: www.bpa.gov/power/review.]

Opening Remarks

Michelle Manary (BPA) welcomed participants and said she would soon post the most recent Q&As to the website. At last week's managers meeting, Paul Norman handed out our first cut at a base point for rates, and copies are available with the other handouts today, she said. The calculation does not include risk, which was a key point of his presentation at the meeting, Manary said.

We have heard that people are having a hard time identifying policy issues in our Power Function Review (PFR) presentations and discussions, she went on. On March 15, we'll provide that – the policy issues and the dollar impacts, Manary said. We have also heard that participants would like a draft proposal once the PFR meetings conclude, she stated. We will likely have a draft proposal out the first week of May, and we will be extending the comment period to later in May, Manary said. That means we will be moving the April 20 wrap-up workshop into May, probably the second week – we will let you know the schedule changes as soon as we can, she said.

I. Internal Operations Charged to Power

David Steele (BPA) noted the financial disclosure statement and began a presentation on the internal operations charged to power rates. The internal operations objectives for the PFR are to assure power rates reflect the lowest practical costs to meet BPA's objectives and to discuss opportunities for further cost reductions and actions BPA is currently taking in that regard, he explained. Internal operations charged to power are expected to be about 5 percent of the agency budget or $116 million annually in the 2007-2009 period, Steele said. About half the costs are directly within PBL, and the other half are allocations from corporate, he noted.

The costs in the next rate period are forecast to be about 8 percent higher than they are now, Steele continued. The largest expense is personnel, with 77 percent of the costs related to employee compensation, he said. Another 14 percent is service contracts, and the remaining 9 percent is travel, training, materials and supplies, and other miscellaneous, Steele said. While PBL staff has decreased overall, increases in operational functions are driving the increase, and most is related to efforts to extract

more generation from the hydro system through efficiency projects, as well as Slice staffing, he said.

Steele said the efficiency projects are designed to extract more generation from the hydro system, and about 140 MW of additional generation has been gained. The costs include hardware and software and some additional O&M costs at the hydro projects, he explained. Mark Stauffer (NWE) asked how much the 140 MW have cost overall, and staff said they would provide that information.

Steele explained where the internal operations costs show up on the BPA financial statements and what the costs entail. What is the management direction on these costs for the next rate period? Are you aiming to stay at 2001 levels? Kevin Clark (Seattle) asked. Steele said while there was no specific direction about staying at 2001 levels, many projected costs for 2007-2009 are still at 2001 levels.

Steele went over a list of PBL internal operations cost cuts and accomplishments, including the IT reorganization. He noted the average annual cost for fiscal years (FY) 2007-2009, adjusting for the IT reorganization and transfer, is equal to costs in 2001.

"The best thing we've done this rate period is to hold costs down, and getting out forecasts to reflect actual spending. One way we have accomplished is by eliminating contingency budgets", Steele continued. The contingency budgets, which now exist only at the senior vice president level, were for unplanned events not captured in the forecast, he explained. They started at $1 million with the 2003 safety-net cost adjustment recovery clause (SN CRAC) rate case but have since been reduced to $500,000, he said. Since 1994, the gap between our forecast expenses and actuals has narrowed substantially, Steele said, noting that Senior Vice President Paul Norman wants forecasts that reflect the "real" cost of doing business.

With regard to FTE, he pointed out that 2005 numbers rose for Corporate and fell for Power with the transfer of the IT group. The IT transfer also affected contractor numbers from 2004 to 2005, with decreases in Power and increases in Corporate. Other than the IT reorganization, there appears to be reductions in the number of Power contractors, and Lon Peters (PGP) asked what those were. We'll get back to you on that, Steele said.

He moved on to a table of PBL's internal operations costs. There were a number of questions about the expense categories and figures. Joe Hoerner (Tacoma) asked about the "Awards" category and the increases projected for 2007-2009. The increase reflects the chief operating officer's direction with regard to our recognition policy, Steele said. This is our forecast of how to budget for it, he added. Terry Esvelt (BPA) explained that under the previous BPA Administrator, there was an emphasis on performance-based compensation, "with some pay at risk." The program was slashed during the power crisis, but now is ramping back up, he said. We have a three-part program for awards, and awards are based on meeting performance targets, Esvelt said.

