How BPA's Subscription Strategy Implements the Fish and Wildlife Funding Principles

This document explains how BPA intends to implement the fish and wildlife funding principles in Subscription. *(click here for the complete principles)*

1. Bonneville will meet all of its fish and wildlife obligations once they have been established, including its trust and treaty responsibilities:

This principle addresses implementation once the obligations have been established. BPA is fully committed to meeting these principles in the subscription process and rate case.

2. Bonneville will take into account the full range of potential fish and wildlife costs:

BPA is continuing to use the full range of 13 system configuration alternatives with equal weighting of each. Costs for the alternatives continue to range between $438 million and $721 million annually for the 2002-2006 period. In its initial rate proposal scheduled to be released in April 1999, BPA will propose rates that will cover all of its costs including for fish and wildlife.

3. Bonneville will demonstrate a high probability of Treasury payment in full and on time over the 5-year rate period:

BPA believes it is on track to achieve an 88 percent Treasury Payment Probability for the 2002-2006 rate period. The final determination of this will be made in the upcoming rate case. By law, if BPA does not have enough revenues to meet all of its obligations, it defers its annual payments to the U.S. Treasury in favor of meeting its nonfederal obligations. These obligations include debt service on Supply System bonds and funding for the region's fish and wildlife programs other than amounts included in the repayments to the U.S. Treasury. Thus, the probability that BPA will make its annual payment to the Treasury on time and in full is a crucial measure of BPA's financial health and of its ability to cover all of its costs.

4. Given the range of potential fish and wildlife costs, Bonneville will design rates and contracts which will position Bonneville to achieve similarly high Treasury payment probability for the post-2006 period by building financial reserve levels and through other mechanisms:

The Final Strategy addresses this topic in a number of ways. First, it exposes all Subscription customers to a cost recovery adjustment clause (CRAC) and, as a last resort, the wires charge cost recovery mechanism, to limit how far reserves could drop in bad years.

Second, it no longer includes the special nonfirm secondary product for the DSIs. This change will allow BPA to preserve more of its secondary energy for sales at market prices which, if as many believe, are higher than BPA's cost-based rates, will assist BPA in building its reserves.

Third, BPA will be including in its rates, flexibility so that BPA and a customer can negotiate indexed cost-based rates. This will allow BPA to negotiate prices indexed to market, but which BPA believes under expected market conditions would provide equivalent revenues to the fixed cost-based rate. If market prices end up higher than we had anticipated, this would help build BPA reserves to deal with cost uncertainties.

Fourth, in response to many comments from regional parties about the danger of reserves getting too high, BPA is including in the Strategy the concept of providing a dividend to customers and other regional beneficiaries. But the Strategy is clear that the dividend will not be provided unless the fish and wildlife funding uncertainties have been resolved and BPA is confident that the higher reserves are not necessary to deal with its cost recovery risks.

Finally, BPA is offering an incentive for customers to commit to purchasing cost-based power beyond 2006, in order to make BPA less reliant on high financial reserves as the only mechanism to assure recovery of its post-2006 costs.

5. Bonneville will minimize rate impacts on Pacific Northwest power and transmission customers:

BPA is committed to maintaining stable rates through 2006. We believe we can avoid rate increases through a creative and businesslike response to markets and additional aggressive cost reduction. BPA is committed to achieving the cost management targets of the Cost Review Board.

6. Bonneville will adopt rates and contract strategies that are easy to implement and administer:

BPA intends to bilaterally negotiate contracts with its customers guided by a framework of standard provisions and standard products. This is intended to assure that the contracts can be administered in an administratively efficient manner.

7. Bonneville will adopt an approach that is flexible in order to respond to a variety of different fish and wildlife cost scenarios. To create financial flexibility and to avoid another contract "cliff" in 2006, Bonneville's goal will be to have 35% to 45% of its total post-2001 power sales, including secondary sales, in contract terms of 3 years or less, in short-term surplus sales, and/or in cost-based indexed sales:

The product development in the subscription proposal is on track to meet this goal. We intend to publish a cost-based rate that is stair-stepped, i.e., the fixed rate for the first three years will very likely be lower than the last two years. This means that a customer who signs up for only three years will have the lower rate for three years and no requirement to buy from BPA at the higher rate in the last two years. In addition, BPA will accept all retail access load lost risk for any customer signing up for only three years. Finally, we will be offering contracts and products that will encourage customers to diversify their purchases from BPA, e.g., some purchases for 3, some for 5 and some for 10 years. We believe this approach will help avoid another cliff at the end of FY2006 and will achieve the 35 percent to 45 percent goal.

8. Bonneville will use a combination of the following mechanisms to achieve principles 1-7.

- *Implementing prudent additional cost-reduction efforts to reduce internally manageable costs before exercising any contingent stranded cost recovery mechanism:* As stated earlier, the proposal assumes $130 million in cost reductions, which BPA is actively working to capture.

- *Use of Bonneville's existing authorities if needed to implement stranded costs recovery on the transmission system, while simultaneously seeking more robust authorities legislatively:* The proposal assumes no use of transmission revenues to cover power costs, but does state that contracts will preserve Bonneville's existing rights to implement a wires charge.

- *Selling subscription products on staggered contract terms - some shorter than 5 years (see Principle 6) and some for longer than 5 years.* As stated above, this product has been developed and will be offered.

- *A cost recovery adjustment clause (CRAC) in power contracts for subscription customers:* The implementation of the cost recovery adjustment clause (CRAC) described in our Subscription Strategy assumes a $100 million fund instead of the $50 million CRAC that was used in developing the fish and wildlife funding principles. This, in addition to our intent to contractually protect our option to implement a wires charge, if necessary, substantially strengthens protections for future fish and wildlife funding.

- *An option fee from some customers in return for increased price predictability after the initial contract period:* Public utility customer comments were adamantly opposed to the use of tiered rates and option fees. We foresaw protracted legal battles over both, and very limited revenue benefits if we prevailed. We also now see the greatest cost uncertainties existing in the post-2006 period. These facts have caused us to move toward an incentive for customers to make 10-year commitments to buy power at cost, in place of option fees and tiered rates.

- *Cost-based indexed pricing for some of its products:* This product is included in the Subscription Strategy.

- *Using reserve balances carried into the 2002-2006 rate period from the prior period:* The levels of projected reserves at the end of 2001 are now projected at somewhat higher than the $500 million estimated at the time the fish funding principles were developed.

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