



Bonneville Power Administration's Power Function Review Regional Meetings

April 2005



BPA Direction

BPA's Mission

The Bonneville Power Administration's mission as a public service organization is to create and deliver the best value for our customers and constituents as we act in concert with others to assure the Pacific Northwest:

- An adequate, efficient, economical and reliable power supply;
- A transmission system that is adequate to the task of integrating and transmitting power from federal and non-federal generating units, providing service to BPA's customers, providing interregional interconnections, and maintaining electrical reliability and stability; and
- Mitigation of the Federal Columbia River Power System's impact on fish and wildlife.

BPA is committed to cost-based rates and public and regional preference in its marketing of power. BPA will set its rates as low as possible consistent with sound business principles and the full recover of all of its costs, including timely repayment of the federal investment in the system.

BPA's Vision

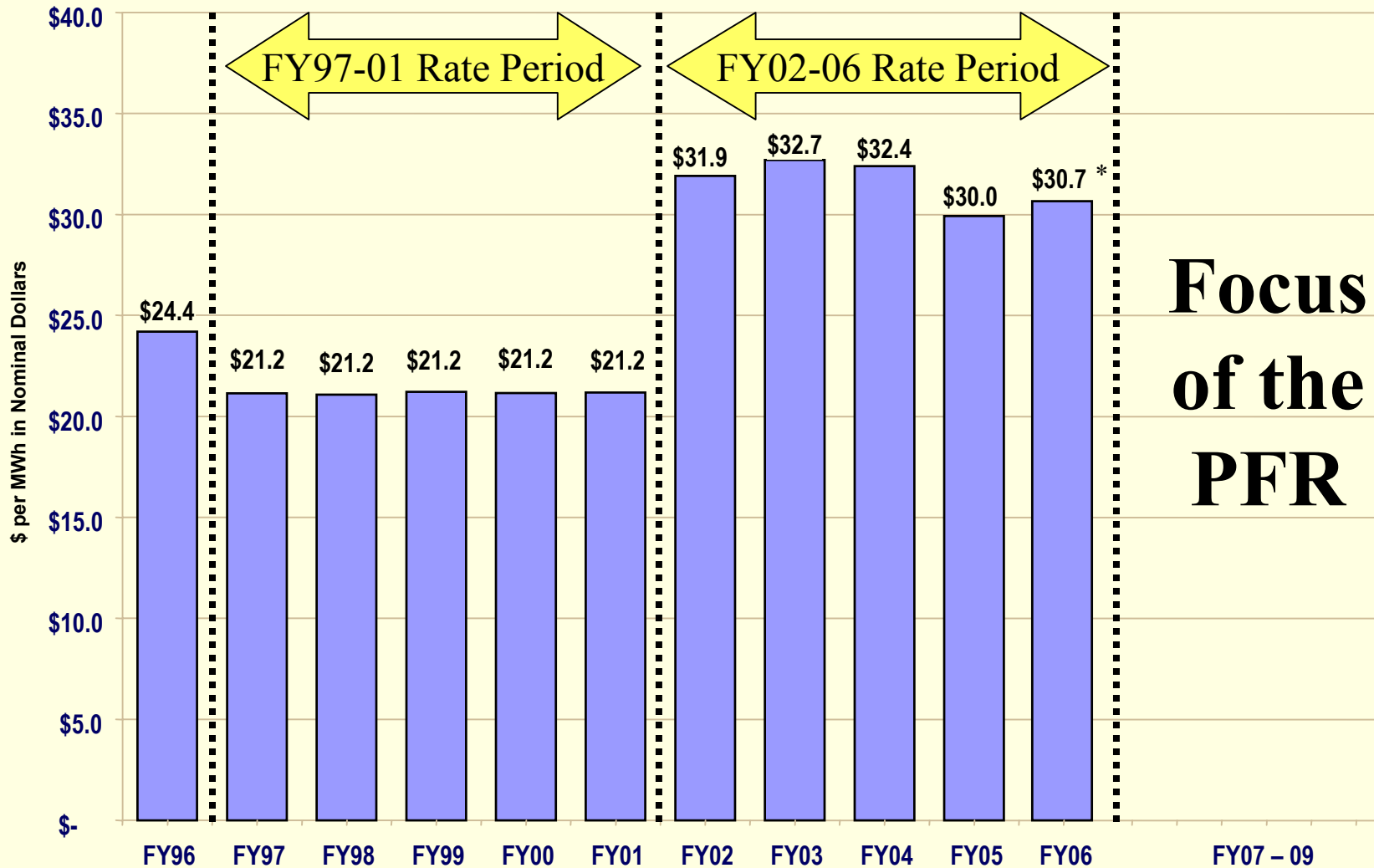
BPA will be an engine of the Northwest's economic prosperity and environmental sustainability. BPA's actions advance a Northwest power system that is a national leader in providing:

- High reliability;
- Low rates consistent with sound business principles;
- Responsible environmental stewardship; and
- Accountability to the region.