Why don't you tell customers about the performance objectives, Clark suggested. He indicated it would help allay "skepticism" that awards are given automatically. It seems you have a program that is better than just automatic, but we don't know about it, he said.

There was a question about the distinction between service contracts and supplemental labor contracts. Kelly Kintz (BPA) said the supplemental labor contracts are largely for clerical and other support staff. The contracts give BPA the flexibility to ramp up and down, depending on staffing needs, he said. The service contracts are for services and expertise that don't necessarily exist on staff, such as auditors or IT, Kintz said.

Clark pointed out the difficulty of trying to track the benefits of the IT reorganization in both personnel numbers and costs. The purpose of the reorganization is to save money, and I'd like to make sure that is happening, he said. Tell us what dollars reflect the transfers from PBL to Corporate, Clark requested.

The drivers that increase internal operations costs are "people related," including pay increases, health insurance, and other benefit increases, Steele said. New industry requirements from customers, constituents, and other stakeholders pose risk for increased costs, he said. Steele listed where opportunities for reductions in cost lay, including the Enterprise Process Improvement Project (EPIP), which is just getting started; several program areas, including IT; and implementation of a voluntary separation incentive (VSI) and voluntary early retirement authority (VERA).

With regard to an agency-wide initiative to reduce the grade structure among the GS-13 through GS-15 positions, Hoerner noted the timing for getting results from the effort does not line up well with the schedule for issuing a draft rate proposal. We will try to get some of the potential reductions into the proposal, Steele said. Will the grade reductions offset the pay increases? Hoerner asked. Steele said he expected that to be the case, but did not know offhand by how much. Steele said 40 percent of the positions in the agency are GS-13 to GS-15, and 72 percent of the positions in PBL are in those grades. Peters asked about the timing of reductions from EPIP. We also hope to have some of the EPIP reductions quantified for the draft rate proposal, Steele indicated.

By the end of the PFR, we will quantify the expected savings from the initiatives we've outlined, and we'll include those in the initial rate proposal, he summed up. We'd like your help in identifying additional areas for cost reductions and efficiencies, Steele said.

How about turning the question around, Scott Brattebo (PacifiCorp) suggested. You tell us what your organization would like if you cut 5 or 10 percent, he said. We could take a cut at that, Steele responded. In seven functional areas, we've been handed target reductions, and we're looking at 10 to 40 percent cuts in those areas, Esvelt added.

Participants took another look at the PBL organization chart. Hoerner noted that a number of positions have "acting" staff. Are these jobs going to be filled permanently? he asked. Steele pointed out that a number of the positions have acting staff because the managers are on leave or on other assignments and will be returning.

Clark said he heard talk of merging the PBL and TBL cost functions into Corporate. I'd like to weigh in against that, he said. We think Corporate has done a poor job of controlling costs, Clark stated.

There were questions about the One BPA and EPIP processes. With regard to One BPA, the thinking is that when we did the separation of PBL and TBL, the standards of conduct might have been stricter than they needed to be and that some efficiencies may be gained by having more integrated functions, Steele explained. EPIP, on the other hand, is looking into individual program areas and taking "a horizontal" cut across the agency to see if there are similar functions being performed in separate places, Esvelt said. Some of the seven EPIP studies integrate with One BPA – there is overlap, he clarified.

How will you involve customers in EPIP? Geoff Carr (NRU) asked. We'll take that as a comment that you want a public process, Steele responded. We'd also like information about One BPA, Doug Brawley (PNGC) said.

Corporate G&A

Esvelt went over the objectives of the PFR with regard to Corporate General and Administrative (G&A) overhead and Shared Services costs charged to power rates. "I am frustrated about not seeing corporate set a good example with cost control," Clark stated. What is the BPA management directive in this area? he asked. It depends on where you are looking, Esvelt responded. Corporate costs are growing at about the rate of inflation, and EPIP will make a dramatic difference, he said. "Show me the math" that demonstrates corporate costs are not growing faster than inflation, Clark replied. The business lines are holding their costs flat, but we don't see that with Corporate, he said.

