Setting the Financial Based and Safety Net Cost Recovery Adjustment Clause Rate Adjustments for FY 2005

Workshop

August 18, 2004

Overview

- BPA expects to institute a power rate reduction in the range of 5 to 7.5 percent starting Oct. 1.
- This range of reductions would allow BPA to meet its three-year Treasury payment probability standard, although lower rates in FY 2005 create a higher risk of a rate increase in FY 2006.
- Despite FY 2004 financial results that fell short of targets, the rate reductions are possible because of cost reductions and higher net secondary revenue forecasts.
- Our modeling of risk and rates suggests we are still subject to tremendous volatility.
- Conclusions on FY 2005 rates are tentative until BPA has evaluated public comments and because the Columbia Generating Station status or other factors could materially affect financial results in the next few weeks.

Financial Summary and Key Indicators
(3rd Quarter Review- No Discretion)

		FY 2004			FY 2005			FY 2006		
	$ in Millions	Aug 28th w/ Dec Update	"Unofficial June Update"	3rd Quarter Review	Aug 28th w/ Dec Update	"Unofficial June Update"	Rates Forecast based on 3rd Quarter Review	Aug 28th w/ Dec Update	"Unofficial June Update"	Rates Forecast based on 3rd Quarter Review
1	PBL Modified Net Revenue	$ 129	$ 46	$ 120	$ (9)	$ 207	$ 282	$ (22)	$ (5)	$ 5
2	FB/SN Accumulated Net Revenue (ANR)	$ (469)	$ (552)	$ (478)	$ (478)	$ (345)	$ (196)	$ (500)	$ (350)	$ (191)
3	Ending BPA Reserves	$ 451	$ 492	$ 630	$ 364	$ 478	$ 619	$ 328	$ 458	$ 616
4	1-Year TPP	96%	100%	100%	87%	99%	100%	80%	94%	96%
5	Total Rate	44.8%	45.4%	45.7%	54.3%	52.0%	45.8%	54.2%	36.8%	32.2%
6	*LB CRAC**	*22.4%*	*23.0%*	*23.3%*	*32.0%*	*23.3%*	*22.8%*	*32.1%*	*23.7%*	*23.7%*
7	*FB CRAC*	*12.3%*	*12.3%*	*12.3%*	*8.4%*	*11.2%*	*11.2%*	*9.3%*	*9.2%*	*6.0%*
8	*SN CRAC*	*10.1%*	*10.1%*	*10.1%*	*13.9%*	*17.5%*	*11.8%*	*12.8%*	*3.9%*	*2.5%*
9	Net Secondary Sales Forecast	$ 556	$ 404	$ 461	$ 518	$ 501	$ 612	$ 488	$ 490	$ 552
10	Gas Prices ($/MMBtu)	$ 4.6	$ 4.9	$ 5.6	$ 3.5	$ 4.3	$ 5.0	$ 3.9	$ 4.3	$ 4.6
11	Annual Weighted Avg Net Sales Price ($/MWh)	$ 28.7	$ 37.1	$ 37.9	$ 23.9	$ 26.0	$ 31.6	$ 23.8	$ 25.8	$ 29.0
12	Hydro Volume Forecast (maf)									
12a	Oct - Sept (RFC)	134	112	110	134	134	134	134	134	134
12b	Jan - July (RFC)	103	84	84	103	103	103	103	103	103
13	Summer Spill Assumption	BiOp	BiOp	reduced spill	BiOp	BiOp	BiOp	BiOp	BiOp	BiOp
14	Internal Operations Expenses	$ 106	$ 103	$ 103	$ 108	$ 108	$ 108	$ 110	$ 110	$ 110

FB/SN CRAC August 28th Thresholds and Caps

FY 2004 Threshold = ($264 M) ←

FY 2005 Threshold = ($252 M)

FY 2004 Cap = $150 M

FY 2005 Cap = $175 M

FY04 3rd Qtr. Review
FB/SN ANR= ($478M)

FB CRAC is at its maximum.

SN CRAC is set to recover the remaining amount.

