Bonneville Power Administration
Power Function Review Management Level Discussion
March 17, 2005

Rates Hearing Room, BPA Headquarters, Portland, Oregon
Approximate Attendance: 40

Internal Operations Costs Charged to Power; Debt Service

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

I. Introduction

Paul Norman (BPA) welcomed the participants and asked for any comments on the scoresheet handed out the day before. We will continually update the sheet to reflect new ideas and changes relative to the program numbers presented in the opening workshop, he said. This is where we'll track ideas to keep costs down, so it's important to get your reactions, Norman said. There were head nods around the group and comments that the sheet was helpful and a good idea.

Norman also double-checked that the decisions forum handout is clear. This tells you where the action is on various topics and where decisions will be made about costs that go into the rate case, he clarified.

In a question related to the previous day's topic, Steve Eldrige (Umatilla) asked how dollars are treated if, for example, the Corps accomplishes its list of O&M projects for less money than is budgeted. If they underrun the budget, the money ends up in our reserves, Norman said. David Steele (BPA) said there is an arrangement with direct funding that allows the Corps to spend half of any underrun on another project. Eldridge recounted a suggestion from the previous day that BPA consider letting the Corps and Reclamation build their own reserve fund in good hydro years – money that could be used for future O&M.

Frank Lambe (Emerald) said he wanted to be clear that he didn't think the increases for Corps and Reclamation O&M are warranted. They should hold the line, he stated.

II. Internal Operations Charged to Power

Steele began his presentation by pointing out that the internal operations costs charged to power are projected to be $116 million annually in 2007-2009, about 5 percent of the power budget. He stated the internal operations objectives for the PFR: power rates reflect lowest practical costs to meet BPA's objectives and discuss opportunities for further cost reductions and actions that are currently being taken.

Steele went over historic costs and pointed out that the projection for the next rate period is 8 percent higher than in 2002-2006. The internal operations costs are primarily employee compensation and related expenses – they make up 77 percent of the budget, he said. In addition there are costs for service contracts and "other," which includes training, materials, rents, and miscellaneous, Steele explained. The risks for increased costs include new industry requirements, and demands from customers, constituents, and stakeholders, he said, but there are also opportunities for reductions, including the Enterprise Process Improvement Project (EPIP), voluntary separations and early retirements, and an initiative to reduce the overall grade structure of BPA employees.

When will the numbers from various savings efforts be factored in? Kevin O'Meara (PPC) asked. We hope to have some in the closeout letter on the PFR, Steele responded.

The early outs and retirements give you an opportunity to look at the organization and consider new ways to staff, Paul Elias (McMinnville) stated. You may decide not to refill all of the positions – it's a big opportunity to make cuts with less employee impact, he pointed out. I'd suggest you go into it by targeting jobs and positions, not necessarily targeting people, Elias said. Don't let momentum from the past propel you into filling the same jobs, he advised.

We are looking for opportunities to get the work done with fewer people, and we are considering which positions we need to refill and which we don't, Norman stated. We are trying to do just that, he said of Elias' suggestion.

Kevin Clark (Seattle) asked about the summary table on page 26. These are audited actuals through 2004 and forecasts for 2005-2009, Steele responded. Last summer, we transferred about $12 million in costs with the consolidation of our IT function; when you adjust for IT, the budget is about equal to previous years, he said.

Why the dramatic increase from 2005-2009? Rick Lovely (Grays Harbor PUD) asked. "People costs" drive the escalation – cost of living increases, health care, and changes to the 401(k) plans, Steele replied. We have forecast a 3 percent increase going forward, he added. The intervening years 2004-2006 are also growing fast, Randy Gregg (Benton PUD) pointed out.

Steele explained where the internal operations charged to power show up in BPA's financial statements and the Customer Collaborative reports, and he went through a list of accomplishments. From 2007-2009, adjusting for the IT consolidation, we're keeping costs at 2001 levels, and we've held the line on inflation for eight years, Steele said. Cost cutting ideas came from the Financial Choices and Sounding Board processes, and new ones will come from the PFR, he said. Steele pointed out that PBL eliminated contingency budgets within programs – not large by themselves, but in the aggregate, "they added up," – and now there is a contingency budget only at the senior vice president level, and there are clear principles about how it can be used.

