SUMMARY OF PUBLIC COMMENTS RECEIVED DURING THE FY 2005 FB/SN CRAC COMMENT PERIOD AND BPA's RESPONSES

September 16, 2004

(Includes the comments from both the June 25 – July 30 and August 18-27 comment periods)

ISSUE	BPA RESPONSE
1. BPA Administrator should use his authority to stop this process/decrease the rate.	The administrator has chosen to use the discretion granted in the SN CRAC General Rate Schedule Provisions to set the SN CRAC to 0 percent, while still meeting its three-year Treasury payment probability standard of 80 percent, or 86.2 percent for the remaining two years. Nonetheless, lower rates in FY 2005 create a higher risk of a rate increase in FY 2006. BPA is forecasting higher net secondary revenues from surplus sales for both FY 2005 and FY 2006 than it forecast at the August 28, 2003 SN CRAC workshop. During the public comment period after the July 1, 2004 workshop in which we presented an early look at PBL finances over the next two years, customers and the public overwhelmingly recommended that BPA assume some additional level of risk and reduce FY 2005 rates as low as possible. BPA has done that.
2. The region is experiencing poor economic conditions, so don't implement SN CRAC.	The SN CRAC will be set to 0 percent for FY 2005 because the agency understands that the regional economy would benefit from a rate reduction. BPA's efforts at reducing costs and capturing other cost savings and its increased forecasts of net secondary revenues, relative to the August 28, 2003 workshop, make this reduction possible.
3. BPA should reduce costs to reduce the size of the SN CRAC adjustment.	The agency has reduced program expenses and captured other cost savings and continues to do so. In FY 2004, we actually captured $70 million in cost reductions relative to when we set rates last in August 2003. For FYs 2005-2006 we are forecasting an additional $350 million in cost savings relative to when we set rates in August 2003. Well over half of the $350 million is actually secured through the agreements with the region's investor-owned utilities. Many of these cost reductions were made possible due to the intense focus on cost management by BPA employees and our cost partners, as well as the efforts of the Power Net Revenue Improvement Sounding Board. BPA and its cost partners must continue their focus on cost management.

4. BPA should fully explore additional financial management tools, in particular the forward-looking TPP calculation and secondary revenues.	BPA has utilized those financial management tools that BPA feels are prudent to mitigate rate increases. BPA cannot take steps that will put the agency at too much risk of not making its annual payment to the U.S. Treasury– which is why so much emphasis is placed on the TPP standard. Were BPA to miss a Treasury payment, there is a high likelihood that the agency would come under pressure to abandon both regional preference and cost-based rates. BPA used a forward-looking TPP calculation, as described in issue 1 above, to set the FY 2005 SN CRAC at zero. With respect to net secondary revenues, the primary risk is that they will come in below forecast levels due to such things as low water, a collapse in gas prices or gas prices that are so high that businesses shut down because they can't afford the gas or the power that is generated at those high prices. Our secondary revenue projections are driven by estimates of natural gas prices because natural gas is the primary source for power generation in the West. BPA is concerned that it has relied on overly optimistic secondary revenue forecasts in the past. In FY 2002, actual net secondary revenues were more than $300 million less than forecast.
5. BPA should keep the rates stable over time.	Current volatility in market prices for electricity and the low water of the past five years in a row have made this difficult to achieve. With an SN CRAC reduced to 0 for FY 2005, it is expected that the FY 2006 rate would adjust upward by approximately 1.4%. The August 18, 2004 workshop materials show that a zero Safety Net CRAC adjustment in FY 2005 reduces the 5-year rate by 7.5 percent and produces a 43 percent chance that FY 2006 rates will be higher than FY 2005 rates and a 30 percent chance that FY 2006 rates will be higher by more than 8 percent. There is also a 57 percent chance of a rate decrease in FY 2006 and more than a 30 percent chance that FY 2006 rates will be more than 8 percent lower than FY 2005 rates.
6. BPA has an obligation to obey environmental laws and treaty commitments.	BPA is committed to obeying environmental laws and meeting its treaty commitments. In setting power rates, it has funded many conservation, renewable resources, and F&W programs at levels that will accomplish program objectives.