3rd Quarter Review Calculations and Base Case Assumptions

- **Base Case Assumptions**
  - Third Quarter Review which includes reduction a in summer spill (Estimated at $30M)
  - Low Gas Price Forecast FY05-06 (Expected Value= $612M)

3rd Quarter Review: ToolKit Summary

Scenario	Toolkit Run		Net Revenue Delta	Modified Net Revenue	Ending Reserves	CRAC $	Total Rates	Rates Compared to FY04	1-yr TPP	2-yr TPP	FY06 Rates Compared to FY05	% of games in FY06 that are greater than FY05
3rd Quarter Review	3rd Qrev runs/August workshop | BPA reserves	2005	$ (10)	$ 283	$ 619	$ 219	46.0%	0.5%	99.9%	96.3%		16.2%
		2006	$ -	$ 9	$ 616	$ 80	32.1%	-9.1%	96.4%		-9.5%	

Rebalancing the rates results in the amount Toolkit forecasts to be collected minus the cost adjustment limit (CAL).

Rebalancing FB and SN CRAC to maximize FB CRAC

	2005			2006		
(in millions)	CRAC $	FB CRAC	SN CRAC	CRAC $	FB CRAC	SN CRAC
Toolkit Calculated FB/SN CRAC Rates	$ 219	11.14%	12.06%	$ 80.0	4.03%	4.41%
Reduction due to the '03 Cost Adjustment Limit*	$ (2)			$ (2)		
Rebalanced FB/SN CRAC Rates	$ 217	11.16%	11.82%	$ 78	6.04%	2.48%

* Adjustment to the SN CRAC is due to cost overuns in Conservation in FY 2003 based on targets set in the SN CRAC Final ROD

How Can BPA Afford to Lower Power Rates in FY05?

	FY04
▪ Cash reserves at the end of FY04 are now forecast to be higher than we predicted last August	**$128M**

	FY05/06
▪ IOU settlement reduced rates	**$200M**
▪ FY 2005 sounding board efforts	**$61M**
▪ Additional expense reduction efforts	**$81M**
▪ Gas prices are strong and net secondary revenues are now forecasted to be higher than we predicted last August even with using our low gas price forecast	**$0-$250M**

Adjustments Made in Compliance with Administrator's Discretion to Lower Rates

1. Adjustments since Third Quarter Review:

FY 2004 PBL Cash/Net Revenue Adjustments:

Spill Reduction	($30M)
CGS Outage	($25M)
Miscellaneous Adjustments	($5M)

FY 2004 Agency Cash Adjustments:

Unexpended Funds for Schultz-Wautoma Project	($16M)

FY 2005 PBL Cash/Net Revenue Adjustments:

Reduced Spill Expenses and Change in Starting Reservoir Elevations	+$10M

FY 2005 Agency Cash Adjustments:

None

2. Reduction in Low Gas Price Forecast:

FY 2005 and 2006 net secondary revenue forecasts are much higher than anything BPA has ever achieved. We fear that this results in an optimistic financial forecast. We are concerned about the impact of high net secondary revenue games because a demand response to high prices would likely result in a price cap or significant load shedding on the part of consumers.

Therefore, the Administrator has decided to cap FY 2005 and 2006 net secondary revenues results that are above the highest net secondary revenue ever achieved (~$535M in FY 2003).

Revised net secondary revenue is capped in each of the 3,000 games at 25% above the highest net secondary revenue ever achieved.
Cap = $670M for FY 2005 and 2006.

Expected value net secondary revenues for FY 2005= ~$540M
Expected value net secondary revenues for FY 2006= ~$470M
After Caps

ToolKit Results w/ Administrators Discretion to Lower FY 2005 Rates and Adjust FY 2006 FB/SN CRAC Thresholds:

3rd Quarter Review: ToolKit Summary

Scenario	Toolkit Run		Modified Net Revenue	Ending Reserves	CRAC $	Total Rates	Rates Compared to FY04	1-yr TPP	2-yr TPP	FY06 Rates Compared to FY05	% of games in FY06 that are greater than FY05	% of games in FY06 that result in a 5% or greater rate increase compared to FY05
3rd Quarter Review	3rd Qrev runs/August workshop | BPA reserves	2005	$ 283	$ 619	$ 219	46.0%	0.5%	99.9%	96.3%		16.2%	
		2006	$ 9	$ 616	$ 80	32.1%	-9.1%	96.4%		-9.5%		

Truncated Distribution at 25% of Expected Net Secondary Revenues over $525M for FY05 & 06 (Truncated=$670M)