He listed the drivers of change and things that pose risk for increased costs, along with several opportunities for reductions, which include cuts in programs targeted for EPIP reviews. Asked about the staff reductions reflected on the graph on page 24, Steele said there were contractor cuts, the risk group was consolidated, and "the big one" was the IT reorganization. Since 2002, overall PBL FTE is down 7 percent – there are fewer account executives, fewer billing people, fewer support staff, Norman said.

Does BPA have a corporate plan to manage staff? Eldrige asked. We want to get to below 3,000, Ruth Bennett (BPA) stated. We look at each function and are doing an assessment of where we think the reductions ought to be – we know there are efficiencies to be gained, she added. Eldrige suggested BPA ought to consider reducing staff to save money and identify functions "BPA should not do." Also, you should adjust salaries to better reflect the type of work that is being done, he said.

We have a responsibility to be efficient and deliver value to the region, Bennett responded. That responsibility guides us, she said. We've had independent assessments that point us toward efficiencies, Bennett added.

What is driving you on the grade realignment? Kevin Owens (Columbia River PUD) asked. Over a five-year period, when competition in power markets was growing, the number of employees at Grades 13-15 doubled at BPA, Bennett explained. We were competing to get good employees, and BPA managers were offering these higher grades, she explained. There has not been a specific analysis, but intuitively, I knew we had doubled the numbers in those grades, and "we did not need to," Bennett stated. We didn't need to have a formal assessment to realize we weren't managing positions well, she said. The challenge to reduce overall grade level was not made on the basis of an analysis, we just needed to do it, Bennett reiterated.

She also pointed out that it was not management that "burgeoned" during the five-year period, it was technical and professional positions. We have technical folks at these higher grades, Bennett explained. One result is, there isn't much incentive to be a manager anymore at BPA – it doesn't lead to a higher grade or higher pay, she noted.

It is hard to see an example being set in corporate with providing information or controlling spending, Clark stated. "Your information simply shows growth and spending," he said.

Our goal is to provide a good product at an efficient cost, Bennett responded. The corporate costs that go into rates reflect costs agency wide, not just those of a single business line, she indicated. It is an agency-wide challenge to deliver a quality product at the lowest cost, Bennett stated.

At our utility, we have a lower number of FTE than in 2000, Lovely said. Why isn't BPA driving to lower employee counts? he asked.

Could you still recruit at the lower grade classifications? Lambe asked. Bennett said 550 BPA employees are currently eligible to retire and 1,000 will be eligible in the next couple years. We will have to recruit to fill positions – "we anticipate a big sea change" at BPA, she stated. Our attrition rate is very low – we are not having people leave nor are we having trouble getting people to work here," Bennett said.

Turning to her formal presentation, she said the costs being addressed are half of the $116 million for internal operations charged to power. Bennett explained what is captured in specific functions and pointed out that reorganizations have changed where things sit within the agency's structure. IT was formerly disbursed throughout the agency, and it was a big change to bring it all into corporate, she said. We have heard that people are happy having financial management located within the business lines, rather than centralized, Bennett added.

IT is a good example of why we may do more consolidations, she continued. It helps us "in getting our arms around the dollars and FTE," Bennett stated. Once we consolidated, we found we had an overall budget of $100 million annually and 500 people working in IT, she acknowledged, and "that's a lot of folks." While not all of them are BPA FTE, we basically have 500 people who are functioning like BPA employees, Bennett said. When we benchmarked ourselves, we found we are not within the benchmarks for similar organizations in the nation, she said. This is "one of the most spectacular areas" in terms of where we can seek efficiencies, Bennett stated.

She pointed out functions on the organizational chart that are undergoing EPIP review. Our financial office does "direction-of-effort" studies to determine where corporate functions should be charged – to TBL, PBL, or corporate – we have to have a rationale for charging things the way we do, Bennett explained.

Asked about the number of contractors, she said it is difficult to tally up contractors, but one way is to count by badges (to enter the building) and workstations. It's important to agree on a mechanism to count contractors, so you know how many FTE it takes to deliver the service, Eldrige commented.

