

# 2003 Safety-Net Cost Recovery Adjustment Clause Final Proposal

## Administrator's Final Record of Decision

### Appendix A General Rate Schedule Provisions

SN-03-A-02

June 2003



## General Rate Schedule Provisions

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**Financial-Based  
Cost Recovery Adjustment Clause**

## 1. **Financial-Based Cost Recovery Adjustment Clause (FB CRAC)**

The FB CRAC is a temporary, upward adjustment to posted power rates for certain Subscription sales which occurs if end-of-year Accumulated Net Revenues (ANR) in the generation function are forecasted to fall below a threshold level.

The FB CRAC applies to power customers under these firm power rate schedules:

- PF [Preference (excluding Slice), Exchange Program, and Exchange Subscription]
- Industrial Firm Power (IP-02), including under the Industrial Firm Power Targeted Adjustment Charge (IPTAC) and Cost-Based Index Rate
- Residential Load (RL-02)
- New Resource Firm Power (NR-02)
- Subscription purchases under Firm Power Products and Services (FPS)
- the 1,000 aMW power sale portion of the REP Settlement, including where power sales are converted to cash payments calculated pursuant to Section 5(b) of the Residential Exchange Settlement Agreement.

The FB CRAC does not apply to:

- power sales under Pre-Subscription contracts to the extent prohibited by such contracts
- purchases under the PF Slice Rate
- the 900 aMW of financial benefits provided under the financial portion of any Residential Exchange Program (REP) Settlement
- BPA's contractual obligations for Seasonal and Irrigation Mitigation sales, including for any eligible customer that converts from Slice to another BPA product

### A. **Formula for Calculation of the Financial-Based Cost Recovery Adjustment Clause**

By August of the fiscal year immediately prior to each fiscal year of the rate period (*i.e.*, FY 2002-2006), a forecast of that end-of-year ANR will be completed. If the ANR at the end of the forecast year falls below the FB CRAC Threshold applicable to that fiscal year, the FB CRAC will trigger, and a CRAC rate increase will go into effect beginning in October of the upcoming fiscal year.

The Revenue Amount will be determined by the following formula:

Revenue Amount is the lower of:

FB CRAC Threshold minus forecasted ANR;

or

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

**Table A: FB CRAC**  
[Dollars in Millions]

| Applicability to Fiscal Year | ANR Calculated at end of Fiscal Year | FB CRAC Thresholds | Maximum FB CRAC Recovery Amounts |
|------------------------------|--------------------------------------|--------------------|----------------------------------|
| 2004                         | 2003                                 | -\$378             | \$150                            |
| 2005                         | 2004                                 | -\$204             | \$150                            |
| 2006                         | 2005                                 | -\$161             | \$175                            |

Where Revenue Amount is the amount of additional revenue that an increase in rates under FB CRAC is intended to generate during the period that the rate increase is effective.

Where FB CRAC Threshold is the "trigger point" for invoking a rate increase under the FB CRAC. The Threshold is pre-specified for the end of FY 2003, 2004, and 2005, in Table A.

Where ANR is generation function net revenues, as accumulated since 1999, at the end of each of the FY 2001-2005. Audited Actual Accumulated Net Revenues (AANR), confirmed by BPA's independent auditing firm, will be used for FY 1999 and 2000, and any subsequent year for which they are available. Unaudited ANR will be used to the extent audited actuals are not available.

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 what the Revenue Amount is. Net revenues for any given fiscal year are accrued revenues less accrued expenses, in accordance with Generally Accepted Accounting Principles, with the following three exceptions. First, for purposes of determining if the FB 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, those actual and forecasted expenses will include BPA expenses associated with payments of benefits to the Investor-Owned Utilities as forecasted in the SN-03 Initial Proposal.<sup>1</sup> Third, the impact of adopting Financial Accounting Standard 133, Accounting for Derivative Instruments and Hedging Activities, will not be considered in determining if the FB CRAC threshold has been reached. Only generation function revenues and expenses, that is, actual and forecasted revenues and expenses that are associated with the production, acquisition, marketing, and conservation of electric power,

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<sup>1</sup> This exclusion has been made so that the expense impact of any change to these benefits will not affect the annual calculation of the SN CRAC rate. (It would not be possible at the time of change, e.g., a settlement of the Public-IOU litigation, to be certain what the expense impacts would be; that could depend on an opinion of BPA's auditors which might not be rendered until several months after conclusion of such a settlement.) The impact on rates will be made through the Contingent Recalculation of the SN CRAC parameters.

will be included in determinations under the FB 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 FB CRAC. As part of BPA's annual audit process, BPA's independent outside auditing firm will confirm that BPA's ANR determination was consistent with applicable criteria. This confirmation will be made in accordance with additional agreed-upon procedures established by BPA and its independent outside auditing firm after consultation with interested parties.

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

The thresholds for the ends of FY 2003-2005 will be set to be equal to the thresholds for the SN CRAC each time the SN CRAC thresholds are recalculated.

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

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

FB CRAC Percentage =

Revenue Amount

Divided by

FB CRAC Revenue Basis

Where for FY 2002, the FB CRAC Revenue Basis is the total generation revenue (not including LB CRAC) for the loads subject to FB CRAC for the fiscal year in which the FB CRAC implementation begins, based on the then most current revenue forecast. For FY 2003-2006, FB CRAC Revenue Basis is the total generation revenue (not including any CRACs) for the loads subject to FB CRAC plus Slice loads for the fiscal year in which the FB 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 increased by this FB CRAC percentage amount.

Rate increases under the FB CRAC will be due in 12 monthly payments from November (for the October billing period) through October of the following year.

## **B. FB CRAC Adjustment Timing**

In August prior to the beginning of each year of the rate period, the Administrator will determine whether the expected value of the ANR forecast at the end of that current fiscal year is below the FB CRAC Threshold. If the ANR is forecasted to fall below the FB CRAC Threshold, the Administrator will propose, by the end of August, to assess a cost recovery adjustment to applicable rates for power deliveries beginning in October.

Each customer will be notified, on or about September 1, of the percentage increase in rates due to the FB CRAC. The rates used to calculate the customers' bills for the following October through September will reflect the FB CRAC increase.

## **C. FB CRAC Notification Process**

BPA shall use the following notification procedures:

### **(1) Financial Performance Status Reports**

Each quarter, BPA shall post on its electronic information access (World Wide Web) site, preliminary, unaudited, year-to-date aggregate financial results for generation, including ANR.

By January of each year, BPA shall post on its web site the audited AANR attributable to the generation function for the prior fiscal year ending September 30.

In May and August of each year, BPA shall post on its web site an end-of-year forecast of ANR attributable to the generation function.

### **(2) Actions to mitigate the need for the FB CRAC**

If accumulated net revenues at the end of a fiscal year are within \$150 million of the FB CRAC threshold for the subsequent year, BPA will prepare and post on its Web site an analysis for the causes of BPA's financial decline compared to the rate case plan, and propose a prioritized list of potential actions to avert or mitigate the need for FB CRAC in future years. BPA shall conduct a public comment period on these actions to avert or reduce a potential FB CRAC rate adjustment by the following October.