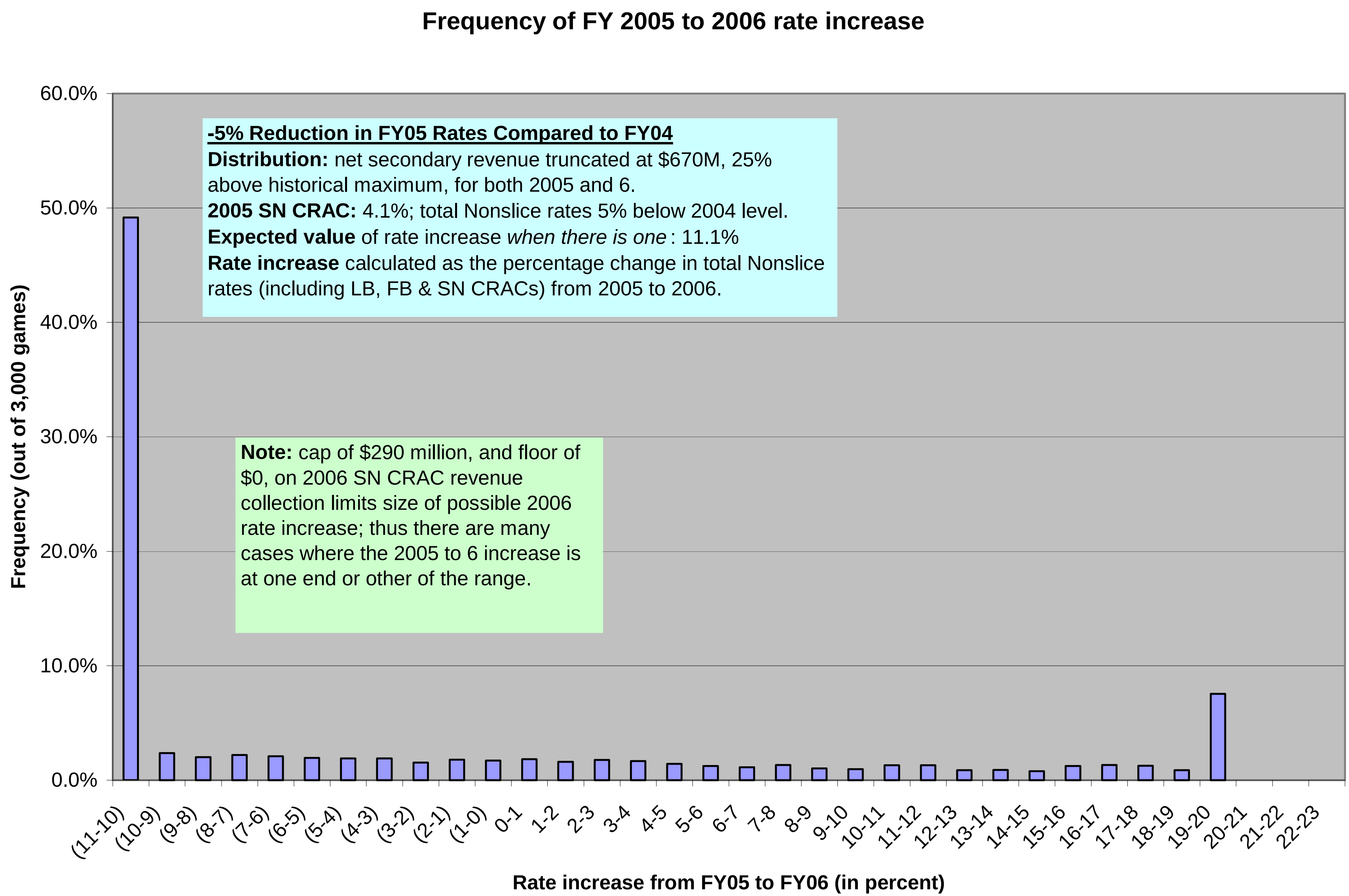
Scenario	Toolkit Run		Modified Net Revenue	Ending Reserves	CRAC $	Total Rates	Rates Compared to FY04	1-yr TPP	2-yr TPP	FY06 Rates Compared to FY05	% of games in FY06 that are greater than FY05	% of games in FY06 that result in a 5% or greater rate increase compared to FY05
FY05 Rates are -4% Compared to FY04	August Workshop, Low Gas trunc'd @ 670, new ENW O&M, CGS outage, 05 Rates =-4%, 2-yr TPP=86.2% | BPA reserves	2005	$ 148	$ 440	$ 152	39.8%	-3.8%	95.6%	86.2%		23.9%	18.4%
		2006	$ (72)	$ 349	$ 86	32.8%	-8.7%	87.4%		-6.9%		
FY05 Rates are -5% Compared to FY04	August Workshop, Low Gas trunc'd @ 670, new ENW O&M, CGS outage, 05 Rates =-5%, 2-yr TPP=86.2% | BPA reserves	2005	$ 134	$ 427	$ 138	38.4%	-4.7%	94.8%	86.2%		28.3%	21.1%
		2006	$ (59)	$ 348	$ 95	33.6%	-8.1%	87.7%		-5.0%		
FY05 Rates are -6% Compared to FY04	August Workshop, Low Gas trunc'd @ 670, new ENW O&M, CGS outage, 05 Rates =-6%, 2-yr TPP=86.2% | BPA reserves	2005	$ 119	$ 414	$ 124	37.1%	-5.6%	93.6%	86.2%		34.0%	25.5%
		2006	$ (39)	$ 354	$ 108	35.0%	-7.1%	88.3%		-2.5%		
FY05 Rates are -7.5% Compared to FY04 (SN CRAC = 0)	August Workshop, Low Gas trunc'd @ 670, new ENW O&M, CGS outage, 05 SN = 0%, 2-yr TPP=86.2% | BPA reserves	2005	$ 90	$ 408	$ 96	34.5%	-7.5%	93.2%	86.2%		43.0%	34.0%
		2006	$ (13)	$ 351	$ 127	37.0%	-5.7%	88.1%		1.4%		