Esvelt explained the evolving nature of the Corporate function, noting that shifts in the level of service provided, location of a function, and cost allocation between TBL and PBL have caused some confusion. I'd like to see how the costs are moving in the IT consolidation and how they are being charged out to programs, Clark requested.

Esvelt went over the Corporate organizational chart and noted that organizations being reviewed as part of EPIP are designated with stars. Where possible, we will include estimates of cost savings into the draft rate proposal, he said. How about having a session on EPIP? Carr suggested. We'd like to look at how it's going, he added.

Moving to FTE graphs, Esvelt noted changes that have occurred in BPA staffing levels over time. How many people do you expect to leave under the VERA? Hoerner asked. "The challenge is that it is voluntary, so it's impossible to know exactly what will happen," Esvelt responded. The deadline for applying is March 31, he added. The graph on page 23 dives into detail about the FTE breakdown within the Corporate organization, Esvelt said. Most of the increase from 2004 to 2005 is the IT consolidation, with FTE moving from the business lines to Corporate – about 100 people moved from the business lines, he said.

Please document the changes you say are occurring in Corporate, Clark said. You keep saying the FTE are going down, but your graphs show them going up, he said. It's hard to track "when it looks like a shell game" – we have to see detailed charts, Clark stated.

There was a question about the increase in Corporate FTE from 2000 to 2002. That increase was related primarily to TBL ramping up for its infrastructure projects, Esvelt responded. Adding the FTE in TBL meant adding support personnel, IT, and recruiters, he added. Does it take one Corporate staff for every three added in TBL? Peters asked. No, there were other things included, Esvelt said.

The FTE amounts represent a forecast prepared before the EPIP and other efficiency efforts were underway. Decisions on FTE reductions have not been made yet – yesterday you got the EPIP targets, and that's our best guess about the possible savings, Esvelt responded.

"We are bowled over" by the 500 IT staff, given the size of your total work force, Stephany Watson (Krogh and Leonard) stated. Have you done any comparisons of how this measures up with comparable organizations? she asked. By 2006, we have challenged the IT manager to reduce costs by 25 percent, Esvelt responded. We're banking on the VSI and VERA to reduce personnel, he said, acknowledging that the challenge is a dollar reduction and not necessarily a cut in FTE.

Corporate G&A Cost Allocations

Kintz gave an overview of how Corporate G&A costs are allocated to the business lines. He went over the guiding principles for allocation methodologies, including they be equitable and fair, and represent "a causal relationship" to the services provided, and he gave examples of the methodologies. Kintz described the nine cost pools and the percentage split between PBL and TBL. Clark asked for a breakout of Corporate costs that shows the direct charges and the allocated costs. Throw the TBL onto the table, too, so we can roll up the full costs of these organizations, he added.

Annick Chalier (PPC) asked why 40 percent of industry restructuring cost is allocated to PBL. We reviewed for the allocation the types of things being done by that function, Kintz responded. We could reconsider, depending on what happens at the GridWest decision points, he added.

Stauffer asked for a breakout of costs associated with "Corporate Cost Pool." Did you consider a split other than 50-50? he asked. Kintz said the pool covers the governance structure for the agency – one month costs can be weighted to one business line and the next to another. There was a lot of internal debate about the split, he acknowledged.

Stauffer asked how One BPA would affect cost allocation. There will be a review of the cost pools, Kintz responded. We will continue to do something similar to what we're doing now, but we'll have to rethink things and determine which is the benefiting

function – we'll try to get a measurement that best reflects the consumption of services, he said. We want to be equitable and fair, Kintz added.

"That's one reason not to get too carried away with One BPA," Clark advised. It is better to have people within the business lines oversee costs rather than having it be entirely a Corporate function, he said.

I'd like to see the numbers associated with each cost pool, Stauffer said. I'd like to know how big each cost pool is and how much of the total it represents, he said.

Clark asked that a table like that on page 31, FY 2001-2009 Corporate Costs, be posted to the website. If you post it in Excel, we could do our own calculations, he said.