### **(3) Notice of FB CRAC Trigger**

BPA shall complete a forecast of end-of-year ANR in August of each year. BPA shall notify all customers and rate case parties by the end of

August, in each FY 2001-2005, if the expected value of ANR is forecasted to fall below the FB CRAC Threshold for that fiscal year and, if so, the extent to which BPA intends to adjust rates under the FB CRAC. Notification will include the audited AANR for the prior FY, the forecast of end-of-year ANR, the calculation of the Revenue Amount, and the FB CRAC Percentage. The notice shall also describe the data and assumptions relied upon by BPA. Such data, assumptions, and documentation, if non-proprietary and/or non-privileged, shall be made available for review at BPA upon request. The notice shall also contain the tentative schedule for the remainder of the FB CRAC implementation process.

In early September, for any year in which the ANR is forecasted to fall below the FB CRAC Threshold, BPA staff shall conduct a public forum to explain the ANR forecast, the calculation of the Revenue Amount and the FB CRAC Percentage, and demonstrate that the FB CRAC has been implemented in accordance with the GRSPs. The forum will provide an opportunity for public comment.

On or about September 30 of any fiscal year in which the ANR is forecasted to fall below the FB CRAC Threshold, the Administrator shall provide all customers the calculation of the adjustment and the resulting rate increase (as a percentage) applicable to each rate schedule.

**D. True-up**

There will be an opportunity for trueing-up the FB CRAC Revenue Amount and each customer's portion of it, based on updated data. When audited actuals are available, in January in the year subsequent to the FB CRAC being implemented, the AANR will be compared to the ANR forecast used to implement the FB CRAC. If the forecasted amount is within \$5 million of the AANR (the tolerance), no true-up will be made. If AANR differs from the forecast by more than the tolerance, an adjustment will be made in customer bills for the second half of the year. The adjustment will be made as follows:

FB CRAC Adjustment = (difference between the originally calculated FB CRAC Revenue Amount and Revenue Amount calculated using AANR)

divided by

generation revenue (not including LB CRACs) for the loads subject to FB CRAC, as forecasted for power deliveries for April through September.

The resulting percentage will be used to adjust the FB CRAC Percentage applied to each customer's bills for April through September. The total amount collected, however, will not exceed the Maximum Planned Recovery Amount.



**E. Contingent Recalculation of SN CRAC Parameters and Thresholds for FB CRAC and SN CRAC Rebate**

In August 2003, the parameters of the SN CRAC (the three annual Thresholds and the three annual Caps) will be recalculated contingent on certain data updates. The Thresholds of the FB CRAC will also be adjusted to be the same as the Thresholds of the SN CRAC for the FB CRAC rates collected in FY 2004-2006, and the Thresholds for issuing a Rebate in those three years will be set to be \$15 million above the SN CRAC Thresholds. In the Contingent Recalculation, BPA will change the parameters of the SN CRAC if there are:

1. Reductions in BPA's forecasted budgets for FY 2004-2006 for Internal Operations (sum of PBL Internal Operations and Corporate Internal Services);
2. Reductions in BPA's forecasted O&M budgets for FY 2004-2006 for the Columbia Generating Station;
3. Reductions in BPA's forecasted O&M budgets for FY 2004-2006 for the Corps of Engineers;
4. Reductions in BPA's forecasted O&M budgets for FY 2004-2006 for the Bureau of Reclamation;
5. Reductions in BPA's forecasted budgets for FY 2004-2006 for the BPA Fish and Wildlife Program;
6. Actual and forecasted changes in PBL's net revenue for FY 2003 due to changes in hydro conditions or market prices;
7. Negotiated reductions in the magnitude of benefits payments to be made by BPA to the Investor-Owned Utilities for FY 2004-2006.

The Recalculation of the SN CRAC parameters will meet the following standard:

The 2004 – 2006 three-year TPP must be at least 80 percent.

**Procedure for Contingent Recalculation**

**1. Determining the Size of the Annual Caps**

A preliminary calculation will be made using the FB CRAC Thresholds from the June 2001 Final Studies and data from the June 2003 Final Studies except for those items described above that are to be updated. This calculation will use three fixed (deterministic) SN CRAC revenue amounts that yield a three-year TPP of 80 percent and expected values of

the sums of the FB CRAC and SN CRAC non-Slice rate impacts, expressed as a percentage of May 2000 base rates, that are the same for each of the three years<sup>2</sup>.

The Caps for the SN CRAC will be set to be equal to the average of the three annual SN CRAC revenue amounts from Step 1, rounded to the nearest \$5 million, plus \$100 million.

**2. Synchronizing the SN CRAC, FB CRAC, and SN CRAC Rebate**

The thresholds for the FB CRAC will be set to be the same as the thresholds for the SN CRAC, and the thresholds for the SN CRAC Rebate will set to be \$15 million higher than the SN CRAC threshold for each year.

**3. Calibrating the Thresholds**

The Thresholds for the SN CRAC will be adjusted until the 2004–2006 three-year TPP is 80 percent and the expected value of the sums of FB CRAC and SN CRAC non-Slice rate impacts, expressed as a percentage of May 2000 base rates, are the same for each of the three years.

**F. Contingent Recalculation or Recalibration of SN CRAC Parameters due to Agreement among the IOUs, Public Agencies, and BPA regarding benefits payable to the IOUs during the 2004 through 2006 period.**

The SN CRAC parameters and the Thresholds for the FB CRAC and the Rebate will be recalculated if the Administrator, in his sole determination, receives sufficient assurance, such as the signing by the IOUs of settlement contracts, that the benefits payable to the IOUs during 2004 through 2006 will be either reduced or deferred. The method by which such benefit reductions will be incorporated depends on the timing of the agreement.

**1. Agreement Reached Before Approximately August 15, 2003**

If an Agreement is reached with sufficient time before the Contingent Recalculation process described above, the cash impacts on BPA of the Agreement will be incorporated through the Contingent Recalculation.

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<sup>2</sup> The rate percentages are considered to be the same when rounded to one decimal point such that they have a total range of variation of no more than 0.1 percent. For example, three annual figures of 28.9, 28.8, and 28.9 would be acceptable, three annual figures of 28.7, 28.8, and 28.9 would not be.

2. **Agreement Reached After Approximately August 15, 2003, and by September 15, 2003**

If an Agreement is reached in this time period, a separate recalibration of the Thresholds for the SN CRAC, the FB CRAC, and the Rebate will be made. In this Recalibration, the cash impacts on BPA of the Agreement for FY 2004-2006 will be incorporated and the Thresholds adjusted following the Procedure for Contingent Recalculation described above. The 2003 ANR projection from the second August workshop will be used to recalculate the 2004 SN CRAC rate increases. The Administrator will release the revised rates on September 15, 2003, or as soon as practical thereafter, but no later than September 22, 2003.

