

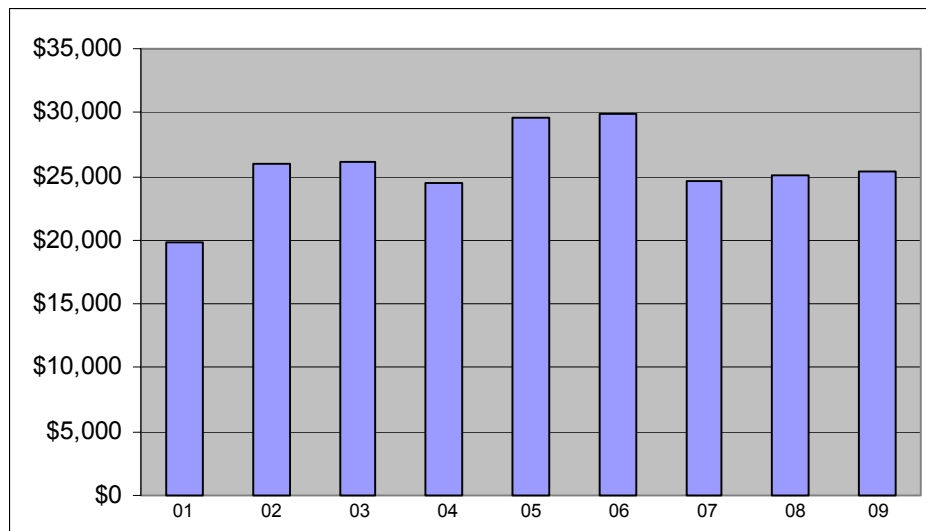
Power Function Review Background Paper

Long-Term Contract Generating Projects

Long-Term Contract Generating Projects are contractual obligations of the Power Business Line, whereby BPA acquires generating resources to meet loads from non-FCRPS generating resources. In the aggregate these projects range between \$25 and \$30 million per year between fiscal years 2002 and 2009. Projects include:

- 1.) Cowlitz Falls Dam
- 2.) Wauna Cogeneration
- 3.) Idaho Falls Bulb Turbine Project
- 4.) Elwha/Glines Dams
- 5.) Clearwater Hatchery Generation
- 6.) New Resources Integration Wheeling (associated with Cowlitz Falls Dam)
- 7.) Generating Resource Billing Credit Contracts

Figure 1 below shows actual expenses from 2001 through 2004 and forecast expenses through 2009 in thousands.



(\$000)
Figure 1

The major projects making up over 90% of the Long-Term Generating contracts are described below:

1. Cowlitz Falls Dam. This dam is on the Cowlitz River near Randle, Washington. It has the capacity to generate 260,000 MWh annually. In 1991, BPA entered into an agreement with Lewis County PUD to purchase the energy from the Cowlitz Falls Dam. BPA pays all O&M costs associated with the project and transmission fees for moving the power. Over the last four years the project costs have ranged from a high of \$2.6 million in 2002 to a low of \$1.4 million in 2004.

2. Wauna Cogeneration Project (Wauna). Wauna is owned by the Western Generation Agency (WGA), an intergovernmental agency formed by the Eugene Water & Electric Board and the Clatskanie PUD. Industrial steam produced by the paper mill boilers is used to generate electricity that is used by the paper mill, with the excess power sold to BPA. BPA entered into a power purchase agreement with WGA in 1994 to acquire the output of the Wauna plant. BPA pays for the power on the basis of energy delivered under a schedule of prices set forth in the power purchase agreement. Over the last four years the project costs have ranged from a low of \$6.5 million in fiscal year 2001 to a high of \$11.5million in fiscal year 2002. BPA paid \$10.2 million in 2004 for output from Wauna.

3. Idaho Falls Bulb Turbine Project. This hydro project consists of three dams and generating plants on the Snake River near Idaho Falls. The project is a run-of-river project, and thus is dependent on flow levels in the Snake River. BPA purchases from Idaho Falls Power the output of the city's bulb turbine project. Idaho Falls Power and BPA have had in place a power purchase agreement for power from the project since April 1, 1982. BPA purchases the project output under a "collared" price structure; the price for each month is tied to the Dow Jones Mid-C index that is allowed to float between a 10-mill range defined by a collar maximum and collar minimum. The term of this purchase is from October 1, 2001 through September 30, 2006. BPA paid \$3.5 million in fiscal year 2004 for output from the Idaho Falls Project.