We deliver on these public responsibilities through a commercially successful business.



Actual and Forecasted Nominal Power Rates: FY 1996-2006



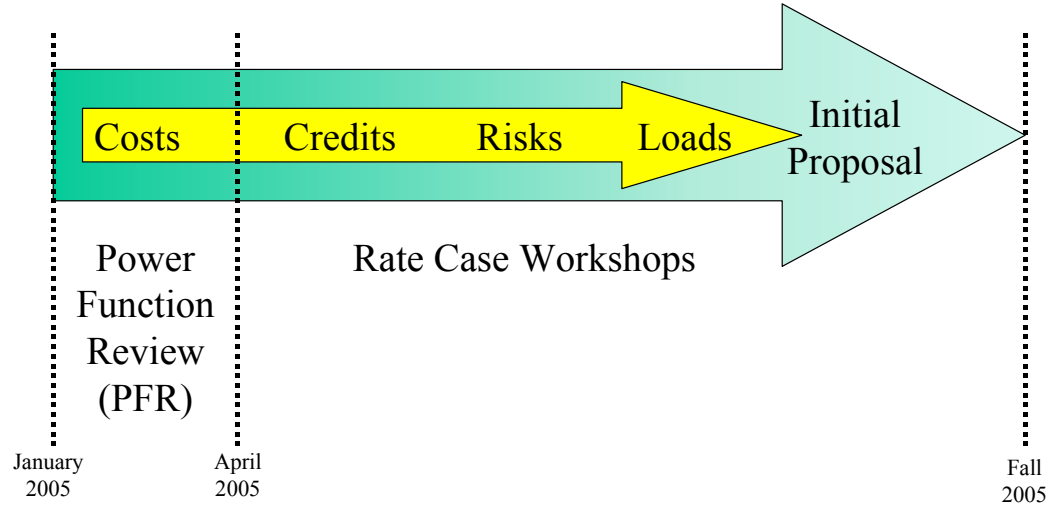
**Focus
of the
PFR**

*Forecasted FY06 rate from August 18, 2004 SN CRAC workshop

Note: Nominal Power Rates do not include Transmission Rate Component



Rates Overview



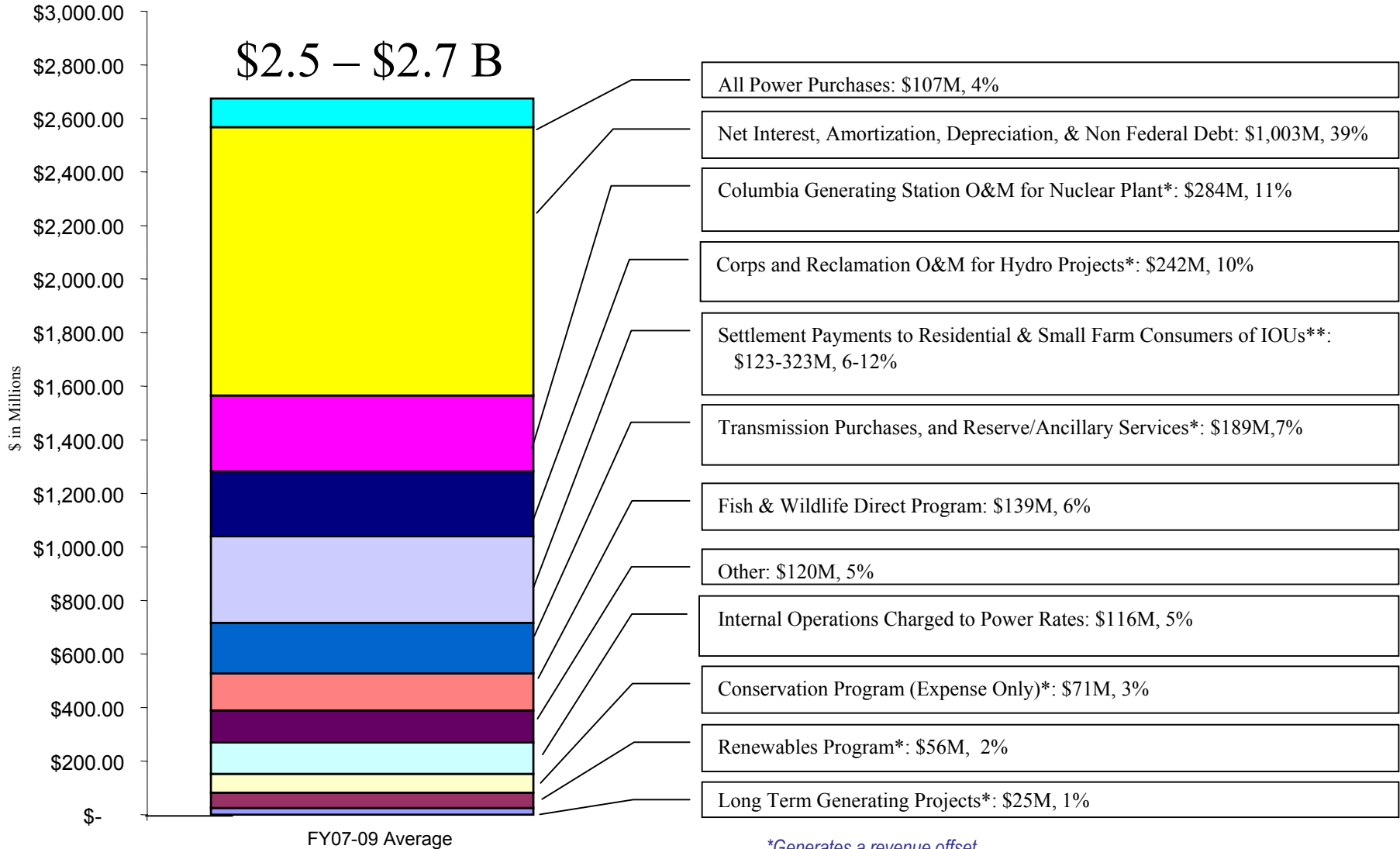
- BPA’s rate case addresses what BPA should charge for its power and transmission services; it does not decide what the nature or expense levels of BPA’s services should be.

$$\frac{\text{Costs} - \text{Credits} + \text{Risk}}{\text{Loads}} = \text{Rate}$$

- Costs (PBL’s total revenue requirement) are allocated to customer groups according to directives in federal law. The allocated revenue requirement divided by the customer group’s estimated power use (“load”) equals the rate (price per unit of power) for that customer group.