3. **Agreement Reached After September 15, 2003, and by August 15, 2004, or After August 15, 2004, and by August 15, 2005**

If an agreement is reached in one of these time periods, the Thresholds for the SN CRAC, the FB CRAC, and the Rebate for the remaining year(s) of the SN CRAC rate period will be adjusted downward by the cumulative total of the cash impacts on BPA. For an agreement reached by August 15, 2004, the SN CRAC, FB CRAC, and Rebate Thresholds for 2005 will be reduced by the BPA cash impacts for FY 2005, and the Thresholds for 2006 will be reduced by the sum of the BPA cash impacts for FY 2005 and 2006; for an agreement reached by August 15, 2005, the SN CRAC, FB CRAC, and Rebate Thresholds for 2006 will be reduced by the BPA cash impacts for FY 2006. The Recalibrated Thresholds will be released to Parties at the first of the two workshops in August of 2004 or 2005.

4. **Conditions Occurring After September 15, 2003, and by August 15, 2004, or After August 15, 2004, and by August 15, 2005**

If conditions occur in one of these time periods that eliminate reductions or deferrals of benefits payable to the IOUs during 2004 through 2006, that have been used to recalibrate SN CRAC parameters, then the Thresholds for the SN CRAC, the FB CRAC, and the Rebate for the remaining year(s) of the SN CRAC rate period will be increased by the cumulative total of the cash impacts on BPA. For benefit reductions for conditions occurring by August 15, 2004, the SN CRAC, FB CRAC and Rebate Thresholds for 2005 will be increased by the BPA cash impacts for FY 2005, and the Thresholds for 2006 will be increased by the sum of the BPA cash impacts for FY 2005 and 2006; for benefit reductions occurring after August 15, 2005, the SN CRAC, FB CRAC and Rebate Thresholds for 2006 will be increased by the BPA cash impacts for FY 2006. The Recalibrated Thresholds will be released to Parties in August of 2004 or 2005.

**Safety-Net  
Cost Recovery Adjustment Clause**

## 2. 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)
- 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
- to purchases under the PF Slice Rate

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

The SN CRAC is an upward adjustment to the May 2000 rates for FY 2004-2006 that is calculated by a formula that compares PBL Accumulated Net Revenues (ANR) (as defined by the FB CRAC) to three annual Thresholds, and places caps on the amount of revenue that can be generated each year. It is additive to any LB CRAC or FB CRAC adjustments.

In August 2003, August 2004, and August 2005, a forecast of the Accumulated Net Revenue (ANR) through the end of that year will be completed. BPA will compare the forecasted ANR to the SN CRAC Threshold applicable to that year to determine the SN CRAC to be implemented. If the ANR at the end of the forecast 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 October 1 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 plus the cumulative Cost Adjustment Limit plus Forecasted FB CRAC revenue for the fiscal year to which these calculations apply);

and

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

**Table B: SN CRAC & Rebate Parameters**  
[Dollars in Millions]

| Applicability to Fiscal Year | ANR Calculated at end of Fiscal Year | SN CRAC Thresholds | Maximum Planned Recovery Amounts | Rebate Thresholds |
|------------------------------|--------------------------------------|--------------------|----------------------------------|-------------------|
| 2004                         | 2003                                 | -\$378             | \$320                            | -\$363            |
| 2005                         | 2004                                 | -\$204             | \$320                            | -\$189            |
| 2006                         | 2005                                 | -\$161             | \$320                            | -\$146            |

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 B above.

Where ANR is generation function net revenues, as accumulated since 1999, at the end of each of the FY 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 three 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, those actual and forecasted expenses will include BPA expenses associated with payments of benefits to the Investor-Owned Utilities as forecasted in the SN-03 Final Studies.<sup>3</sup> Third, 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

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<sup>3</sup> This exclusion has been made so that the expense impact of any change to these benefits will not affect the annual calculation of the SN CRAC rate. (It would not be possible at the time of change, e.g., a settlement of the Public-IOU litigation, to be certain what the expense impacts would be; that could depend on an opinion of BPA's auditors which might not be rendered until several months after conclusion of such a settlement.) The impact on rates will be made through the Contingent Recalculation or the Recalibration of the SN CRAC parameters.

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

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

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

Where the 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, (1) less any reductions due to low density discount, and (2) less any IOU SN CRAC payments that create an obligation by BPA to make an off-setting payment under a contractual agreement based on the IOU SN CRAC payment.

Where the Forecasted Revenue Collection Amount will be calculated by applying the Preliminary SN CRAC Percentage to the forecast of revenues from products subject to the SN CRAC. This amount will vary from the Revenue Amount if the SN CRAC Percentage applicable to some customers is contractually limited. In this case, the SN CRAC Percentage will be set at the level that produces a Forecasted Revenue Collection Amount equal to the Revenue Amount.

Where the Cost Adjustment Limit is calculated annually for each year between FY 2003 and 2005 at the time of the SN CRAC calculation. It represents the amounts by which expenses in defined categories have exceeded the forecasted amounts in the SN-03 Final Study (SN-03-FS-BPA-01). *See* Table C. The Cost Adjustment Limit is the sum of the differences between each expense category as forecast in the appropriate Third Quarter Review and the forecast of those categories contained in the SN-03 Final Study, whenever the component differences are positive. If the Third Quarter Review forecast for any category is

less than or equal to the forecast for that category from the SN-03 Final Study, the Cost Adjustment Limit component for that category will be \$0.

**Table C: Cost Adjustment Limits by Category**  
[Dollars in Millions]

**PBL Expense Limits in Assessing SN CRAC FY 2003-2005  
PBL Final Proposal (\$ in thousands)**

| EXPENSE LIMITS |  |                                   |                                   |                                   |
|----------------|--|-----------------------------------|-----------------------------------|-----------------------------------|
|                |  | Final Rate Case Update<br>FY 2003 | Final Rate Case Update<br>FY 2004 | Final Rate Case Update<br>FY 2005 |
|                |  | (\$000)                           | (\$000)                           | (\$000)                           |
| 1              | PBL Internal Operations and Corporate Internal Services* | \$ 105,813                        | \$ 105,321                        | \$ 107,426                        |
| 2              | Conservation Initiatives**                               | \$ 19,278                         | \$ 19,650                         | \$ 19,650                         |
| 3              | Residential Exchange Financial Payment ***               | \$ 143,802                        | \$ 143,802                        | \$ 143,802                        |
| 4              | Corps and Reclamation O&M ****                           | \$ 154,386                        | \$ 164,800                        | \$ 169,700                        |
| 5              | Other Generation Projects                                | \$ 25,917                         | \$ 31,346                         | \$ 31,938                         |
| 6              | Renewable Projects                                       | \$ 24,702                         | \$ 23,821                         | \$ 48,654                         |
| 7              | Civil Service Retirement Payment                         | \$ 17,600                         | \$ 15,500                         | \$ 13,300                         |
| <b>8</b>       | <b>Total Expense Limits</b>                              | <b>\$ 491,498</b>                 | <b>\$ 504,240</b>                 | <b>\$ 534,470</b>                 |

\* Does not include Slice implementation expenses

\*\*Does not include reimbursable contract expenses

\*\*\*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.

