

HANDOUTS FOR PUBLIC WORKSHOP

BPA'S POWER SUPPLY ROLE AFTER 2006

December 4, 2002
Rates Hearing Room
Portland, OR
10 a.m. until 3 p.m.

**BPA's Revised Principles and Objectives Regarding
BPA's Power Supply Role after 2006**

Preserve or enhance long-term and diverse benefits of the FCRPS for the region, including:

- Provide low-cost, cost-based power
- Maintain reliability of regional power and transmission systems
- Support development of conservation and renewable resources, and related R&D
- Mitigate, protect and enhance fish and wildlife resources to satisfy BPA's obligations.
- As broadly as possible, share benefits with residential and small farm consumers of investor-owned utilities.
- Conduct open, participatory public policy decision-making processes.

Policy outcomes must be enduring under a broad range of political, economic, financial, power market and power system conditions.

There should be no additional risks for U.S. taxpayers/Treasury.

Approaches or policy options should not require legislative changes and should minimize legal risks.

Create a common interest between BPA's customers and other stakeholders to secure the FCRPS benefits and fulfill the related responsibilities on a long-term basis.

Provide clarity regarding BPA load obligations post-2006.

BPA's Purposes for Regional Dialogue

(Why we are doing this now)

1. Infrastructure investment decisions are being delayed by uncertainty about how much power BPA will sell to customers. So it is important to determine BPA's long-term obligation to serve load beginning on October 1, 2006, to facilitate timely infrastructure decisions by BPA, its customers, resource developers and others.
2. There is ongoing litigation over the IOU residential exchange settlement adopted in Subscription. Ongoing conflict over this issue threatens the region's long-term access to federal system benefits. Developing a sustainable approach to providing residential and small farm consumers of investor-owned utilities with long-term benefits from the FCRPS beginning October 1, 2006 will help resolve this conflict.
3. DSIs have a need for clarity about their access to federal system benefits, so that they can make investment decisions in their Northwest facilities. So it is important to determine federal power and related benefits available to DSIs beginning October 1, 2006.
4. A growing federal deficit will increase the threat to regional retention of federal system benefits. This makes the need for new long-term contracts more urgent.

Draft
Projected Estimates of PBL's Cost Structure after 2006
December 4, 2002

The PBL is sharing some preliminary estimates of power rates after 2006 with customers and other interested groups at the Regional Dialogue Workshop meeting on December 4th, 2002.

Major Messages

- The table shows estimated differences in costs between actuals for the 96-01 rate period and draft forecasts of costs for the 07-11 rate period
- Estimates of 07-11 costs are based on draft forecasts
- These cost estimates are preliminary and are intended to provide a ballpark estimate of future costs and power rates
- These preliminary estimates show that the 07-11 power rate is likely to be around \$30/ MWh due to cost increases and revenue credit reductions, of about \$600 million per year relative to the same categories in the 96 rate case. See Table 1 for additional details.

Table 1

Changes in BPA's Cost Structure: 1996 to 2007

What has changed from the 96-01 rate period when the power rate was \$22/ MWh compared to projections for 07-11 of about \$30/MWh ?

Influences	Net Change from 1996 to 2007 (\$million/yr.)
Increased Firm loads (~2000 aMW) 1/	\$ 100
Increased benefits for residential and small farm customers of IOUs per year (medium Subscription)	\$ 80
Increased Fish & Wildlife Costs	\$ 70
Decreased Fish Credits	\$ 120
Increased Planned Net Revenue for Risk 2/	\$ 100
Increased O & M Costs 3/	\$ 100
Increased Debt Service	\$ 20
Total per year increase	\$ 590

1/ Assumes a net cost of serving additional load of \$5-6/MWh

2/ 1996 rate had just \$13 million per year in PNRR costs.

3/ ~70% of increase tied to Corp, Bureau, & inter-business line expenses

Guide to Graphs 1 through 3

Note: All dollar figures are in millions of dollars per year

Each of the following graphs has the following assumptions

- Each graph shows the annual medium price forecast of a flat product based on an average of 8,760 hourly prices from Aurora
- All forecasts of power rates assume \$0 net revenues for the 02-06 and 07-11 rate periods.

For the 02-06 rate calculations

- Rates are calculated by applying CRACs, sized to yield a non-negative net revenue for the rate period, to the average May 2000 rate
- Rates are calculated including all \$350 million of the 03-06 cost reductions, deferrals, and other actions in the highly probably category
- Rates are also calculated for the scenario of success with about \$500 million of additional cost reductions, deferrals, and other actions that are still under discussion
- All rate forecasts in both scenarios assume \$620 million in net secondary revenues each year

For the 07-11 rate calculations

- Assumes 7100 aMW of public utility loads and 750 aMW of DSI loads
- Assumes \$100 million in PNR in the rates
- Assumes continuation of \$40 million per year of cost reductions. However, these reductions are balanced by an increase of \$40 million per year due to cost deferrals out of the 02-06 rate period.
- Based on August 2002 staff projections of BPA's power revenue requirement

Guide to Graphs 1-3, con'd.