Kintz wrapped up with delineating functions that direct charge to one business line or the other when circumstances warrant: legal, Slice audit, risk management "back office," and WNP-3 settlement exchange agreement costs.

Corporate G&A Costs

Bryan Crawford gave an overview of the table on page 31, which details Corporate costs from 2001 to 2009. Clark asked for the amortization and debt service associated with the expense categories. I want to be able to see something that tells me the total cost of a program, he said.

Crawford went through a list of observations about Corporate G&A. The large increase in G&A from 2004-2005 is driven primarily by the IT consolidation, he said. As a direct result of the IT consolidation, the Shared Services budget charged to Corporate G&A also increased, he said. The IT consolidation aside, there was an approximately $7.6 million increase in Corporate G&A due to several factors, including increased GridWest costs, consulting services associated with EPIP, support for financial and risk management, and increases due to cost of living raises for personnel, Crawford explained.

Brattebo asked about the allocation of the Line 22 IT costs on page 31. Should you come up with a new allocation? he asked. "Consolidation is wonderful," but if it doesn't save money, you have to consider, what's the point? Brattebo asked. Are your current IT costs similar to those in the previous organizational structure? Dave Hoff (PSE) asked. There is not enough information to tell yet, Kintz acknowledged. That will be part of our evaluation, he said. Clark asked about the allocation versus direct charge of overhead costs for the new IT organization. Kintz diagrammed and explained how the allocation/direct charge takes place. It seems the actual costs would help you figure out the allocation instead of just doing the general splits, Stauffer commented.

Why is there a jump in IT costs from 2006 to 2009? Clark asked. When we consolidated IT, we held the costs to SN CRAC levels, even though the budget request was actually higher, Crawford explained. The 2007-2009 projections go back to the amount in the budget request, he said, adding that there will be new IT numbers before the draft rate

proposal. Why is the overall expense growing? Clark asked. These are old numbers, Kathy House (BPA) responded. We know they are high, and we don't expect to stay at that level, she said. But we had no way to figure out what the out-years would look like, and we're doing that now, House stated. We'll have revised lower numbers for Corporate G&A in April or May, Steele stated.

"I'm shocked" that the numbers from the SN CRAC were not sustainable, Clark stated. What do we tell our bosses for the management meeting? he asked. This will be an area where the numbers are coming down, Manary responded. The schedule for preparing new numbers did not sync with our PFR/rate case calendar, she added.

There were more questions about which costs would come down, and Crawford said cost of living adjustments and inflation are driving up costs in the out-years. The figures don't reflect EPIP or less FTE, he noted. I'd expect you could show cuts in FTE by April, Clark commented. They will be part of EPIP and One BPA, Crawford said.

What is Line 27, Technology Conformation/Innovation? Jim Litchfield (LCG) asked. John Holmstrom (BPA) explained that BPA has not done much in terms of technology development in recent years and the new direction is to propose a technology innovation plan. The plan will be "strategy driven," looking at business needs and developing a road map for applied technology, he said. For example, with security, there are broadband innovations for communication that may be useful, Holmstrom said.

We don't have a specific list of what we will do, it will evolve, but we'll require a business case to justify the use of the funds, he indicated. The proposal is to have competitive projects that identify technologies with potential to improve our business and to test and adapt them to our needs, Holmstrom explained.

Why is the budget $8 million? Clark asked. We are targeting an amount of up to one-half of one percent of our revenues, Holmstrom replied. We used to participate in EPRI at up to 1.5 percent of revenues, he added.

The discussion wrapped up with Manary saying she would set up a smaller meeting for those interested in following up with more questions on Corporate, IT, and Technology Innovations topics.

II. <u>Depreciation/Amortization, Federal Net Interest, and Non-Federal Debt Service</u>

Valerie Lefler (BPA) pointed out the financial disclosure statement and went through the workshop objectives and agenda. She referred participants to a sheet entitled "Potential Opportunities for Change" that identifies which are PFR and which are rate case issues.