\*\*\*\*Does not include Fish & Wildlife related expenses

In addition, the Cost Adjustment Limit for a fiscal year shall be adjusted to reflect any or all of the following situations. (1) If during that fiscal year, BPA experienced a *force majeure* condition which increases expenses in categories subject to the spending limits, the costs of such condition or conditions that are in the spending limit categories shall be subtracted from the value of the Cost Adjustment Limit. This Limit may be reduced to the extent that BPA has made reasonable efforts, in the Administrator's sole determination, to alleviate such *force majeure* conditions and mitigate the related increased expenses. For purposes of the General Rate Schedule Provisions, a *force majeure* condition shall be defined as: (a) court ordered legal judgments against BPA and settlements formally accepted by a court in connection with dismissal of litigation; (b) additional security or legal obligations imposed by statute, rule, or regulation;



(c) regulatory requirements (including but not limited to Endangered Species Act implementation expenses) imposed by statute, rule, or regulation; and (d) natural or man-made disasters excluding BPA decisions that do not otherwise qualify as a *force majeure* condition. (2) If in fully allocating costs, certain “direct-charged” corporate expenses were moved between a category not considered in the Cost Adjustment Limit to one that is considered in the Cost Adjustment Limit, and there is no net increase in expenses charged to power rates, this cost shall be subtracted from the value of the Cost Adjustment Limit. (3) If there were any increase in the cost of administering the “Slice” program, this increase shall be subtracted from the value of the Cost Adjustment Limit. (4) If there were any increase in the cost allocated to power rates for the development and implementation of a Regional Transmission Organization, this increase shall be subtracted from the value of the Cost Adjustment Limit. (5) If there were any increase in cost due to increases in the market development reimbursables program that are fully offset by increased revenues, this increase will be subtracted from the value of the Cost Adjustment Limit. These adjustments will be made, as applicable, at the time the annual SN CRAC calculation is made. If after all the applicable adjustments listed above are made the value of the Cost Adjustment Limit is equal to or less than zero, the Cost Adjustment Limit shall be set equal to zero.

The Cumulative Cost Adjustment Limit for the FY 2004 SN CRAC (calculated late in FY 2003) is the FY 2003 Cost Adjustment Limit; the Cumulative Cost Adjustment Limit for the FY 2005 SN CRAC (calculated late in FY 2004) is the sum of the Cost Adjustment Limits for FY 2003 and 2004; the Cumulative Cost Adjustment Limit for the FY 2006 SN CRAC (calculated late in FY 2005) is the sum of the Cost Adjustment Limits for FY 2003 through 2005.

Each non-Slice product’s total charge for energy, demand, and load variance will be adjusted by this SN 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’s SN CRAC Threshold. The customers will be billed in accordance with the SN CRAC adjustment.

Each customer will be notified, on or about September 1, 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. Contingent Recalculation of SN CRAC Parameters and Thresholds for FB CRAC and SN CRAC Rebate**

In August 2003, the parameters of the SN CRAC (the three annual Thresholds and the three annual Caps) will be recalculated contingent on certain data updates. The Thresholds of the FB CRAC will also be adjusted to be the same as the Thresholds of the SN CRAC for the FB CRAC rates collected in FY 2004-2006, and the Thresholds for issuing a Rebate in those three years will be set to be \$15 million above the SN CRAC Thresholds. In the Contingent Recalculation, BPA will change the parameters of the SN CRAC if there are:

1. Reductions in BPA's forecasted budgets for FY 2004-2006 for Internal Operations (sum of PBL Internal Operations and Corporate Internal Services);
2. Reductions in BPA's forecasted O&M budgets for FY 2004-2006 for the Columbia Generating Station;
3. Reductions in BPA's forecasted O&M budgets for FY 2004-2006 for the Corps of Engineers;
4. Reductions in BPA's forecasted O&M budgets for FY 2004-2006 for the Bureau of Reclamation;
5. Reductions in BPA's forecasted budgets for FY 2004-2006 for the BPA Fish and Wildlife Program;
6. Actual and forecasted changes in PBL's net revenue for FY 2003 due to changes in hydro conditions or market prices;
7. Negotiated reductions in the magnitude of benefits payments to be made by BPA to the Investor-Owned Utilities for FY 2004-2006.

The Recalculation of the SN CRAC parameters will meet the following standard:

The 2004 – 2006 three-year TPP must be at least 80 percent.

**Procedure for Contingent Recalculation**

**1. Determining the Size of the Annual Caps**

A preliminary calculation will be made using the FB CRAC Thresholds from the June 2001 Final Studies and data from the June 2003 Final Studies except for those items described above that are to be updated. This calculation will use three fixed (deterministic) SN CRAC revenue amounts that yield a three-year TPP of 80 percent and expected values of

the sums of the FB CRAC and SN CRAC non-Slice rate impacts, expressed as a percentage of May 2000 base rates, that are the same for each of the three years<sup>4</sup>.

The Caps for the SN CRAC will be set to be equal to the average of the three annual SN CRAC revenue amounts from Step 1, rounded to the nearest \$5 million, plus \$100 million.

**2. Synchronizing the SN CRAC, FB CRAC, and SN CRAC Rebate**

The thresholds for the FB CRAC will be set to be the same as the thresholds for the SN CRAC, and the thresholds for the SN CRAC Rebate will set to be \$15 million higher than the SN CRAC threshold for each year.

**3. Calibrating the Thresholds**

The Thresholds for the SN CRAC will be adjusted until the 2004 – 2006 three-year TPP is 80 percent and the expected value of the sums of FB CRAC and SN CRAC non-Slice rate impacts, expressed as a percentage of May 2000 base rates, are the same for each of the three years.

**C. Contingent Recalculation or Recalibration of SN CRAC Parameters due to Agreement among the IOUs, Public Agencies, and BPA regarding benefits payable to the IOUs during the 2004 through 2006 period.**

The SN CRAC parameters and the Thresholds for the FB CRAC and the Rebate will be recalculated if the Administrator, in his sole determination, receives sufficient assurance, such as the signing by the IOUs of settlement contracts, that the benefits payable to the IOUs during 2004 through 2006 will be either reduced or deferred. The method by which such benefit reductions will be incorporated depends on the timing of the agreement.

**1. Agreement Reached Before Approximately August 15, 2003**

If an Agreement is reached with sufficient time before the Contingent Recalculation process described above, the cash impacts on BPA of the Agreement will be incorporated through the Contingent Recalculation.

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<sup>4</sup> The rate percentages are considered to be the same when rounded to one decimal point such that they have a total range of variation of no more than 0.1 percent. For example, three annual figures of 28.9, 28.8, and 28.9 would be acceptable, three annual figures of 28.7, 28.8, and 28.9 would not be.

