

2003 Safety-Net Cost Recovery Adjustment Clause Initial Proposal

General Rate Schedule Provisions

SN-03-E-BPA-03

March 2003



General Rate Schedule Provisions (GRSPs)
Safety-Net Cost Recovery Adjustment Clause (SN CRAC)

The SN CRAC applies to power purchases under the following firm power rate schedules: PF [Preference (excluding Slice), Exchange Program and Exchange Subscription]; Industrial Firm Power (IP-02), including purchases under the Industrial Firm Power Targeted Adjustment Charge (IPTAC) and Cost-Based Index Rate; Residential Load (RL-02) (including both actual power deliveries and the 900 aMW of monetary benefits under the financial portion of any REP Settlement, buy-downs and load reduction agreements); New Resource Firm Power (NR-02); and subscription purchases under Firm Power Products and Services (FPS). The SN CRAC does not apply to power purchases under Pre-Subscription contracts to the extent prohibited by such contracts, to BPA's current contractual obligations for Seasonal and Irrigation Mitigation sales including for any eligible customer that converts from Slice to another BPA product, or to purchases under the PF Slice Rate.

A. Formula for Calculation of the Safety-Net Cost Recovery Adjustment Clause

By August of each fiscal year (FY 2003-2005) immediately prior to each fiscal year of the remainder of the rate period (*i.e.*, FY 2004-2006), forecasts of that end-of-year Accumulated Net Revenue (ANR) and of FB CRAC revenue for the upcoming fiscal year will be completed. These forecasts will be made after the calculations for the Financial-Based CRAC are completed. BPA will compare the sum of the forecasted ANR for the current fiscal year plus forecasted FB CRAC revenue for the upcoming fiscal year to the SN CRAC Threshold applicable to that year to determine the SN CRAC to be implemented. If the sum of ANR at the end of the forecast year and FB CRAC revenue for the upcoming fiscal year falls below the SN CRAC Threshold applicable to that fiscal year, an SN CRAC rate adjustment will be implemented. That SN CRAC rate adjustment will go into effect beginning in October of the upcoming fiscal year (FY 2004-2006).

The Revenue Amount will be determined by the following formula:

Revenue Amount is the lower of:

SN CRAC Threshold minus the sum of forecasted ANR for the current fiscal year and forecasted FB CRAC revenue for the upcoming year;

or

The annual Maximum Planned Recovery Amount, shown in Table A below.

Where Revenue Amount is the amount of additional revenue that an adjustment in rates under SN CRAC is intended to generate during the one

year period that the rate adjustment is effective.

Where SN CRAC Threshold is the ANR level below which a rate adjustment is determined. The thresholds specified for the end of FY 2003, 2004, and 2005 are shown in Table A.

Where ANR is generation function net revenues, as accumulated since 1999, at the end of each of the fiscal years 2003-2005. The forecast of ANR through the end of each fiscal year will be calculated and used to determine if the threshold has been reached and the Revenue Amount needed. Net revenues for any given fiscal year are accrued revenues less accrued expenses, in accordance with Generally Accepted Accounting Principles, with the following two exceptions. First, for purposes of determining if the SN CRAC threshold has been reached, actual and forecasted expenses will include BPA expenses associated with Energy Northwest debt service as forecasted in the WP-02 Final Studies. Second, the impact of adopting Financial Accounting Standard 133, Accounting for Derivative Instruments and Hedging Activities, will not be considered in determining if the SN CRAC threshold has been reached. Only generation function actual and forecasted revenues and expenses that are associated with the production, acquisition, marketing, and conservation of electric power, will be included in determinations under the SN CRAC. Accrued revenues and expenses of the transmission function are excluded. Impacts of forecasted revenues, positive or negative, from contractual true-up pursuant to the Slice Agreement shall be included in the revenue forecast when determining the SN CRAC.

Where forecasted FB CRAC revenue for the upcoming year is the amount of revenue forecasted to be generated throughout the upcoming fiscal year by the Financial-Based CRAC.

Where Maximum Planned Recovery Amount is the maximum annual amount planned to be recovered through the SN CRAC.