Concerns About Using the Administrator's Discretion to Lower Rates

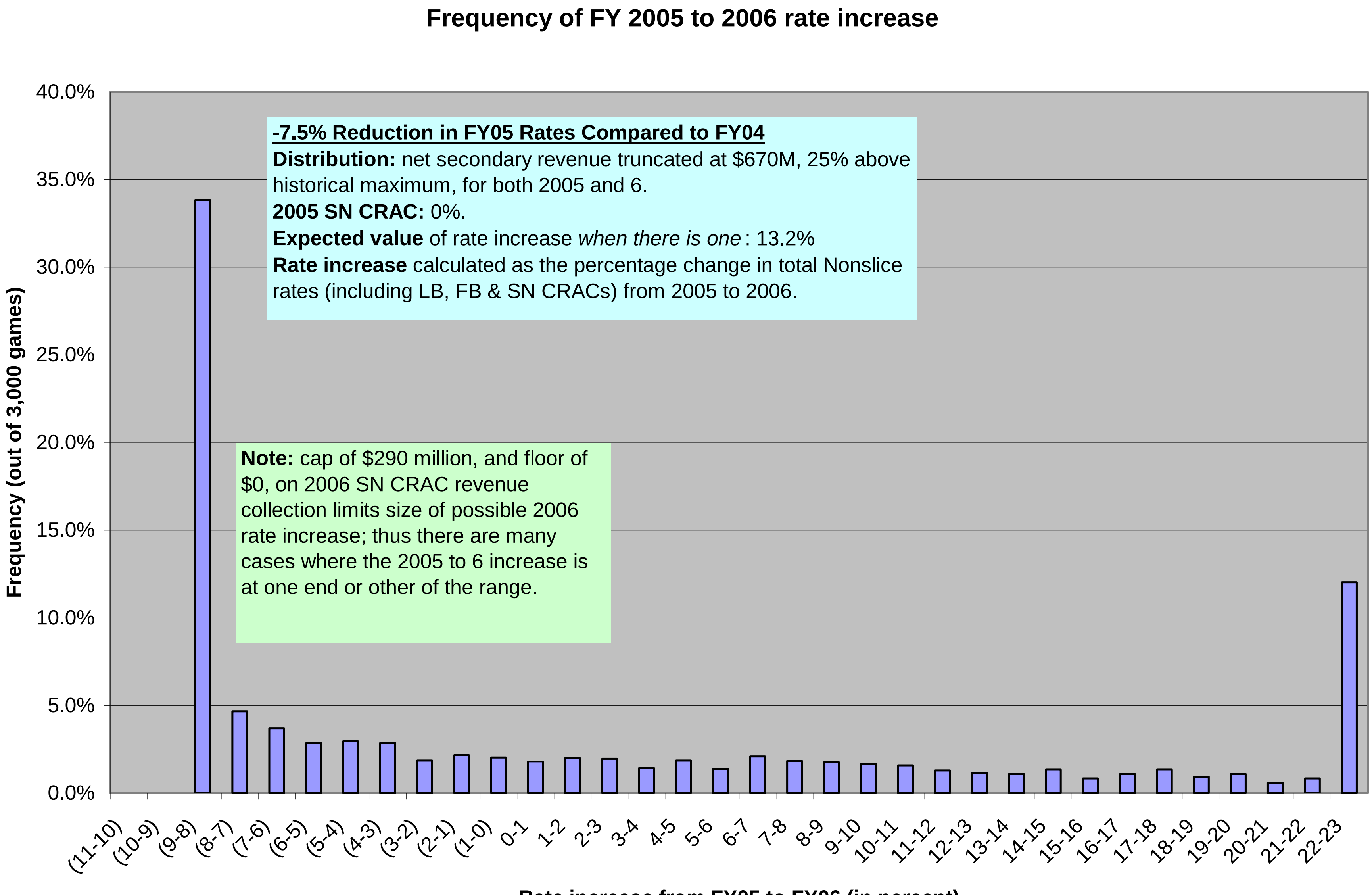
- Our modeling of risk and rates suggest we are still subject to tremendous volatility.
- A continuation of low water and/or lower-than-expected market electricity prices could force BPA's power rates to rise in FY 2006.
- In fact, the 7.5 percent rate reduction (zero Safety Net CRAC in FY 2005) carries with it a 43 percent chance that rates will rise in FY 2006 and a 30 percent chance of a rate increase greater than 8 percent.
- On the other hand, there is also a 57 percent chance that rates in FY06 decrease and a ~30 percent chance of a rate reduction greater than 8 percent.