4. Elwha/Glines Dam: Elwha Dam, creating Lake Aldwell, is located on the Elwha River approximately 4.9 miles upstream from the river's mouth; and Glines Canyon Dam, creating Lake Mills, is located approximately 8.6 miles farther upstream. Total combined power production of both dams averages 175,000 mega watt hours annually. Average capacity of both power facilities is 20 mega watts. All power generated is marketed through Bonneville Power Administration via a tri-party agreement dated 2/29/2000. USFWS owns the dams, the Bureau of Reclamation performs operations and maintenance, and BPA markets the power. Operations and maintenance costs for the projects were \$1.2 million in FY 2003 and \$1.4 million in FY 2004. (The dams and associated properties were purchased by the Department of the Interior on February 29, 2000 under Elwha River Ecosystem and Fisheries Restoration Act, Public Law 102-495 of October 24, 1992.)

5. Clearwater Small Hydropower Project. This project is a 2.9 MW plant located about 1 mile downstream of Dworshak Dam near Orofino, Idaho. The plant is located on the water supply lines serving the Clearwater and Dworshak National Fish Hatcheries. The State of Idaho owns the project through the Idaho Water Resource Board (IWRB). BPA entered into a power purchase agreement with IWRB in April 1990, to acquire the output from Clearwater for 30 years. BPA pays for the power on the basis of energy delivered under a schedule of prices set forth in the power purchase agreement. The cost escalates 3 percent annually. Project costs have ranged from \$.8 to \$.9 million over the last four years.

6. Billing Credit Contracts: Billing Credits are provided for specific generating resources that public agency customers brought on line in the early 1990s under the Billing Credits Policy. The Policy interprets section 6(h) of the NW Power Act. Under this program, the resources serve the customers' loads, reducing BPA's obligation to serve those loads. Billing Credit contracts were executed with four customers: Emerald PUD, Eugene Water and Electric Board (EWEB), Tacoma, and Seattle. There are also Billing Credits for conservation resources. Billing Credits for fiscal year 2004 amounted to \$6.5 million. Over the last 4 years billing credits under these contracts have ranged from a low of \$6.4 in fiscal year 2003 to a high of \$7.8 million in fiscal year 2001.

Project Life Spans

1. There are four Generating Resource Billing Credit contracts. These contracts terminate at different times:

- EWEB (Smith Creek, 7.0 annual aMW) terminates in 2011.
- Emerald (Short Mountain Landfill; < 2.0 annual aMW) terminates in 2012.
- Seattle (South Fork Tolt, 6.5 annual aMW) terminates in 2028.
- Tacoma (Wynoochee, 3.6 annual aMW) terminates in 2037.

2. BPA's agreement with Lewis County PUD to purchase the energy from the Cowlitz Falls Dam runs through June 2032.

3. BPA's agreement for Wauna runs through 2017.

4. The power purchase agreement with Idaho Falls expires on September 30, 2006.

5. The Elwha/Glines Dams are slated for removal, possibly beginning in 2009.

6. The Clearwater agreement was signed in April of 1990 and runs for 30 years.

Long-Term Contract Generating Projects Uncertainties

- For the Billing Credit Program, BPA power and transmission rate levels impact the size of payments. The payment amounts can move counter to BPA's rates and offset or dampen any rate increase or decrease, if modeled in rates models. Billing credit payments raise or fall as the PF rate falls or rises.
- For Cowlitz, there are some uncertainties for O&M costs associated with the project and there is some uncertainty for transmission fees for moving the power.
- BPA pays for Wauna power on the basis of energy delivered under a schedule of prices set forth in the power purchase agreement. The agreement escalates each year per the contract.
- The Idaho Falls Turbine Project is a run of the river project. Consequently, the output of this project is a function of stream flow on the Snake River. The contract prescribes a "collared" price structure; the price for each month is tied to the Dow Jones Mid-C index that is allowed to float between a 10-mill range defined by a collar maximum and collar minimum.