2. **Agreement Reached After Approximately August 15, 2003, and by September 15, 2003**

If an Agreement is reached in this time period, a separate recalibration of the Thresholds for the SN CRAC, the FB CRAC, and the Rebate will be made. In this Recalibration, the cash impacts on BPA of the Agreement for FY 2004-2006 will be incorporated and the Thresholds adjusted following the Methodology described above for use in the Contingent Recalculation. The 2003 ANR projection from the second August workshop will be used to recalculate the 2004 SN CRAC rate increases. The Administrator will release the revised rates on September 15, 2003, or as soon as practical thereafter, but no later than September 22, 2003.

3. **Agreement Reached After September 15, 2003, and by August 15, 2004, or After August 15, 2004, and by August 15, 2005**

If an agreement is reached in one of these time periods, the Thresholds for the SN CRAC, the FB CRAC, and the Rebate for the remaining year(s) of the SN CRAC rate period will be adjusted downward by the cumulative total of the cash impacts on BPA. For an agreement reached by August 15, 2004, the SN CRAC, FB CRAC, and Rebate Thresholds for 2005 will be reduced by the BPA cash impacts for FY 2005, and the Thresholds for 2006 will be reduced by the sum of the BPA cash impacts for FY 2005 and 2006; for an agreement reached by August 15, 2005, the SN CRAC, FB CRAC and Rebate Thresholds for 2006 will be reduced by the BPA cash impacts for FY 2006. The Cap(s) will be reduced by the change in cash flow for each year (not cumulative change in cash flow). The Recalibrated Thresholds will be released to Parties at the first of the two workshops described below in August of 2004 or 2005.

4. **Conditions Occurring After September 15, 2003, and by August 15, 2004, or After August 15, 2004, and by August 15, 2005**

If conditions occur in one of these time periods that eliminate reductions or deferrals of benefits payable to the IOUs during 2004 through 2006, that have been used to recalibrate SN CRAC parameters, then the Thresholds for the SN CRAC, the FB CRAC, and the Rebate for the remaining year(s) of the SN CRAC rate period will be increased by the cumulative total of the cash impacts on BPA. For benefit reductions for conditions occurring by August 15, 2004, the SN CRAC, FB CRAC and Rebate Thresholds for 2005 will be increased by the BPA cash impacts for FY 2005, and the Thresholds for 2006 will be increased by the sum of the BPA cash impacts for FY 2005 and 2006; for benefit reductions occurring after August 15, 2005, the SN CRAC, FB CRAC and Rebate Thresholds for 2006 will be increased by the BPA cash impacts for FY 2006. The Cap(s) will be increased by the change in cash flow for each year (not

cumulative change in cash flow). The Recalibrated Thresholds will be released to Parties at the first of the two workshops described below in August of 2004 or 2005.

#### **D. Public Processes for the SN CRAC**

##### **Public Process in 2003 (for FY 2004)**

In August 2003, BPA will begin a public process that will include two workshops. At the first workshop, held as soon as practical after completion of the Third Quarter Review, BPA will present the proposed contingent recalculation of the Thresholds for the FB and SN CRAC and the caps for the FB and SN CRAC. The estimated FB and SN CRAC revenue amounts and percentages for 2004 will also be presented. There will be a comment period of up to two weeks to allow time for interested parties to respond to BPA's analysis. BPA will announce the final FB and SN CRAC Thresholds and SN CRAC caps for the FB and SN CRACs applying to 2004 through 2006, and the final 2004 FB and SN CRAC rates at the second workshop with any adjustments accepted from feedback by interested parties. The final announcement of the rates for the next fiscal year will be on or about September 1. The Administrator may elect at his discretion, to reduce the SN CRAC rate adjustment. If the Administrator so elects, BPA will recalibrate the caps for the SN CRAC and the thresholds for FB CRAC and SN CRAC for later years to maintain the equivalent of the three year TPP of 80 percent. He shall then inform the customers of his decision during the workshops.

The sequence of the three stages of the calculations for both the first and second workshops are described below.

##### **1. Contingent Recalculation Phase**

In August of 2003, as soon as practical after completion of the Third Quarter Review, BPA will set the Thresholds for the FB and SN CRAC and caps for the SN CRAC as part of the Contingent Design. This analysis will set the ANR Thresholds and Caps for all three of the remaining years of the rate period (2004-2006) using the repayment standards as determined by the Administrator in the Final ROD. The FB CRAC Thresholds will be the same as the SN CRAC Thresholds but the FB CRAC caps remain unchanged.

The items that will be reflected in the Contingent Design are shown in Table B above.

## **2. Variable Phase – FB CRAC Revenue And Percentages**

Following the recalculation of the FB and SN CRAC Thresholds, a forecast of 2003 PBL ANR will be presented. The FB CRAC rate calculations, and the forecast of 2004 revenue generated by the FB CRAC, will be presented.

## **3. Variable Phase – SN CRAC Revenue And Percentages**

The SN CRAC rate calculations will assume the revenue generated by the FB CRAC rate calculated in stage 2. The SN CRAC revenue amount will be the Threshold minus the sum of the ANR forecast and the forecast of 2004 FB CRAC revenue, or the annual cap, whichever is smaller. The SN CRAC rate percentage will be calculated so that the SN CRAC revenue amount is generated from the loads subject to the SN CRAC.

If an IOU-Publics settlement is reached after the last opportunity to include the settlement information in the Contingent Recalculation phase, approximately August 15, 2003, but before September 15, 2003, there will be a brief public process to announce the results of incorporating the settlement into the FB CRAC and SN CRAC results for FY 2004. The three steps above will be performed again with the same data except for data on the annual cashflows as modified by the settlement. The annual Caps for the SN CRAC and FB CRAC will not be changed. The Thresholds will be modified to meet the same repayment standards referred to in step 1. After that, first the FB CRAC for FY 2004 will be recalculated, and then the SN CRAC for FY 2004 will be recalculated.

### **Public Process in 2004 and 2005 (for FY 2005 and 2006)**

In August of 2004 and 2005, BPA will begin a public process that will include two workshops. At the first workshop, BPA will present the final contingent rate design with the ANR forecast for the FB and SN CRAC and the estimated FB and SN CRAC percentages for FY 2005 and FY 2006 respectively. There will be up to a two-week comment period to allow time for customers to respond to BPA's analysis. BPA will announce the final rate at the second workshop with any adjustments accepted from customer feedback. The final announcement of the rates for the next fiscal year will be on or about September 1.

## **E. 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:

1. BPA forecasts a 50 percent or greater probability that it will nonetheless miss a payment to the U.S. Treasury or other creditor before the end of the then-current fiscal year, or
2. 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. BPA may propose concomitant changes in the FB CRAC Thresholds. 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.