The one thing we should emphasize is that "the people who occupy the top boxes at BPA are grotesquely underpaid" compared to other comparable organizations, Ralph Cavanagh (NRDC) said. "Stewardship" is a big element at BPA versus other organizations, and that is why you can recruit to organizations like BPA, he said. It's an underappreciated aspect of why people work here, he said.

We understand that, but it's true of all of public power – it's generic to the industry, Lovely responded.

Bennett explained changes to historical FTE numbers (page 14), noting consolidations and the assignment of the procurement function to TBL. Overall, "corporate FTE is coming down, and we will come down more," she said.

From 2000-2002, there was an increase, Clark said. You are up since the base in 2000, which is the most relevant base year, he said. I can't track all movements by the numbers up and down in business lines, but as an agency, we are coming down – the number of people in all three organizations is coming down, Bennett stated.

John Saven (NRU) suggested putting FTE numbers on the organization chart on page 13.

The large transmission infrastructure project in TBL brought more people into the organization, Bennett explained. In addition to more TBL staff, we had recruiting, IT, and other support people, she said. Corporate has gone up, but we got on a path to bring the numbers down, Bennett said. The numbers you are seeing on the page 14 chart will come down – there will be IT reductions, and we are using EPIP as a systematic way of evaluating where we can make cuts, she said.

Will you have more refined numbers before the PFR closeout? Gregg asked. I work on this all the time, but I don't have a specific date for new numbers, Bennett replied. We're working on spending levels for the next rate case, Clark stated. What is the timeframe for getting the EPIP levels into rates? he asked.

Bennett explained that after an internal effort to reduce staff did not produce the desired results, BPA hired a contractor, KEMA, to do a rigorous review. KEMA gave us a list of areas where we could look for efficiencies, she said. We are now going through a systematic review to see how to deliver services at a lower cost, Bennett said. She referred to pages 18-19 in the handout, which describe the EPIP process and potential savings, and she pointed out that some of the savings might have more impact on PBL than TBL and vice versa.

This is what we have challenged our teams to deliver, Bennett said. We came up with the numbers by working with KEMA and our own people to do a current-state analysis, she explained. That was "a wake up" for the teams – "it forced them to look at transformational ways of doing their functions," Bennett said, describing each of the functions, baseline costs, and cost reduction challenges on page 19.

Will these savings go into rates? Clark asked. We will attempt to get as much as possible into the initial proposal, Norman replied. The first thing IT did with its budget after consolidation was to add $8 million as soon as the SN CRAC expires, Clark commented. That's not the way to start out a reduction process, he said.

BPA is doing good work in this area, but the reduced numbers don't yet show up in your costs, Dick Helgeson (EWEB) said. We're shooting at all your old numbers – "it's hard to contain our angst about what this means for rate levels," he said.

One of my concerns is that your projected FTE level is flat for 2007-2009, not going down, Lovely commented. We are thinking that is what will go into rates, he stated. What is the target for 2007-2009? Lovely asked. If we see the drive toward reductions, it gives us more comfort, Lovely said. We'd like to see you reflect your lower targets in the next rate period, he indicated.

You want us to incorporate reductions, but we are trying to figure out if we can deliver the savings, Bennett stated. It is important to move forward systematically, Jean Ryckman (Franklin PUD) said. It is harder to do, but it's better than rushing in and making changes without careful thought, she said. Yes, the changes have to be enduring, Bennett agreed.

I get nervous when KEMA tells you "to lop 15 percent off energy efficiency," Cavanagh said. The cuts that are made in energy efficiency are always in the evaluation of results, he said. That is one "that doesn't look broken to me," Cavanagh stated. Some areas may not be broken, but we wanted to challenge everyone to make reductions, Bennett replied. We have to be able to deliver products and services, but we need to ask if there is some efficiency to be gained in energy efficiency management, she said.

Human resources is on the EPIP docket too, Bennett continued. We want to move to an automated system – we are "high touch" at BPA, and we are changing how we do business, she added.

Your FTE chart looks flat out into the future, Howard Schwartz (WA) commented. You don't anticipate staying there, but are reluctant to reflect the cuts, he said. These numbers are from last fall, Bennett responded. Will the rate case reflect the reductions? Schwartz asked. We expect so, she said.