Table A
[Dollars in Millions]

End of Fiscal Year	SN CRAC Threshold (ANR)	Maximum Planned Recovery Amount (Beginning October)
2003	\$ -400	\$470
2004	\$ -140	\$470
2005	\$ 5	\$470

Once the Revenue Amount is determined, that amount will be converted to the SN CRAC Percentage. The SN CRAC Percentage is the percentage adjustment in customers' rates (not including LB CRAC or FB CRAC) in each of the firm power rate schedules listed above. This percentage will be applied to generate the additional SN CRAC revenue.

The SN CRAC Percentage will be determined by the following formula:

$$\begin{aligned} & \text{SN CRAC Percentage} = \\ & \text{Revenue Amount} \\ & \text{Divided by} \\ & \text{SN CRAC Revenue Basis} \end{aligned}$$

SN CRAC Revenue Basis is the total generation revenue (not including LB CRAC or FB CRAC) for the loads subject to SN CRAC for the fiscal year in which the SN CRAC implementation begins, based on the then most current revenue forecast. Each non-Slice product's total charge for energy, demand, and load variance will be adjusted by this CRAC percentage amount.

Payment under the SN CRAC rate adjustment will be due monthly from November (for the October billing period) through October of the following year.

In August prior to the beginning of each fiscal year of the rate period (FY 2004-2006), the Administrator will compare the ANR forecast at the end of that current fiscal year to that year SN CRAC Threshold. The customers will be billed in accordance with the SN CRAC adjustment.

Each customer will be notified, on or about September 1st, of the percentage adjustment in rates due to the SN CRAC. The rates used to calculate the customers' bills for the following October through September for FY 2004-2006, will reflect the SN CRAC adjustment.

B. Retriggering of the SN CRAC

The SN CRAC will be retriggered if the Administrator determines that, after implementation of the FB CRAC, the currently active SN CRAC, and any forecast of Augmentation True-Ups, either of the following conditions exists:

- BPA forecasts a 50 percent or greater probability that it will nonetheless miss a payment to the U.S. Treasury or other creditor, or
- BPA has missed a payment to the U.S. Treasury or has satisfied its obligation to the U.S. Treasury but has missed a payment to any other creditor.

A retriggering of the SN CRAC will result in an upward adjustment to posted power rates listed above by modifying the SN CRAC parameters that are currently in use. BPA will propose changes to the SN CRAC parameters that will, to the extent market and other risk factors allow, achieve a high probability that the remainder of Treasury payments during the FY 2002-2006 rate period will be made in full. BPA's proposal could include changes to the Revenue

Amount, the Cap, the Threshold, the duration (the length of time the SN CRAC would be in place, which could be more than one year), and the timing of collection. The additional revenue to be generated by the SN CRAC will be collected through a percentage adjustment in applicable rates and a commensurate decrease in the financial portion of the Residential Exchange Settlement. In addition to the revenue generated by the SN CRAC, BPA's payments for IOU load reductions will be reduced in accordance with contractual provisions.

a. SN CRAC Notification Process

At the time the Administrator determines that the SN CRAC has retriggered, BPA will send written notification of the determination to customers that purchase power under rates subject to the SN CRAC and to interested parties. Such notification shall include the documentation used by BPA to determine that the SN CRAC has retriggered, the amount of any forecast shortfall, and the time and location of a workshop on the SN CRAC.

The purpose of the SN CRAC workshop will be to discuss with customers and interested parties the cause of the shortfall, and any proposed changes to the SN CRAC that will achieve a high probability that the remainder of Treasury payments during the FY 2002-2006 rate period will be made on time. In determining which proposal to include in its initial proposal in the SN CRAC Section 7(i) proceeding, BPA will give priority to prudent cost management and other options that enhance Treasury Payment Probability while minimizing changes to the SN CRAC.

b. SN CRAC Hearing Process

As soon as practicable after a determination that the SN CRAC has retriggered, BPA will publish a Federal Register Notice initiating an expedited hearing process to be conducted in accordance with Section 7(i) of the Northwest Power Act. The hearing shall be completed within 40 days, unless a different duration is agreed to by BPA and the parties. Upon completion of such hearing, BPA will submit the following documentation to FERC in support of a request for review and confirmation: Statements A through F from the 2002-2006 BPA Wholesale Power Rate Adjustment Proceedings, Separate Accounting Analyses, current and revised revenue tests, the proposed revisions to the SN CRAC parameters and the administrative record compiled by BPA in the SN CRAC proceeding.

The changes to the SN CRAC parameters shall take effect 60 days from filing with FERC unless FERC orders otherwise prior to that time.