

Changes to Forecast of FY 2002 Starting Reserves Since the Final Power Rate Proposal

Planned Results from Operations

Since the 2002 Final Power Rate Proposal, BPA has updated its financial forecast for fiscal years 2000 and 2001. As a result, the expected value of the cash reserve level starting the new rate period has increased by \$134 million of which, approximately \$94 million is due to updated projections of results from operations. The projected results from operations for FY2000 are approximately the same as planned in the rate proposal. Although the power revenue forecast has increased substantially (nearly \$290 million), that increase is more than offset by increased purchase power costs. The forecast of cash reserves from operations has only stayed constant in 2000 due to some offsetting cost reductions in wheeling and energy efficiency operations. Projected results from operations reflect an approximate \$94 million increase in FY2001 due to an updated market price forecast.

Difference in Net Revenue Distribution

The second component of the improved projected cash reserve level is an update to the distribution of possible net revenues used in BPA's risk analysis and the fact that FY2000 is nearly over. This recalibration of the expected cash reserve levels has contributed \$40 million to the improved cash reserve position.

Cash Reserve and Net Revenue Impacts

Some have asked why the cash reserve improvement of \$134 million does not precisely mirror the accumulated net revenue increase over the same period of \$179 million. The \$40 million adjustment in the expected value of the net revenue distribution is not reflected in improved net revenue forecast. In addition, there have been several debt management actions (described below) that increase net revenues, but have no impact on cash reserve levels. This is due to the contractual relationship between BPA and Energy Northwest (formerly the Washington Public Power Supply System), which means that Energy Northwest debt actions effect BPA's expenses *and* cash flows while Federal debt transactions only affect cash flows.

Debt Management Actions

BPA always looks to optimize its debt structure, lower overall debt service costs, and maintain access to borrowing authority. In keeping with this strategy, BPA and Energy Northwest took certain actions in FY2000, which create differences between net revenues and cash. BPA has always taken prudent debt management actions in the past that, at a minimum, don't impact cash in the short-term and but do lower costs in the long-term, and BPA will continue to do so in the future.

Consistent with this practice, BPA redeemed an \$85 million Treasury bond in May 2000 to ensure BPA's continued access to its lowest cost capital sources to meet future FCRPS capital needs. To accomplish this without affecting the FY2000 year-end cash reserve position, BPA employed several tools.

BPA requested Energy Northwest to purchase surety bonds for about \$38 million to replace and free up the required reserve accounts for certain bonds related to Projects 1 and 3. BPA also requested Energy Northwest to exercise its authority under what is referred to as the “selective redemption” program and redeem outstanding fixed rate debt rather than making the scheduled amortization payment on certain variable rate debt. This action reduced debt service costs by about \$9 million during FY 2000. An additional \$38 million in other cost savings were achieved from several other Energy Northwest debt related transactions. These tools combined to total \$85 million that was used to redeem the aforementioned Treasury bond.

The Energy Northwest transactions reduced expenses on BPA’s income statement thereby increasing net revenues and cash flows. However, federal principal payments only effect cash flows and are not reflected on the income statement. Therefore, net revenues are higher by \$85 million, but cash reserves remain the same.

Summary Table

The following table shows the major impacts on reserve and net revenue projections since the final rate proposal.

	Starting FY2002 Cash Reserve Level	FY2000 and 2001 Accumulated Net Revenues
<i>\$ millions</i>		
Final 2002 Rate Proposal	842	207
Revenue Forecast Increase <i>FY2000</i>	290	290
Purchase Power Increase <i>FY2000</i>	-317	-317
Other Offsetting Expense Reductions	27	27
Net Change in Operations <i>FY2000</i>	0	0
Net Change in Operations <i>FY2001</i>	94	94
Net Revenue Distribution Update	40	
Energy Northwest Debt Management Actions	85	85
Additional Principal Payment to Treasury	-85	
Revised Forecast	976	386
Net change from rate proposal to current	134	179