The following charts describe the distribution around potential rate increases and decreases in FY 2006.

Distribution of FY 2006 Rates at –5% Compared FY 2005



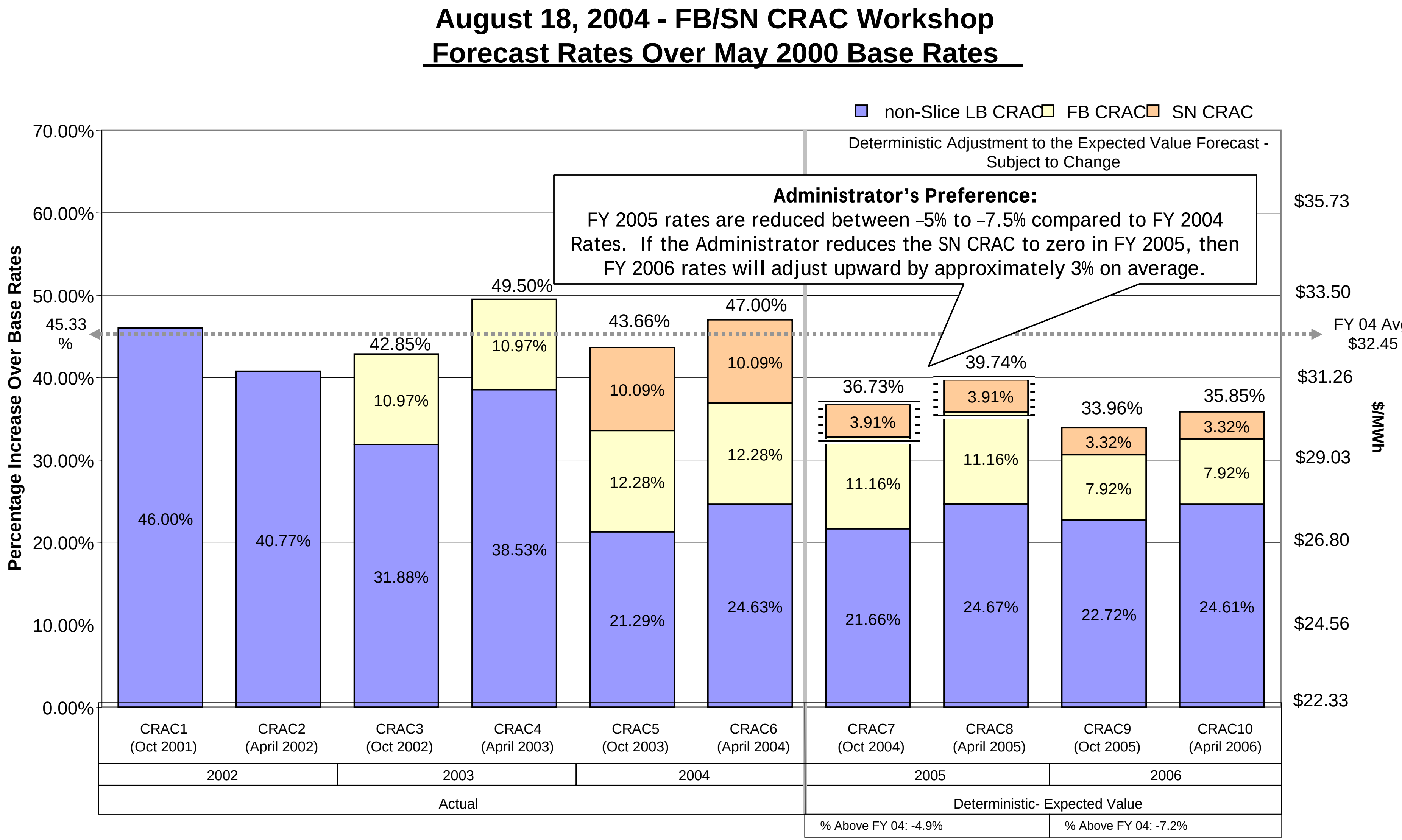
Distribution of FY 2006 Rates at –7.5% Compared to FY 2005 (SN CRAC = 0)