**Safety-Net  
Cost Recovery Adjustment Clause Rebate**

### **3. Safety-Net Cost Recovery Adjustment Clause Rebate (SNR)**

The SNR is a clause establishing criteria that the Administrator will use to decide whether funds are to be distributed to customers, and the amount that is to be distributed. The SNR enables BPA to distribute funds to eligible firm power customers and establishes the mechanism to be used to make a distribution.

The SNR applies to power purchases under the following firm power rate schedules, to the extent those purchasers were subject to the SN CRAC:

- 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)
- Subscription purchases under Firm Power Products and Services (FPS)

The SNR does not apply to:

- power purchases under Pre-Subscription contracts to the extent prohibited by such contracts
- BPA's current contractual obligations for Seasonal and Irrigation Mitigation sales including for any eligible customer that converts from Slice to another BPA product
- purchases under the PF Slice Rate.

#### **A. Formula for the Calculation of the SNR Amount**

The SNR, for FY 2005 and FY 2006, will be implemented if audited AANR for the end of any of the FY 2004-2005 are above the SNR Threshold value.

Where the AANR are generation function net revenues, as accumulated since 1999, at the end of each of FY 2004 and FY 2005. Net revenues are accrued revenues less accrued expenses, in accordance with Generally Accepted Accounting Principles, with the following three 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, those actual and forecasted expenses will include BPA expenses associated with payments of benefits to the Investor-Owned Utilities as forecasted in the SN-03 Final Studies.<sup>5</sup>

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<sup>5</sup> This exclusion has been made so that the expense impact of any change to these benefits will not affect the annual calculation of the SN CRAC rate. (It would not be possible at the time of change, e.g., a settlement of the Public-IOU litigation, to be certain what the expense impacts would be; that could depend on an opinion of BPA's auditors)

Third, 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 revenues and expenses, which is to say accrued revenues and accrued expenses that are associated with the production, acquisition, marketing, and conservation of electric power, are included in determinations under the SNR; accrued revenues and expenses of the transmission function are excluded. As part of BPA's annual audit process, BPA's independent outside auditing firm will confirm that BPA's ANR determination was consistent with applicable criteria. This confirmation will be made in accordance with additional agreed upon procedures established by BPA and its independent outside auditing firm after consultation with interested parties.

Where the SNR Threshold is the level of AANR that must be realized before a distribution is made as required by this section. The SNR Threshold is \$15 million higher than the SN CRAC threshold for each of the two years to which the SNR applies.

Where the SNR Amount is 50 percent of the aggregate amount in excess of the SNR Threshold or the total amount of SN CRAC revenue BPA has booked, by the end of the previous fiscal year, less any previous Rebates, whichever is smaller. The SNR Amount may be equal to zero but not less than zero, and will be determined by the following formula:

SNR Amount = the smaller of

$0.5 * (\text{AANR} - \text{SNR Threshold, as adjusted}),$

and

Total SN CRAC revenue booked by the end of the previous fiscal year, less any previous Rebate.

If the SNR Amount is less than \$5 million, no Rebate will be issued.

The Customer SNR Amount, which is the SNR Amount, will be returned to power customers. Any such amounts will be returned to customers in proportion to the SN CRAC Customer Revenue Amount, which is the revenue BPA received from each customer under rates subject to the SN CRAC since the beginning of the rate period, including SN CRAC revenues, or since the last SNR, whichever is later. A customer's SN CRAC Customer Revenue Amount excludes Slice revenues, and includes all non-Slice SN CRAC revenues. The IOU financial benefit is included as revenue based on the product of each customer's share of

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which might not be rendered until several months after conclusion of such a settlement.) The impact on rates will be made through the Contingent Recalculation or the Recalibration of the SN CRAC parameters.

900 aMW and the sum of the RL-02 rate and the amount of any SN CRAC applied to power deliveries under such rate.

Each customer's Customer Revenue Amount will be reduced by any amounts that would have been or are subjected to the SN CRAC but in which the SN CRAC revenues are offset, e.g., through a Low-Density Discount, or for reduction in deferrals or similar mechanism in an IOU Settlement should one occur.

SNR Percentage =

Each customer's SN CRAC Customer Revenue Amount

divided by

sum of all Customer Revenue Amounts

Each covered power customer will receive a Rebate equal to the Power Customer SNR Percentage times the Customer SNR Amount. One-twelfth of each customer's share of the Customer SNR Amount will be credited to customers, on bills for deliveries beginning April 1, and for FY 2005, remain in effect for 12 months, *i.e.*, through March 30 of the following year. In the last year of the rate period (FY 2006), one-sixth of each customer's share of the Customer SNR Amount will be credited to customers, on bills for deliveries beginning April 1, through September 30, 2006.

**B. Determination of a Distribution**

In January of each year of the rate period (FY 2005-2006), the Administrator will determine whether the AANR exceeds the SNR Threshold. If the AANR exceeds the SNR Threshold, customers and rate case parties will be notified. If the customer SNR amount is at least \$5 million, the Administrator will provide by March 1, details of proposed distribution of the Customer SNR Amount. The Administrator will issue a final decision on the proposal on or about April 15.

**C. Distribution Notification Process**

BPA shall follow the following notification procedures:

**a. Financial Performance Status Reports**

By no later than August 31 of each year, BPA shall post on its electronic information access site (World Wide Web) a forecast of ANR attributable to the generation function for the FY ending September 30.

**b. Notice of SNR Trigger**

On or about January 15, in each of the FY 2005 and 2006, BPA will notify all power customers and rate case parties if the AANR exceeds the SNR Threshold. (If the December unaudited ANR report for the generation function indicated that the SNR Threshold might be exceeded, and the audited actuals show that it was not exceeded, customers will also be notified.)

- (1) On or about February 15 in any year (FY 2005-2006) in which the AANR exceeds the SNR Threshold, the Administrator will notify all power customers and rate case parties. Notification will include the AANR for the prior fiscal year, the SNR Amount, the calculation of any adjustments to the threshold, calculation of the SNR Amount, the sum of Customer Revenue Amounts, and each customer's proposed SNR percentage. The notice shall also describe the data and assumptions relied upon by BPA. Such data, assumptions, and documentation, if non-proprietary and/or non-privileged, shall be made available for review at BPA upon request. The notice shall also contain the tentative schedule for the remainder of the SNR implementation process.

Prior to March 15, BPA will conduct a public review and comment process on the SNR proposal.

- (2) On or about April 15, in any year (FY 2005-2006) in which the AANR exceeds the SNR Threshold, BPA shall notify customers to which the SNR applies of the decision on the proposal, the final calculation of the SNR Amount, and the sums of the customer revenue amounts.