What would it take to curb the increase in the expenses we see in internal operations charged to power? Eldrige asked. The costs are driven by people, and for costs to go down, our staffing would have to go down, Steele replied. The increase seems high, Eldrige said. I've looked at the increase since 1999, and we have added $12 million just in employee costs, like cost of living adjustments, 401(k) match, and health insurance, Steele said. Eldrige suggested corporate pick a substantially lower FTE number it wants to achieve.

Many of Kevin's comments resonate with me, Saven said. Before you close out this process, we need to see the dollars you are cutting out, he said.

Starting in April, the teams will bring in the material they've developed and their proposed savings – for most EPIP reviews, we'll have good ideas by June about where we're headed, Bennett said. We deferred the review of fish and wildlife (F&W) because last year we put in place a new contract management system called PISCES, she explained. All of the contractors must use the system if they get money from us, Bennett said. It's a huge project with a high priority, and we decided we needed to get it in place before we did EPIP – we have deferred F&W, but it will be done, she stated.

Saven pointed out that there is $139 million dedicated to the integrated F&W program and an additional $7 million to $8 million in related BPA overhead costs. About 40 percent of this money is spent on data collection and monitoring and evaluation, so only 60 percent goes to things directly benefiting F&W, he said. So much administrative effort is about "chasing people and numbers" and is not dedicated to projects in the Hs, Saven said. I question whether we have a huge bureaucracy in this organization because of the way the F&W dollars are being spent, he said. I'd like to raise the question of whether we need 60 people working in this area – consider reductions and force changes in the way the dollars are spent, Saven suggested.

It's "a caricature of the customer position," but it sounds like, cut to a certain dollar level regardless of the impact to your program responsibility, Cavanagh said. I hope we see you carry out the fundamental obligations of the agency to meet its mission, he urged. Customers are telling you to manage to the numbers, Cavanagh added.

One thing that can happen with an efficiency process is, there isn't enough follow-up to capture what you have identified you want to do, Elias said. It's 80 percent of an efficiency project, but it's often neglected, he said.

A lot of our costs are staffing, Bennett said. We have limited tools to cut the payroll, she said. We will have a similar number of folks after the review – getting the savings may take longer than I want and longer than you want, Bennett acknowledged. But we can't lose sight of what we need to aim for, she agreed.

We know it is hard to reduce the workforce, Jim Webb (Lower Valley) said. But we need to remember that the reduction is not just in the people, it is also in the dollars those people need to do things, he said. Other budget dollars come down too – by reducing the workforce you force efficiency, Webb stated. We hope to see some of the targets in rates, he added.

Unfortunately, when you encourage people to retire, the wrong people can leave, Eldrige said. What's the possibility of telling people, "I don't have a job for you"? he asked. I don't have a tool to use to tell someone I don't need him or her and offer severance, Bennett replied. The government tool is "reduction in force," and it's a very disruptive process that is done from the seniority perspective, she said. I hope not to have to use it, Bennett stated. We can use attrition based on the demographics in some functions, and we can reassign people, she said. But we don't have many tools, Bennett acknowledged.

The problem with monetary rewards is determining whether they encourage the right behavior, Kris Mikkelsen (Inland) said. I'd suggest aligning any reward targets with the rate target and with benefits for customers, she said. If you get to 27 mills, customers would be receptive to rewards, Mikkelsen added.

We budget $200 per person in our "Success Share," which is a big part of our rewards program now, Bennett replied. That doesn't mean every employee gets $200, she added. We work toward agency-wide targets, so what we do here is close to what you're suggesting, Bennett explained.

Ralph Williams (United Electric) said he applauded BPA for bringing TBL and PBL functions back together where it makes sense. That is one place you can gain efficiency, he said. I support having the account executives in local areas, but I encourage you to combine functions where you can, Williams stated.

I'm looking at the numbers on page 15, and they show costs going up in the next rate period, Clark stated. TBL and PBL costs are going down, but I don't see that with Corporate, he said. Are we going to hold the line in Corporate like the rest of the agency is doing? Clark asked. Costs are coming down across the board at the agency, Bennett responded. You can't just isolate the three functions – they are related, she said.