Components Of The Forecasted Expenses In FY 2007-09

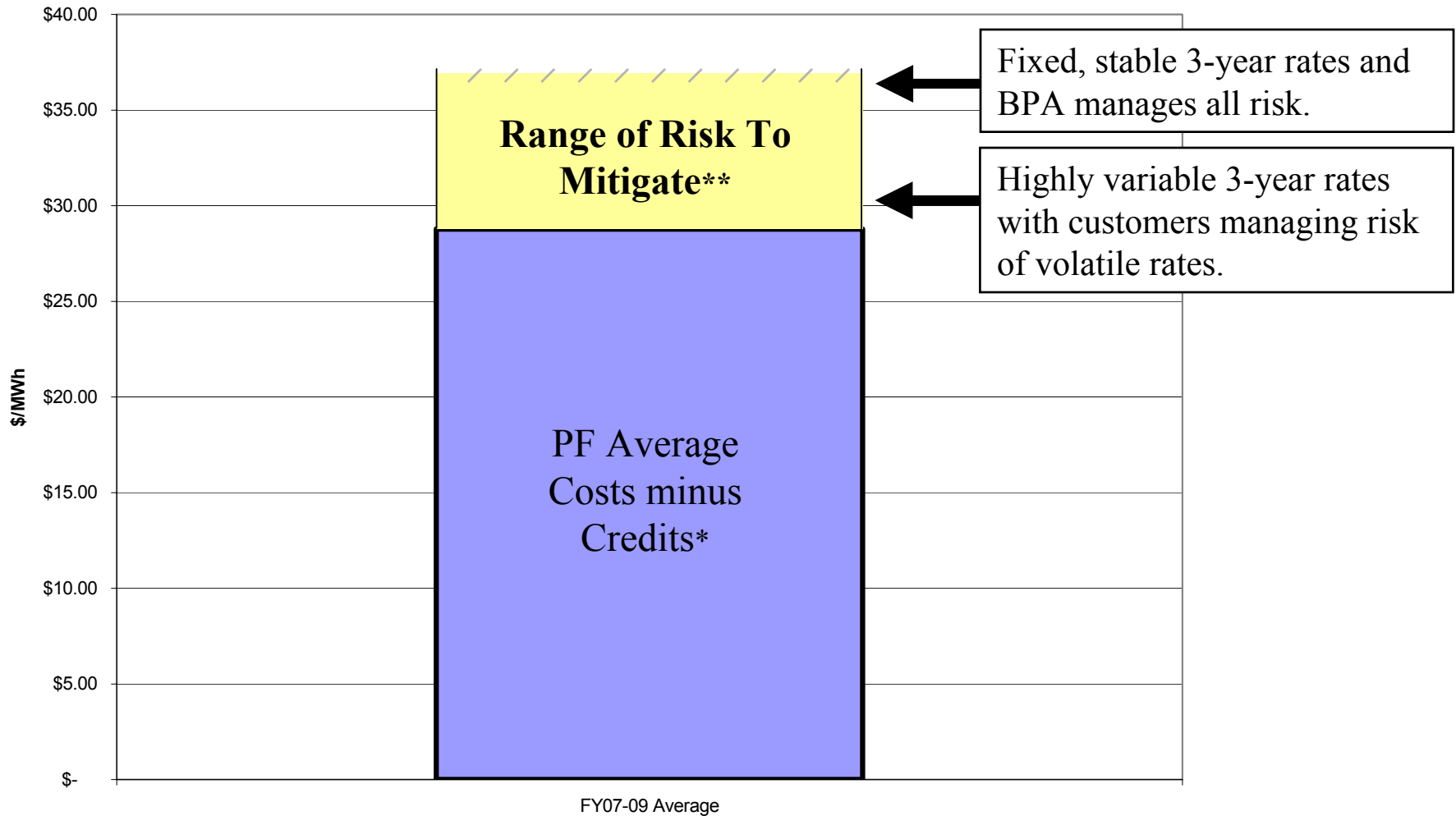


**Generates a revenue offset*

*** This level is heavily dependant on forward market prices
Percentages may not add to 100% due to rounding*



Range Of Possible Traditional PF Rate Outcomes



*Consistent with Power Function Review Base Costs before any actions are taken.

**Reflects BPA's largest risks of market price and water variability



Why Aren't Forecasted Rates Going Back to Historic Levels?

Pre-2002 vs. Post-2006:

Question: BPA got through the 1997-2001 rate period with a 22-mill PF rate and no significant drawdown in reserves. In 2007 the augmentation costs that drove up rates in 2002-6 will be gone. So why can't BPA get its 2007-9 rates down somewhere close to the 22 mills?

Answer: BPA will be doing much more for customers and constituents in 2007-9 than it did in 1997-2001, and this increases costs significantly. There are also significant increases in capital and O&M costs for the system. Specifically:

- IOU benefits increases (*includes deferred costs from 2002-06*)
- F&W program costs increases
- Serving more Public Utility loads
- O&M and Debt Service cost increases (*includes deferred costs from 2002-06*)
- Conservation and Renewables discount on rates

These increases are partially offset by a reduction in Aluminum loads and a forecast of higher sales prices for our surplus power, but these offsets fall far short of the increases listed above.



Why Aren't Forecasted Rates Going Back to Historic Levels, cont.?

2002-06 vs. Post-2006:

Question: In 2007 the augmentation costs that drove up rates in 2002-6 will be gone. So why can't BPA get its 2007-9 rates down somewhere close to the 22 mills?

Answer: Even though the cost of augmentation purchases will go away in the 2007-09 timeframe, there are significant increases in capital and O&M costs for the system. Specifically:

- IOU Residential Exchange Settlement Changes (*includes deferral costs*)
- Higher Public Utility Loads
- Higher O&M Costs
- Higher Debt Service Costs (*includes deferral costs*)
- Long-Term Surplus Sales expire

Augmentation expenses are going away in the FY07-09 time frame but they are mostly offset by the increases in the items above

In addition to cost increases, BPA faces a world with more volatile risks than in previous rate periods.