Administrator's preference

- Based on current analysis and public comment to date, BPA expects to institute a power rate reduction in the range of 5 to 7.5 percent starting Oct. 1. The 7.5 percent reduction would eliminate the Safety Net CRAC adjustment for FY 2005 by taking it to zero.
- This range of reductions would allow BPA to meet its three-year Treasury payment probability standard, although lower rates in FY 2005 create a higher risk of a rate increase in FY 2006.
- Despite FY 2004 financial results that fell short of targets, the rate reductions are possible because of cost reductions. Additionally, our analysis is based on net secondary revenues that are about equal to the highest we have achieved on our system but conservative relative to current market forecasts in FY 2005 and FY 2006.
- Our modeling of risk and rates suggests we are still subject to tremendous volatility. A continuation of low water and/or lower-than-expected market electricity prices, could force BPA's power rates to rise in FY 2006. In fact, the 7.5 percent reduction (zero Safety Net CRAC) carries with it a 43 percent chance that rates will rise in FY 2006 and a 30 percent chance of a rate increase greater than 8 percent. On the other hand, there is also a 57 percent chance of a decrease and a 30 percent chance of a rate reduction greater than 8 percent.
- Final rates will be announced in early September. Until then, conclusions on FY 2005 rates are tentative because BPA must evaluate public comment and because the Columbia Generating Station status or other factors could materially affect financial results.

Range of Potential FY 2005 & 2006 Rates



"This information has been made publicly available by BPA on August 18, 2004 and does not contain BPA-approved Agency Financial Information."

What's next?

- The administrator would like to know your opinion. The comment period closes August 27.

- Comments may be sent to:

  Bonneville Power Administration

  attention Mike Normandeau

  P.O. Box 3621 – PFR-6,

  Portland, Oregon 97208

  or

  mrnormandeau@bpa.gov

- Final rates for FY 2005 will be announced in September.