**D. Contingent Recalculation of SN CRAC Parameters and Thresholds for FB CRAC and SN CRAC Rebate**

In August 2003, the parameters of the SN CRAC (the three annual Thresholds and the three annual caps) will be recalculated contingent on certain data updates. The Thresholds of the FB CRAC will also be adjusted to be the same as the Thresholds of the SN CRAC for the FB CRAC rates collected in FY 2004-2006, and the Thresholds for issuing a Rebate in those three years will be set to be \$15 million above the SN CRAC Thresholds. In the Contingent Recalculation, BPA will change the parameters of the SN CRAC if there are:

1. Reductions in BPA's forecasted budgets for FY 2004-2006 for Internal Operations (sum of PBL Internal Operations and Corporate Internal Services);

2. Reductions in BPA's forecasted O&M budgets for FY 2004-2006 for the Columbia Generating Station;
3. Reductions in BPA's forecasted O&M budgets for FY 2004-2006 for the Corps of Engineers;
4. Reductions in BPA's forecasted O&M budgets for FY 2004-2006 for the Bureau of Reclamation;
5. Reductions in BPA's forecasted budgets for FY 2004-2006 for the BPA Fish and Wildlife Program;
6. Actual and forecasted changes in PBL's net revenue for FY 2003 due to changes in hydro conditions or market prices;
7. Negotiated reductions in the magnitude of benefits payments to be made by BPA to the Investor-Owned Utilities for FY 2004-2006.

The Recalculation of the SN CRAC parameters will meet the following standard:

The 2004 – 2006 three-year TPP must be at least 80 percent.

### **Procedure for Contingent Recalculation**

#### **1. Determining the Size of the Annual Caps**

A preliminary calculation will be made using the FB CRAC Thresholds from the June 2001 Final Studies and data from the June 2003 Final Studies except for those items described above that are to be updated. This calculation will use three fixed (deterministic) SN CRAC revenue amounts that yield a three-year TPP of 80 percent and expected values of the sums of the FB CRAC and SN CRAC non-Slice rate impacts, expressed as a percentage of May 2000 base rates, that are the same for each of the three years<sup>6</sup>.

The Caps for the SN CRAC will be set to be equal to the average of the three annual SN CRAC revenue amounts from Step 1, rounded to the nearest \$5 million, plus \$100 million.

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<sup>6</sup> The rate percentages are considered to be the same when rounded to one decimal point such that they have a total range of variation of no more than 0.1 percent. For example, three annual figures of 28.9, 28.8, and 28.9 would be acceptable, three annual figures of 28.7, 28.8, and 28.9 would not be.

2. **Synchronizing the SN CRAC, FB CRAC, and SN CRAC Rebate**

The thresholds for the FB CRAC will be set to be the same as the thresholds for the SN CRAC, and the thresholds for the SN CRAC Rebate will set to be \$15 million higher than the SN CRAC threshold for each year.

3. **Calibrating the Thresholds**

The Thresholds for the SN CRAC will be adjusted until the 2004 – 2006 three-year TPP is 80 percent and the expected value of the sums of FB CRAC and SN CRAC non-Slice rate impacts, expressed as a percentage of May 2000 base rates, are the same for each of the three years.

**E. Contingent Recalculation or Recalibration of SN CRAC Parameters due to Agreement among the IOUs, Public Agencies, and BPA regarding benefits payable to the IOUs during the 2004 through 2006 period.**

The SN CRAC parameters and the Thresholds for the FB CRAC and the Rebate will be recalculated if the Administrator, in his sole determination, receives sufficient assurance, such as the signing by the IOUs of settlement contracts, that the benefits payable to the IOUs during 2004 through 2006 will be either reduced or deferred. The method by which such benefit reductions will be incorporated depends on the timing of the agreement.

1. **Agreement reached before approximately August 15, 2003**

If an Agreement is reached with sufficient time before the Contingent Recalculation process described above, the cash impacts on BPA of the Agreement will be incorporated through the Contingent Recalculation.

2. **Agreement Reached After Approximately August 15, 2003, and by September 15, 2003**

If an Agreement is reached in this time period, a separate recalibration of the Thresholds for the SN CRAC, the FB CRAC, and the Rebate will be made. In this Recalibration, the cash impacts on BPA of the Agreement for FY 2004-2006 will be incorporated and the Thresholds adjusted following the Methodology described above for use in the Contingent Recalculation. The 2003 ANR projection from the second August workshop will be used to recalculate the 2004 SN CRAC rate increases. The Administrator will release the revised rates on September 15, 2003, or as soon as practical thereafter, but no later than September 22, 2003.

3. **Agreement Reached After September 15, 2003, and by August 15, 2004, or After August 15, 2004, and by August 15, 2005**

If an agreement is reached in one of these time periods, the Thresholds for the SN CRAC, the FB CRAC, and the Rebate for the remaining year(s) of the SN CRAC rate period will be adjusted downward by the cumulative total of the cash impacts on BPA. For an agreement reached by August 15, 2004, the SN CRAC, FB CRAC and Rebate Thresholds for 2005 will be reduced by the BPA cash impacts for FY 2005, and the Thresholds for 2006 will be reduced by the sum of the BPA cash impacts for FY 2005 and 2006; for an agreement reached by August 15, 2005, the SN CRAC, FB CRAC and Rebate Thresholds for 2006 will be reduced by the BPA cash impacts for FY 2006. The Recalibrated Thresholds will be released to Parties in August of 2004 or 2005.

4. **Conditions Occurring After September 15, 2003, and by August 15, 2004, or After August 15, 2004, and by August 15, 2005**

If conditions occur in one of these time periods that eliminate reductions or deferrals of benefits payable to the IOUs during 2004 through 2006, that have been used to recalibrate SN CRAC parameters, then the Thresholds for the SN CRAC, the FB CRAC, and the Rebate for the remaining year(s) of the SN CRAC rate period will be increased by the cumulative total of the cash impacts on BPA. For benefit reductions for conditions occurring by August 15, 2004, the SN CRAC, FB CRAC and Rebate Thresholds for 2005 will be increased by the BPA cash impacts for FY 2005, and the Thresholds for 2006 will be increased by the sum of the BPA cash impacts for FY 2005 and 2006; for benefit reductions occurring after August 15, 2005, the SN CRAC, FB CRAC and Rebate Thresholds for 2006 will be increased by the BPA cash impacts for FY 2006. The Recalibrated Thresholds will be released to Parties in August of 2004 or 2005.



## **Dividend Distribution Clause**

#### **4. Dividend Distribution Clause**

The DDC is a clause establishing criteria that the Administrator will use to decide whether funds are to be distributed to customers, and the amount that is to be distributed. The DDC enables BPA to distribute funds to eligible firm power customers and establishes the mechanism to be used to make a distribution.

The DDC applies to purchases by power customers under these firm power rate schedules subject to the FB CRAC, including:

- PF [Preference (excluding Slice), Exchange Program, and Exchange Subscription]
- Industrial Firm Power (IP-02), including under the Industrial Firm Power Targeted Adjustment Charge (IPTAC) and Cost-Based Index Rate
- Residential Load (RL-02)
- New Resource Firm Power (NR-02)
- purchases under Firm Power Products and Services (FPS) that are subject to the FB CRAC
- the financial portion of the REP Settlement as described herein.

The DDC does not apply to power purchases under Pre-Subscription contracts, or purchases under the Slice Rate.