Bennett explained the corporate costs on page 15. With regard to general counsel, I'd like to see more staff there – "we are burning people out," she said. Bennett noted that the year-to-year fluctuation in costs for general counsel reflect when BPA hired outside legal assistance. She answered questions related to other line items, including the addition of a technology innovation/confirmation program in 2006-2009. The program addresses emerging technologies and investments that offer an opportunity to improve service delivery, Bennett said.

The industry has been underinvesting in technology, Cavanagh stated. There is not much research and development (R&D) going on, he said. The BPA proposal is one-quarter of a percent of the budget – in the high tech industry, R&D is 8 to 10 percent of the budget, according to Cavanagh.

Lovely asked about the growth in line item 20, capital for the COO function. What you see are numbers that were collected from many sources – we know this is not the right trajectory, and these will go down, Bennett responded. The numbers are confusing, Gregg said. We need a number that forecasts the three-year PBL average charge and is updated before the rate proposal comes out, he said.

When we put out our proposal in May, we will explain and crosswalk the new numbers with the originals, Norman said. You will then have three weeks to comment, he said. I don't see a lot of incremental updates between now and then, Norman added.

This is frustrating – we adjust our schedules to be here, and the information you offer in the packet is not accurate, Lovely stated. This isn't the kind of information we need to make decisions – "you've put together numbers that don't mean anything," he said. Let's talk about achievable numbers and goals, Lovely urged.

Norman said the timing for review and reductions in Corporate are not in sync with the PFR schedule. I'll take responsibility – I thought this would be a good compromise, he said. The other alternative was not to talk about it, Norman said. You've given us suggestions, and we'll respond in our PFR closeout and the rate proposal, he said.

In May, it would be helpful for you to give us your intentions about what you'll do in this area, Eldrige said.

III. CGS Update

Andy Rapacz (BPA) offered an updated table on Columbia Generating Station (CGS) O&M. These are numbers people asked us for yesterday, he said. CGS costs are increasing some, Rapacz pointed out, noting the requirements for increased security, rising nuclear fuel costs, and the need to recover from deep cuts in the 1990s.

Isn't the uranium tails project speculative? Cavanagh asked. I would give it an 80 percent chance of success, Rapacz responded.

Which of these numbers would you put in the rate case? Eldrige asked. We should take the O&M savings, tailings project, and assume capitalized costs, he said. The Energy Northwest (EN) board will listen to us and to you about capitalizing costs, Norman said. My leaning is we should borrow to cover the capital costs that are appropriate, he said.

IV. Debt Service

Valerie Lefler (BPA) noted the financial disclosure statement and the agenda for the session on debt. Debt service is made up of depreciation and amortization, federal net interest, and non-federal debt service, she explained. These are "substantial chunks of our cost," and they are the function of other capital investment decisions that are made, Lefler said. We manage debt as a portfolio, and how we manage has an affect on the total, she stated.

A significant portion of what you are seeing is debt that is already there – investments that have already been made, Lefler continued. We'll point out those that are related to decisions yet to be made, she said.

Ron Homenick (BPA) went over depreciation and amortization costs. These are “the most mechanical costs we have,” he said. In reality, this isn’t something you manage in and of itself; the most important decision is whether the investments are worthwhile in the first place – the primary components of depreciation and amortization are investments that are already made, Homenick said. The largest component is Corps and Reclamation projects, and 30 percent is Legacy Conservation and ConAug, he said.

Homenick listed several drivers of change and noted that “a healthy chunk” of investment is related to the Corps’ Columbia River Fish Mitigation (CRFM) project. The bulk of that investment has not been transferred to BPA’s books, but most will be brought into service from 2005 to 2014, Homenick said. The table on page 8 shows what will be added to the base, he said, noting that the total is declining as the depreciated life of investments ends. Uncertainty about the CRFM plant-in-service schedule poses the risk of increased costs during the next rate period, Homenick indicated.

Lefler noted that BPA’s F&W staff has had separate PFR meetings, which included presentations by the Corps and a 2005 CRFM project list. The list is posted on our website if you want to look at it, she said. We have had meetings with the Corps about the schedule for the CRFM costs going into rates, but we don’t know if we will have any influence, Lefler said. They are listening, she added.