What We Have Heard So Far...

Throughout the PFR process, BPA has been listening and working with interested parties to identify areas of potential cost reductions for the FY07-09 rate period, but also understanding there are some areas where increases may occur. Listed below are some of the potential areas for reductions/increases identified so far (not all are additive). All these areas have comments/tradeoff's listed in the PFR Scorecard (See Appendix).

<u>Program Areas</u>	<u>Average (Reductions)/Increases</u>
Conservation:	
• Credit conservation done by utilities “on their own nickel” against BPA’s target	(\$14 M/yr)
• Reduce BPA target for “naturally occurring” conservation.	(\$1 M/yr)
• Conservation Workgroup recommendation to include 20% administration costs and 2% infrastructure budget	\$8 M/yr
• Budget too low to capture new target	\$11 M to \$40 M/yr
• MW target too low	TBD
Renewables:	
• Remove Geothermal project from projected costs	(\$11 M/yr)
BPA Internal Costs:	
• Include forecast of savings from process improvement efforts (Enterprise Process Improvement Project), early retirement offer, staffing strategy, and grade reduction initiative	(\$6 M/yr)
• Eliminate uncommitted technological innovation budget	(\$3 M/yr)
• Eliminate monetary awards budget to FY 2004 actuals for Corporate and Power Business Line	(\$3 M/yr)



What We Have Heard So Far, cont...

Program Areas

(Reductions)/Increases

Columbia Generating Station:

- License extension of CGS (\$3 M/yr)
- Include revised CGS Long Term Forecast in PFR base (\$23 M/yr)

Hydro System (Corps and Bureau):

- Reduce level of funding for extraordinary maintenance (\$8 M/yr)
- Pursue remote operation of projects (\$600 K-\$900K/yr)
- Reduction in funding for WECC/NERC compliance (\$3 M/yr)

Debt Management:

- Lengthen the recovery period for Conservation investments (\$TBD)
- Debt finance proposed CGS capital projects (Estimated \$20 M/yr)
- Finance new and existing CGS capital through 2023 instead of 2018 (\$TBD)
- Change CRFM plant-in-service dates (Estimated \$2-\$40 M/yr)

Fish & Wildlife:

- Fund only Lower Snake River Compensation Plan O&M costs (\$2 M/yr)
- Modify Direct Funding (Integrated Program) level for F&W (\$13 M/yr) to \$35 M/yr
- Include Snake River Fall Chinook Transport vs. In-River Migration Study \$TBD

Other:

- Remove assumption of Spokane Settlement (\$6 M/yr)



PFR Next Steps



Power Function Review Schedule

PFR Regional Meetings:

Portland/April 13, Registration: 4:30 p.m., Meeting: 5:00 – 9:00 p.m., BPA Rates Hearing Room, 911 NE 11th Avenue

Seattle/April 14, Registration: 4:30 p.m., Meeting: 5:00 – 9:00 p.m., Mountaineers Headquarters, 300 Third Avenue W.

Idaho Falls/April 19, Registration: 4:30 p.m., Meeting: 5:00 – 9:00 p.m., Red Lion, 475 River Parkway

Missoula/April 21, Registration: 4:30 p.m., Meeting: 5:00 – 9:00 p.m., WinGate Inn, 5252 Airway Blvd

Spokane/April 26, Registration: 4:30 p.m., Meeting: 5:00 – 9:00 p.m., Airport Ramada Inn, 8909 Airport Road

PFR Decision Process:

Draft Close-Out Letter Released

May 2, 2005

Close of Comment Period

May 20, 2005

Final Close Out Letter Released

Week of June 13th, 2005



Power Function Review Process

Ways to Participate

- All public meetings will be noticed on the PBL external Web site at: www.bpa.gov/power/review.
- The comment period for the PFR opens Tuesday, January 25, 2005 and closes Friday, May 20, 2005. A draft of the close out letter will be send out May 2nd and BPA will collect comments through May 20, 2005. A final close out letter will be sent out June 15, 2005. You have several options to provide comments to BPA:
 1. Attend one or more of the regional public comment meetings and give BPA your comments.
 2. Submit written comments to Bonneville Power Administration, P.O. Box 14428, Portland OR 97293-4428.
 3. Submit comments via e-mail to: comment@bpa.gov or submit on-line at: <http://www.bpa.gov/comment>.
 4. Comments can also be sent via fax to (503) 230-3285.