Costs associated with depreciation, amortization, federal net interest, and non-federal debt service are driven by prior decisions about capital investments, Lefler said. Linc Wolverton (ICNU) asked when it would be appropriate to address the assumptions about plant-in-service. I think it would be both in the PFR and the rate case, Lefler responded.

The Corps and Reclamation will make presentations in this process, and you could address it with them, Steele added.

It seems there are two steps to making the plant-in-service assumptions, Clark said: look at the projections and at what has happened historically. Look at what the experience has been historically and figure out an appropriate "fudge factor," he said.

Lefler pointed out the graph of BPA's revenue requirement and said costs associated with depreciation, amortization, federal net interest, and non-federal debt service make up 39 percent of the total. Ron Homenick (BPA) went over definitions of these categories of expenses along with graphs showing where the costs for each averaged from FY 1997-2001 to the initial forecast for 2007-2009.

The main driver of the change in FY 2007-2009 depreciation and amortization costs is Corps and Reclamation plant-in-service, and a sizeable portion is the Columbia River Fish Mitigation (CRFM) costs, Homenick said. Other costs have been consistent, and legacy conservation has been declining, he pointed out. We have not forecast appropriated capital other than CRFM, Homenick noted.

Brattebo asked about the CRFM column on the table. We have heard about the $300 million in studies, he said. Is that in here? Brattebo asked. Lefler said it was not and she would find out when it is expected to become plant-in-service and go onto BPA's books. The mitigation analysis is more than just research projects, it includes work on the ground, she clarified. This adds up to $700 million and we still don't have the $300 million mitigation analysis? Carr asked. What's in here? he inquired. It is flip lips, removable spillway weirs, corner collectors, and other things at the dams, Lefler said. This just keeps growing, Carr commented.

What's coming off the books? Hoff asked. Some resources that have been amortized over 15 to 20 years will be dropping off – primarily IT investment, Homenick responded. Hoff asked for a table that shows what is coming off BPA's books.

The primary driver for depreciation and amortization expenses is the level of capital investment, Homenick continued. He went over the program components of the $201 million average annual expense for FY 2007-2009, noting that 52 percent is Corps and Reclamation, 7 percent is PBL, 11 percent is fish and wildlife (F&W), 15 percent is legacy conservation, and 15 percent is ConAug.

There were several questions about how the in-service date is determined for the CRFM. It has been a Corps decision, Lefler responded. Why isn't this a BPA decision? Why doesn't BPA have a role? Clark asked. The Corps follows its own capitalization policies and guidance about when they put things into service, and when they do, we cover the hydro portion, Kintz responded. The treatment of the CRFM mitigation analysis was included in a Congressional Act, Kintz said. Congress went so far as to treat the accounting? Clark asked. Yes, Kintz responded, to the extent the Corps of Engineers is interpreting the legislation regarding the fulfillment of the legislative requirement.

What's the rationale for having ConAug amortized over such a short period, 2002-2011? Litchfield asked. It's to assure cost recovery, Homenick answered. It's part of the customer contract and will be recovered within the contract period, he said. Kintz added that amortization decisions are made based on Financial Accounting Standards Board (FASB) rules and Generally Accepted Accounting Principles (GAAP).

Homenick went over the depreciation/amortization forecast, and staff clarified the basis for amortization schedules of different lengths and the application of FASB 71 to determinations for Corps, Reclamation, and BPA's direct F&W program. A Corps or Reclamation project, like a fish ladder at a dam, that is directly related to a revenue-generating facility is amortized over 75 years, Kintz explained. But based on guidance from the Northwest Power Act, if we fund an intangible asset through our F&W program that exceeds $1 million and has a life span of at least 15 years, it is amortized over 15 years, he said. We developed this policy in the early1980's, Kintz added.

Homenick explained graphs of the amortization/depreciation trends and a comparison of actuals to forecasts in historic periods. The PBL revenue requirement includes a component called Minimum Required Net Revenues (MRNR) to ensure covering annual cash requirements, he said. MRNR, which was forecast for the 2007-2009 period, is calculated as the amount by which BPA's payments to Treasury for amortization and irrigation assistance exceed the total of non-cash expenses and revenues, Homenick said.