APPENDICES –

3rd Quarter Review Financials

and

FY 2005-2006 Forecast

Appendix A – FY 2004 PBL Accumulated Net Revenues (ANR)

FY 2004 3rd Quarter Review PBL FB/SN CRAC Accumulated Net Revenue Forecast

			$ in Millions
1	FY 2000 PBL Actual Net Revenue	$	252
2	*Energy Northwest Debt Service Adjustment for FY 2000*	$	(82)
3	*SFAS 133 Adjustment*	$	-
4	**FY 2000 Actual Modified Net Revenue***	**$**	**170**
5	FY 2001 PBL Actual Net Revenue	$	(212)
6	*Energy Northwest Debt Service Adjustment for FY 2001*	$	(158)
7	*SFAS 133 Adjustment*	$	(48)
8	**FY 2001 Actual Modified Net Revenue***	**$**	**(418)**
9	FY 2002 PBL Actual Net Revenue	$	(87)
10	*Energy Northwest Debt Service Adjustment for FY 2002*	$	(265)
11	*SFAS 133 Adjustment*	$	(38)
12	**FY 2002 Actual Modified Net Revenue***	**$**	**(390)**
13	FY 2003 PBL Actual Net Revenue	$	243
14	*Energy Northwest Debt Service Adjustment for FY 2003*	$	(148)
15	*SFAS 133 Adjustment*	$	(55)
16	**FY 2003 Actual Modified Net Revenue***	**$**	**40**
17	FY 2004 PBL Forecasted Net Revenue	$	381
18	*Energy Northwest Debt Service Adjustment for FY 2004*	$	(147)
19	*SFAS 133 Adjustment*	$	(114)
20	**FY 2004 Forecasted Modified Net Revenue***	**$**	**120**
21	**PBL Forecasted End of Year Accumulated Net Revenue for FY2000-2004 (ANR)**	**$**	**(478)**

* The term Modified Net Revenue was developed to distinguish between the official Income Statement Net Revenue and the FB CRAC single year adjustment referred to as Adjusted Net Revenue in the GRSPs.

**As defined in the GRSPs, FY 2004 ANR trigger point (threshold) for the CRACs is ($264 M). The maximum amount FB CRAC can set to collect (cap) in FY 2005 is $150 M; the cap for the SN CRAC in FY 2005 is $290 million

Appendix B - SN CRAC Expense Limits

	Final ROD FY 2004 ($M)	Third Quarter Review FY 2004 ($M)	Delta ($M)	Final Rod FY 2005 ($M)	Third Quarter Review FY 2005 ($M)	Delta ($M)
PBL Internal Ops & Corp.[1]	**$105.3**	**$97.4**	**$(7.9)**	**$107.4**	**$103.3**	**$(4.1)**
Conservation Initiatives[2]	**$19.7**	**$19.5**	**$(.2)**	**$19.7**	**$19.7**	**$0**
Residential Exchange[3]	**$143.8**	**$125.9**	**$(17.9)**	**$143.8**	**$125.4**	**$(18.4)**
Corps and Bureau O&M[4]	**$164.8**	**$159.0**	**$(5.8)**	**$169.7**	**$168.0**	**$(1.7)**
Other Generating Projects	**$31.3**	**$27.8**	**$(3.5)**	**$31.9**	**$32.2**	**$.3**
Renewable Projects	**$23.8**	**$20.4**	**$(3.4)**	**$48.7**	**$23.6**	**$(25.1)**
Civil Service Retirement Payment	**$15.5**	**$15.5**	**$0**	**$13.3**	**$13.3**	**$0**
TOTAL:	$504.2	$465.5	$(38.7)	$534.5	$485.5	$(49.0)

This is the only category we are forecasting to exceed its Expense Limits: Increased wheeling cost of Cowlitz Falls project is driving this increase.

Footnotes:
1. Does not include Slice implementation expenses
2. Does not include reimbursable contract expenses
3. Residential Exchange are the amounts of the 900 aMW of financial benefits provided under the financial portion of the REP settlement, excluding any payments by BPA to the IOUs repaying Residential Exchange expenses deferred by contract from a prior fiscal year
4. Does not include Fish & Wildlife expenses

3rd Qtr Forecast Modified Net Revenues Forecast:

The following information identifies the current PBL forecast impacts to the Modified Net Revenues which will serve as the basis for proposed changes to the FY '05 FBCRAC and SNCRAC:

3rd Qtr Forecast compared to 2nd Qtr Forecast:

- **PBL Modified Net Revenues are up by $74 million**
- Forecasted Net secondary sales are up by about $56 million, primarily due to an increase in generation caused by the reduction of summer spill and a slight increase in the average annual weighted net sales price.
- Forecast program expenses are down primary in the areas of net interest expense, fish and wildlife and internal operations, offset by small increases in other categories.