Can we influence the amortization schedule for ConAug? Gregg asked. The decision to amortize the investments over the period of the power contracts was based on accounting principles, Lefler said, and we’re considering whether it is time to revisit it.

Since we did not specifically address treating the ConAug capital in the rate case, it was decided after the fact, Homenick explained. Since it was tied to resource augmentation, we determined it should be amortized over the life of the power contract, he said. It was during the contract period that we could be guaranteed to recover the cost, Lefler added.

It’s time to revisit “this mistake,” Clark stated. We saw this treatment for the first time in May 2000, and we pointed it out again in the SN CRAC rate case, he said. Legacy Conservation was amortized over the useful life of the measures that were funded, so this decision was an anomaly, Clark said. It has a $5 million per year effect on 2007-2009 rates, he said.

There was also concern when this decision was made about the costs we are pushing out in front of us, Norman said. The decision went up to “the Steve Wright level,” and he said we don’t want to punt this cost out into the future, he stated. You can comment on it, Norman added.

I see this as generation, Ryckman said. Would you amortize generation over the life of a power contract? she asked.

The argument was that we were augmenting specifically for the period of the contract, Homenick explained. This treatment guarantees recovery of the investment, he said.

This is something you acquired and it has a useful life, Lyn Williams (PGE) stated. Cutting off amortization arbitrarily doesn't make sense, she said.

Is anyone opposed to changing this? Norman asked. Seeing no one, we have a clear message on this, and we'll factor it into our decisions for the May proposal, he said. The message is, amortization should be based on the life of a measure, Norman restated.

I'm confused about the mystery of when things like CRFM are plant-in-service as opposed to construction-work-in-progress, Mikkelsen said. The Corps will make the decision, Lefler responded. As I understand it, much of the CRFM was mitigation analysis, and the decision was not to bring it into plant-in-service until all of the studies were complete, she said.

Is there risk that some of this investment has no value? Mikkelsen asked. Some may be attached to studies of things that didn't work out, Lefler acknowledged. Look at the Corps packet on the website, she urged. It talks about the regional structure for making decisions on CRFM expenditures, Lefler said.

Homenick moved on to the components of federal net interest expense, and he described BPA's federal capital funding mechanisms: bonds issued to Treasury and capital appropriations. Homenick noted that the table on page 12 excludes any assumption about interest credits, but he said a number will be included in the rate proposal. If you extrapolate from 2002-2004 actuals, you'd see an additional $10 million credit, Lefler pointed out.

Homenick went on to list the risks for increased federal interest expense, which include rising interest rates and a change in the CRFM projected plant-in-service schedule. The opportunities for reductions include aggressive debt management and continuation of the debt optimization program (DOP), he said. Drivers of change in the next rate period include DOP, which increases the repayment of federal debt and reduces interest expense, as well as increased capital investment for a number of programs, including ConAug, IT, F&W, and direct funding for Corps and Reclamation capital projects, Homenick reported.

Don Carbonari (BPA) made the non-federal debt service presentation, noting that BPA takes a team approach to managing debt. The non-federal debt is primarily EN with some smaller projects, he said. People assume that our non-federal debt service obligation has been level from year to year, but it never has, Carbonari said. We shape it in a way that is beneficial, he added. Carbonari went over a list of debt management actions, including DOP. The fundamental reason for DOP was to restore BPA's Treasury borrowing authority, he said. We only restore authority when we pay down federal debt, Carbonari said, explaining that BPA has prepaid about $1 billion in federal debt. We picked certain appropriated debt to pay off and have called almost every federal bond we could, he said.

According to Carbonari, DOP does not impact 2007-2009 rates. We are paying down federal instead of non-federal debt, and that does not affect rates, he explained. Is the benefit applied equally to all groups of customers? Eldrige asked. The timing of benefits is different between Slicers and non-Slicers, Lefler responded.

Are rates lower overall as a result of DOP? Eldrige asked. In 2012, CGS would have been paid off, he said. What would have happened to rates if you had just paid off EN bonds and you had not borrowed more from the Treasury? Eldrige asked. I assume we would have had some capital program, and we'd have been looking at how to fund things with third-party debt, Carbonari answered.