The forecast is based on the repayment study, which is used to calculate a schedule for repaying the federal and non-federal debt, he said. What's happening is that the study is reshaping our federal debt service around the non-federal debt structure, Homenick said, adding that BPA has been exchanging non-federal for federal debt with its advance refunding of Energy Northwest (EN) bonds. So the Debt Optimization Program (DOP) is causing this to be so large? Hoff asked. You're exchanging the period in which you pay the debt – the point of advance refunding was to be sure we didn't cause an increase in overall debt service, Homenick responded.

Did you make the payments assumed in the DOP runs? Stauffer asked. The planned principal payments to the Treasury do not change, and we have done what was forecast, Homenick said. Back in 2000-2001, we started the advance refundings, and that rolled the non-federal debt out from 2009-2012, Nadine Coseo (BPA) explained. We agreed that for any EN debt service that was rolled into the 2013-2018 period, we would pay the equivalent in federal debt – the non-federal debt is less in the next rate period, but the federal debt is higher, she said.

What we're seeing is a ramp up in federal principal, Clark commented. Could you give us the projected new refinancing issues that were used to calculate the tables on pages 17, 20, and 23? he requested.

In the base case plan with DOP, each year when the principal payment is due, we refinance non-federal debt and push it to the 2013-2018 period, Don Carbonari (BPA) explained. We pay federal debt for every dollar of non-federal debt that is due, Homenick added. We ran the repayment study with this scenario, and we end up with the cash requirements on the table on page 17, he said. "We have a dollar-for-dollar commitment" to replace the non-federal debt with federal principal payments, Homenick reiterated.

So the net effect is to increase one side, which is offset by the other side – the impact is net zero, Hoff commented. That's a good point – we will put more text with this to explain it better, Homenick said.

Clark suggested that BPA, in developing the power revenue requirement, include the EN debt "below the line." For the agency financial statements, you can continue to report it as an expense on the income statement and show it on the balance sheet with federal debt, but for setting rates you should include it as a cash consideration so customers won't have the concern they may be paying twice, he recommended. That's an excellent point and probably a reasonable way to go, Homenick responded.

Federal Net Interest

Homenick explained the components of federal net interest expense and noted there is a 28 percent increase from 2007-2009. But we haven't forecast the interest income on our cash balance yet, he said. Coseo pointed out that the table assumes when short-term bonds are rolled over, they are rolled to long term at the forecast federal interest rate.

Homenick went over the risks, which include the potential for an increase in interest rates and the affect that would have on the cost of Treasury borrowing, as well as opportunities for reductions in the expense. He noted that before the draft rate case proposal comes out, assumptions would be updated with regard to DOP. Hoff asked about the interest credit included in this forecast, and Homenick said it only assumes BPA is accruing interest on the cash put aside during the year for repayment. It does not include total earnings on the balance in the Bonneville Fund.

Homenick described capital funding mechanisms, and he listed the drivers of change in the next rate period, explaining that DOP increases the repayment amount on federal bonds and appropriations, which reduces interest expense on the federal side. The CRFM plant-in-service schedule is "a wild card" for the future interest expense – whatever we assume seems to change, he noted.

There were clarifying questions about the actual and forecast federal net interest expense, including whether the forecasts included DOP. We haven't forecast any of the DOP actions that are likely to occur from the current year through 2009, Homenick responded. "The big message" with the actuals versus the forecast is that "actuals are a lot lower because debt optimization came along after we filed the last rate case," he clarified.

Non-Federal Debt Service

Carbonari explained the largest piece of the debt expense pie, non-federal debt service. The non-federal debt, which is third-party debt service or payment obligations associated with capitalized contracts and other long-term fixed obligations, is forecast to go up by 26.6 percent in 2007-2009, he said. The largest component in this category is the EN debt, which has never been level, but rather is shaped to minimize the revenue requirement and benefit ratepayers, he said. The predominant drivers of the increase in the non-federal debt category, Carbonari explained, are actions taken from 2000 to 2004, including debt optimization, reserve fund free-ups, refinancings for savings, and “new money” financing at EN.