3rd Qtr PBL Forecast compared to August 28th Power Rate Case Workshop :

- **PBL Modified Net Revenues are down slightly by $9 million**
- Actual and forecasted net secondary sales declined $95 million due to a decrease in generation caused by the reduction in annual hydro volume forecast from 134 to 110 maf, partially offset by the reduction of summer spill and a $9/MWh increase in the average annual weighted net sales price.
- The reduced net secondary sales almost completely offset by a total of $86 million in actual and forecasted reductions of expenses in net interest, and internal operations, and forecast changes in other categories.

Appendix C Cont. – Third Quarter Review

- **Several uncertainties are still in play for the reminder of FY04:**
  - The financial assumptions used for the 3rd Qtr Review assume reduced spill for summer spill operations. Revenue projections through fiscal year end assumed the reduction in late summer spill. The reduction had been estimated to increase revenue about $20 to $40 million. Spill reductions have since been enjoined by a federal court making realization of these revenue projections unlikely.
  - While gas prices remain strong, market prices for August & September remain uncertain.
  - Fish and Wildlife Direct Program forecasts were reduced $12 million from the 2nd Quarter forecasts due to the implementation of a forecasting methodology that incorporates improved processes for establishing forecast input data. Third Quarter forecasts indicate direct program costs are $141 million.

Appendix D –
Agency Reserves Third Quarter Review

- The Third Quarter Review forecast of end of year Agency Reserves is $630 million, an increase of $137 million from the 2nd Quarter Review. The increase is primarily attributable to:
  - Increased Agency net revenues ($70 million);
  - Deposits from 3rd party participants for financing various federal Agency energy efficiency projects ($28 million);
  - Updated estimates of the amount of cash being sent to ENW through net billing ($22 million); and
  - Other cash adjustments (e.g., depreciation, etc.) ($17 million).
- The Third Quarter Review forecast of end of year Agency Reserves is $183 million higher than the August 28th Power Rate Case Workshop estimate.The increase is primarily attributable to:
  - Increased reserves resulting from the ENW FY 2005 Debt Refinancing ($55 million);
  - A reduction in the amount of the IOU Residential Exchange Deferral being repaid in FY 2004 ($27 million);
  - Deposits from 3rd party participants for financing various federal Agency energy efficiency projects ($44 million);
  - Transmission Contract Prepayments ($45 million); and
  - Other cash adjustments (e.g., depreciation, etc.) ($12 million).

Forecasts of FY 2005 & 2006 Finances and Power Rates: Summary of Public Comments

We received 23 comments as of 8/6/2004
(Closing date was 7/31/04).

- 1 Petition from Mason county PUD containing 183 signatures to eliminate the SNCRAC and work with customers to keep rates down.
- 6 public utility comments have a similar message: the lowest possible SN CRAC, including all the way to 0%. Administrator should do a forward look of TPP to produce this.
- 8 comments representing PPC, ICNU, NRU, Clark County PUD, Alcoa, WPAG, WPUDA and the union AWPPW, said set the SN CRAC to 0. Some cited we have met many cost savings through efforts like spending restraints and the Sounding Board. Others discussed risk: usually being willing to chance higher rates later. They also wanted information on the final rate earlier rather than later.
- 1 environmental group encouraged BPA to not lower SNCRAC. Future secondary revenues are uncertain, and BPA must meet its environmental and conservation responsibilities.
- 1 public utility commenter changed his mind after the spill decision. He originally wanted the lowest possible SNCRAC, and the TPP forward look, but then, after the spill decision, changed to wanting a stable rate between ’05 and ’06.
- 1 utility said a rate decrease is tempting, but keep risk to a minimum.
- 1 citizen commenter thought BPA was doing a good job handling a sticky situation, and wants expense reductions, and the use of one-year forecasts.
- 1 pair of citizens said improve the economy by not raising rates.
- 1 Utility (SUB) said they’re more interested in stability than SNCRAC=0. They want more technical information.
- 1 Union wanted rate reduction because the economy is in terrible shape.
- 1 comment (PNGC) on controlling costs and reducing expenses. Use care on reducing SNCRAC and don’t rely on overly optimistic secondary revenue forecasts.