##### **1. Formula for the Calculation of the Dividend Distribution Amount**

The DDC, for FY 2003-2006, will be implemented if audited AANR for the end of any of the FY 2002-2005 are above the DDC Threshold value. DDC calculations will be made after SN CRAC Rebate calculations in those years in which a Rebate is possible (FY 2005 and 2006).

AANR are generation function net revenues, as accumulated since 1999, at the end of each of the FY 2002-2005. Net revenues are accrued revenues less accrued expenses, in accordance with Generally Accepted Accounting Principles, with the following three 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, those actual and forecasted expenses will include BPA expenses associated with payments of benefits to the Investor-Owned Utilities as forecasted in the SN-03 Final Studies.<sup>7</sup> Third, the impact of adopting Financial Accounting Standard 133, Accounting for Derivative Instruments and Hedging Activities, will not be considered in determining if the DDC threshold

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<sup>7</sup> This exclusion has been made so that the expense impact of any change to these benefits will not affect the annual calculation of the SN CRAC rate. (It would not be possible at the time of change, e.g., a settlement of the Public-IOU litigation, to be certain what the expense impacts would be; that could depend on an opinion of BPA's auditors which might not be rendered until several months after conclusion of such a settlement.) The impact on rates will be made through the Contingent Recalculation or the Recalibration of the SN CRAC parameters.

has been reached. Only generation function revenues and expenses, which is to say accrued revenues and accrued expenses that are associated with the production, acquisition, marketing, and conservation of electric power, are included in determinations under the DDC; accrued revenues and expenses of the transmission function are excluded. As part of BPA's annual audit process, BPA's independent outside auditing firm will confirm that BPA's AANR determination was consistent with applicable criteria. This confirmation will be made in accordance with additional agreed-upon procedures established by BPA and its independent outside auditing firm after consultation with interested parties.

DDC Threshold is the level of AANR that must be realized before a distribution is made as required by this section. The DDC Threshold is \$993 million for the end of FY 2002, \$735 million for the end of FY 2003, and \$401 million for the end of FY 2004 and 2005.

The DDC threshold for any fiscal year will be adjusted upward by the following:

- a. In the event that there has been a power system emergency (as defined in "FCRPS Protocols for Emergency Operation In Response to Generation or Transmission Emergencies" dated September 22, 2000, or replacement protocols) during the fiscal year; and BPA has agreed to provide additional funding to mitigate the impact of the emergency operations on fish and wildlife, any of the additional emergency-related fish and wildlife funding which BPA has not spent during that fiscal year will be added to the threshold amount for that year; and/or
- b. In the event that BPA fish and wildlife operations and maintenance ("direct program") costs previously budgeted for expenditure in that fiscal year were not spent, but for which a need continues, they will be added to the threshold amount for that year.

DDC Amount is the aggregate amount in excess of the DDC Threshold that is available to be distributed to customers. Amounts already scheduled to be distributed via the SN CRAC Rebate will be deducted from this aggregate excess before distributing the DDC. The DDC Amount may be equal to zero and will be determined by the following formula:

DDC Amount =

AANR – the sum of the DDC Threshold, as adjusted, and any amount to be Rebated for the same year.

The first \$15 million of the DDC Amount, if the DDC Amount exceeds \$15 million, or the entire DDC Amount if it equals \$15 million or less, will be allocated to qualifying customers participating in the C&R Discount. The C&R Discount is a rate mechanism designed to encourage incremental

conservation and renewable resource development by BPA's power purchasers under PF, IP, RL, and NR rate schedules. *See* C&R Discount GRSPs, Section II.A (2002 Wholesale Power Rate Schedules, GRSPs, Revised December 2001).

The Customer DDC Amount, which is the DDC Amount after reduction by the \$15 million as described in the preceding paragraph, will be returned to power customers. Any such amounts will be returned to customers in proportion to the DDC Customer Revenue Amount, which is the revenue BPA received from each customer under rates subject to the DDC since the beginning of the rate period, or since the last DDC, whichever is later. A customer's DDC Customer Revenue Amount excludes Slice revenues, and includes all non-Slice CRAC revenues. The IOU financial benefit is included as revenue based on the product of each customer's share of 900 aMW and the sum of the RL-02 rate and the amount of any CRAC applied to power deliveries under such rate.

DDC Percentage =

Each customer's DDC Customer Revenue Amount

divided by

sum of all Customer Revenue Amounts

Each covered power customer will receive a Rebate equal to the Power Customer DDC Percentage times the Customer DDC Amount. One-twelfth of each customer's share of the Customer DDC Amount will be credited to customers, on bills for deliveries beginning April 1, and for any FY 2003-2005, remain in effect for 12 months, *i.e.*, through March 30 of the following year. In the last year of the rate period (FY 2006), one-sixth of each customer's share of the Customer DDC Amount will be credited to customers, on bills for deliveries beginning April 1, through September 30, 2006.

## **2. Determination of a Distribution**

In January of each year of the rate period (FY 2003-2006), the Administrator will determine whether the AANR exceeds the DDC Threshold. If the AANR exceeds the DDC Threshold, customers and rate case parties will be so notified. By March 1, the Administrator will provide calculations of any proposed distribution of Customer DDC Amount. The Administrator will issue a final decision on the proposal on or about April 15.

### 3. **Distribution Notification Process**

BPA shall follow the following notification procedures:

#### a. **Financial Performance Status Reports**

By no later than August 31 of each year, BPA shall post on its electronic information access site (World Wide Web) a forecast of AANR attributable to the generation function for the fiscal year ending September 30.

#### b. **Notice of DDC Trigger**

On or about January 15, in each of the FY 2003-2006, BPA will notify all power customers and rate case parties if the AANR exceeds the DDC Threshold. (If the December unaudited AANR report for the generation function indicated that the DDC Threshold might be exceeded, and the audited actuals show that it was not exceeded, customers will also be notified.)

- (1) On or about February 15, of any of FY 2003-2006 in which the AANR exceeds the DDC Threshold, the Administrator will notify all power customers and rate case parties. Notification will include the AANR for the prior fiscal year, the DDC Amount, the calculation of any adjustments to the threshold, calculation of the DDC Amount, the sum of Customer Revenue Amounts, and each customer's proposed DDC percentage. The notice shall also describe the data and assumptions relied upon by BPA. Such data, assumptions, and documentation, if non-proprietary and/or non-privileged, shall be made available for review at BPA upon request. The notice shall also contain the tentative schedule for the remainder of the DDC implementation process.

Prior to March 15, BPA will conduct a public review and comment process on the proposal.

- (2) On or about April 15, of any of the FY 2003-2006 in which the AANR exceeds the DDC Threshold, BPA shall notify customers to which the DDC applies of the decision on the proposal, the final calculation of the DDC Amount, the allocation of the DDC Amount, and, if applicable, the resulting level of the Power Customer DDC Percentage to be applied to each applicable firm power rate schedule.