He went through a list of opportunities to decrease the forecast, noting that the tradeoff for each action is indicated in parentheses. One of the opportunities relates to longer-term financing of fuel for the Columbia Generating Station, and Steele pointed out that EN has a good fuel-purchasing program and is in the top 10 percent of nuclear plants nationally. Carbonari also detailed where debt management decisions are made, pointing out that for EN transactions, the EN board is part of the decision making. He said BPA’s and the EN board’s position is not to put any EN debt out beyond 2018.

You haven’t talked to EN about debt financing capital in the 2007-2009 period? Brawley asked. That’s correct, but we could consider it as a recommendation from customers to do so, Lefler responded. If it raises rates, we wouldn’t do it, she added.

Carbonari detailed the components of the third-party debt, which in addition to EN includes customers’ generating and conservation projects. He pointed out that non-federal debt service is not level year to year. “It’s erratic, it’s never been level,” Carbonari explained, adding that the primary factor that drives the level is the amount of maturing principal in any given year. Have you had discussions about reshaping the third-party debt to lower the debt service? Carr asked. In 2003, we refinanced some debt to get the interest-rate savings, but we did not restructure debt, Carbonari responded.

BPA’s debt, federal and non-federal, is managed as a single portfolio, Carbonari continued. It is managed to restore borrowing authority, control or lower costs, and increase liquidity, he said. Debt management refers primarily to three types of activities, according to Carbonari: debt optimization, reserve fund free-ups, and refinancing for savings. He explained what debt optimization entails and reported that advance federal payments made with DOP funds from 2001 to 2004 restored $600 million in BPA borrowing authority. In addition, BPA was able to pay down about $500 million in appropriations that were coming due, Carbonari said.

He explained the hundreds of millions of dollars in reserve fund free-ups that occurred between 2002 and 2004 and acknowledged that the tradeoff is losing interest earnings. The effect of the earlier free-ups for the 2007-2009 rate period are forecast to be a loss of about $49 million in available free-ups plus the interest that would otherwise have been earned, he said.

With regard to refinancing for savings, BPA has refinanced billions of dollars over the years, Carbonari continued. I presume when you do these transactions, you have to hire outside experts, like bond counsel, Watson said. Do you have an analysis that shows the proceeds offset these extra expenses? she asked. Yes, we do that analysis, Carbonari said. If we can't save at least 5 percent, we won't refinance, he said.

In summary, Carbonari said managing BPA's federal and non-federal debt as a single portfolio has had significant benefits. The weighted average interest rate on BPA's outstanding liabilities decreased by a percent from the end of FY 2000 to the end of FY 2003, he said. Debt management actions produced over $100 million in interest savings, he concluded.

Carr asked BPA to provide an example of the refinancing it is considering for 2005. Manary said she would stay after the meeting to discuss how to condense the technical information for the managers' meeting March 16.

The meeting adjourned at 4:10 p.m.

Follow-up questions and information requests:
Responses to questions and requests for information received throughout this process will be posted on the Power Function Review Web site on an ongoing basis. The Web address is www.bpa.gov/power/review.

1. Efficiency projects are designed to extract more generation from the hydro system, and about 140 MW of additional generation has been gained. The costs include hardware and software and some additional O&M costs at the hydro projects, he explained. How much the 140 MW have cost overall?
2. Other than the IT reorganization, there appears to be reductions in the number of Power contractors. Where have those come from?
3. Explain BPA performance objectives around rewards.
4. Provide a list of potential reductions from the initiative to reduce grade structure.
5. What would your organization look like if you cut 5 or 10 percent?
6. How will involve customers in the EPIP process?
7. Provide more information on the one-BPA process.
8. Provide a breakout of corporate costs that shows the direct charges and the allocated costs. Include TBL as well.
9. Provide the numbers associated with the "Corporate Cost Pool."
10. Provide the amortization and debt service associated with the expense categories.
11. There is a ramping up in federal principal. Provide the projected new refinancing issues that were used to calculate on pages 17, 20 and 23.
12. When is the $300 M in studies forecast to hit the books?
13. Please provide an example of the refinancing it is considering for 2005.