DOP has benefited BPA, but I'm less certain as a ratepayer that I have benefited, Eldrige stated. I have questions about the way this has been done, he said.

If you look at the BPA business model, interest and amortization expense gets higher and higher, Jim Lobdell (PGE) pointed out. We're building debt service and rates aren't enough to cover it, he said. The amount of debt just keeps building – we need to change the slope of the curve so rates cover more of the expense, Lobdell advised.

All we have the right to do now is pay, Eldrige said. We don't have a voice in the capital projects – I'm not so sure it's a big benefit, he stated.

Is the question about the level of capital spending or is it about how it is financed? Schwartz asked. If it's whether accruing more capital debt should be done, I share the concern, he stated.

We do have input into the capital spending decisions, Clark stated. I think this is working, he said. Clark said he is concerned about "paying twice" for the EN principal. For rate setting, you should move the EN debt (principal payment) below the line on your income statement – it's a way to assure that we don't pay twice, he said. It's important for the credibility of DOP, Clark added. The EN debt has been extended, so we should not pay for it again, he said.

Congress could be a lot of help to us, and if we just keep taking care of obligations by refinancing and incurring debt, we don't take the opportunity to educate people about what we really need to comply with the mission that has been given us, Eldrige said. We may be harming ourselves in terms of getting help from outside the region, he suggested. "There are a lot of things I don't agree with that have been loaded onto the system," Eldrige added.

We're looking at $1 billion in total debt service, Cavanagh said. But how much is the debt from WNP-1 and 3? he asked. The total EN debt is $500 million, in addition to $280 million annually for O&M, Cavanagh said.

There was discussion about the amount of exposure BPA is facing from interest rates, and Carbonari said the forecast for 2007-2009 builds in an interest rate increase. I'd like to see one place where you have the impact of capital programs on rates, Gregg requested.

We've gotten a lot of comment on the capital program, Norman stated. As a result, Ruth Bennett will start a new process to explore the aggregate capital program, he said. We will keep you posted, Norman indicated.

Carbonari explained that reserve fund free-ups will have an impact on 2007-2009 rates. We freed up a lot of reserves, and we got the benefit of doing that, but the impact is we will have less revenue from interest, he said. We will have to recover an additional $49 million because of the free-ups, Carbonari said.

He described refinancings undertaken from 2001 to 2004 to secure interest savings, noting that over $3 billion in transactions were completed in that period. Those actions will have a positive impact on 2007-2009 rates, Carbonari reported.

Managing debt as a single portfolio has had significant results, he said. By taking the actions we did, we saved PBL about $112 million annually, Carbonari said. There are other options related to non-federal debt service that could benefit ratepayers in the near term, but they could impact future rates, he wrapped up.

Clark asked BPA to look at various scenarios for retiring third-party debt, including looking at the value in the next five years of continuing to capitalize EN expenses. Don't look to place any debt beyond the current license of the plant, Eldrige said.

Norman asked for any additions to the debt management items on the scoresheet. Clark said BPA should use the latest interest rate assumptions for the initial rate proposal and address the issue in the rate case. He also suggested BPA look at the effects of stretching out the third-party debt for another five years.

How about getting rid of the repayment study requirement in RA 6120.2 and going to normal FERC accounting, Williams suggested. The conventional wisdom is that while the study is arcane, it helps us rate wise and gives us flexibility, Norman responded. I can't commit to doing that, he added. Norman agreed to add to the scoresheet lengthening the amortization period for F&W investments and moving the principal payment in the EN debt service "below the line" to the cash-flow statement.

Eldrige asked Norman to encourage Ruth Bennett to base her projections for Corporate on what she thinks she can do. We'll do that, Norman said.

For our next meeting, risk and fish costs are on the agenda, Norman said. They are huge issues he stated. Risk in particular is very amenable to public input. We will put out briefing papers April 1, Norman concluded.

The meeting adjourned at 3:15 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.

Internal operations costs charged to power rates:

1. Please provide the number of FTE in each functional area on page 13 for current vs. 2002 levels.

2. What are the CFTE for BPA?

Debt Service:

3. What is the basis for the capitalized bond call premiums that were said to be in the Capital G&A for FYs 2008 and 2009 on page 15?