Graph 1: Compares the projections of average power rates stemming from a subscription base case with average power rates under the customer proposal, with both assuming \$380 million in net secondary revenues

Graph 2: Makes the same comparison, but with \$525 million in annual net secondary revenues

Graph 3: Makes the same comparison, but with \$650 million in net secondary revenues

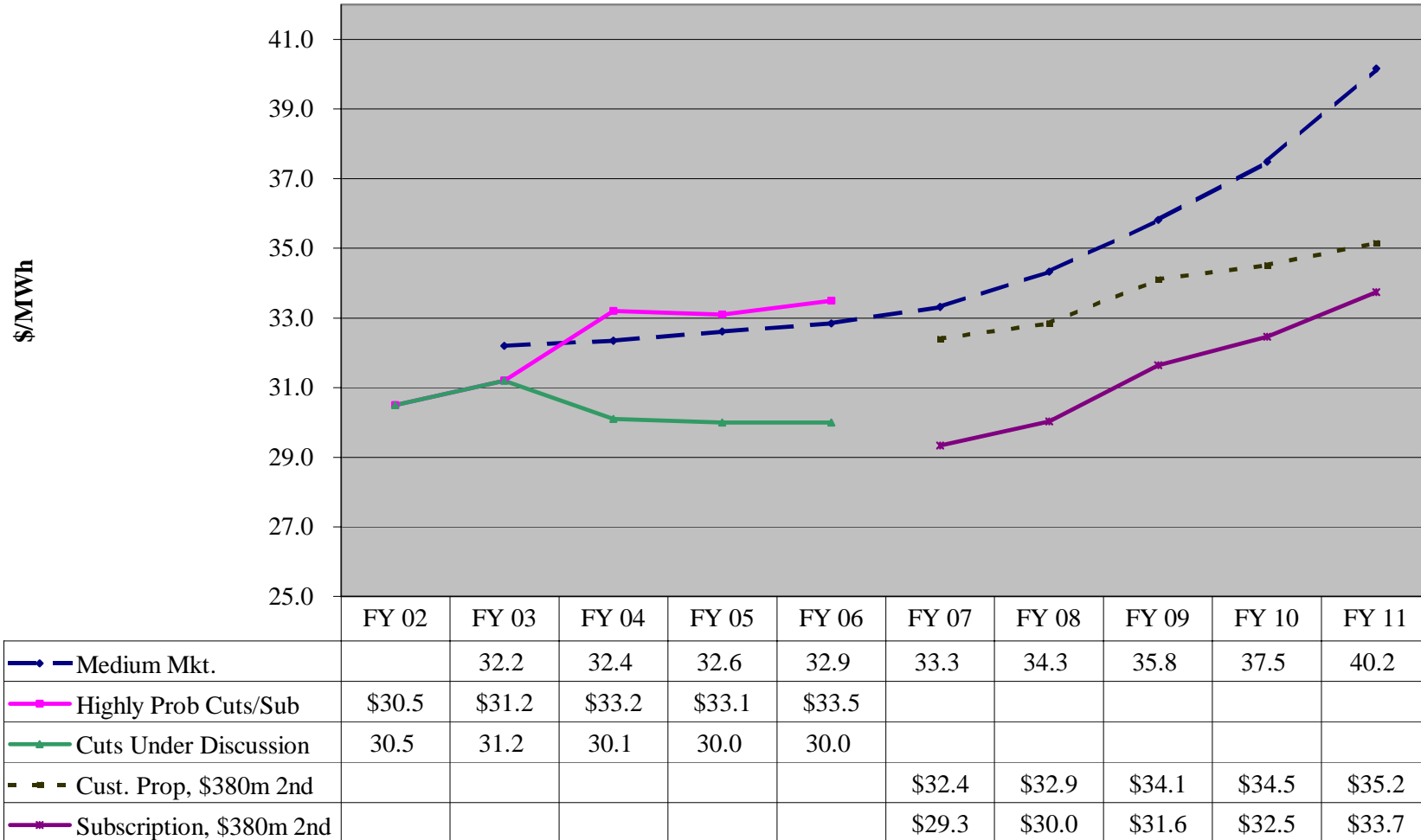
NOTE: In these graphs of rates under subscription and the customer proposal, the benefits to the residential and small farm consumers of the IOUs were calculated assuming a medium market price forecast. Under a medium market forecast, these benefits are larger under the customer proposal and produce average BPA rates that are lower than the customer proposal rates. When a high market forecast is used in this analysis, the customer proposal benefits to the IOUs are smaller and produce lower average BPA rates than those produced by subscription.

Graph 1

Estimated FY02-11 Rates vs. Medium Market (\$36 FY07-11)

(FY02-06 Rates Based on CRAC Forecasts)

(Assumes: \$100m/yr PNRR, 750 aMW DSI, \$40m/yr Cuts & \$40m/yr Deferral into FY07-11)



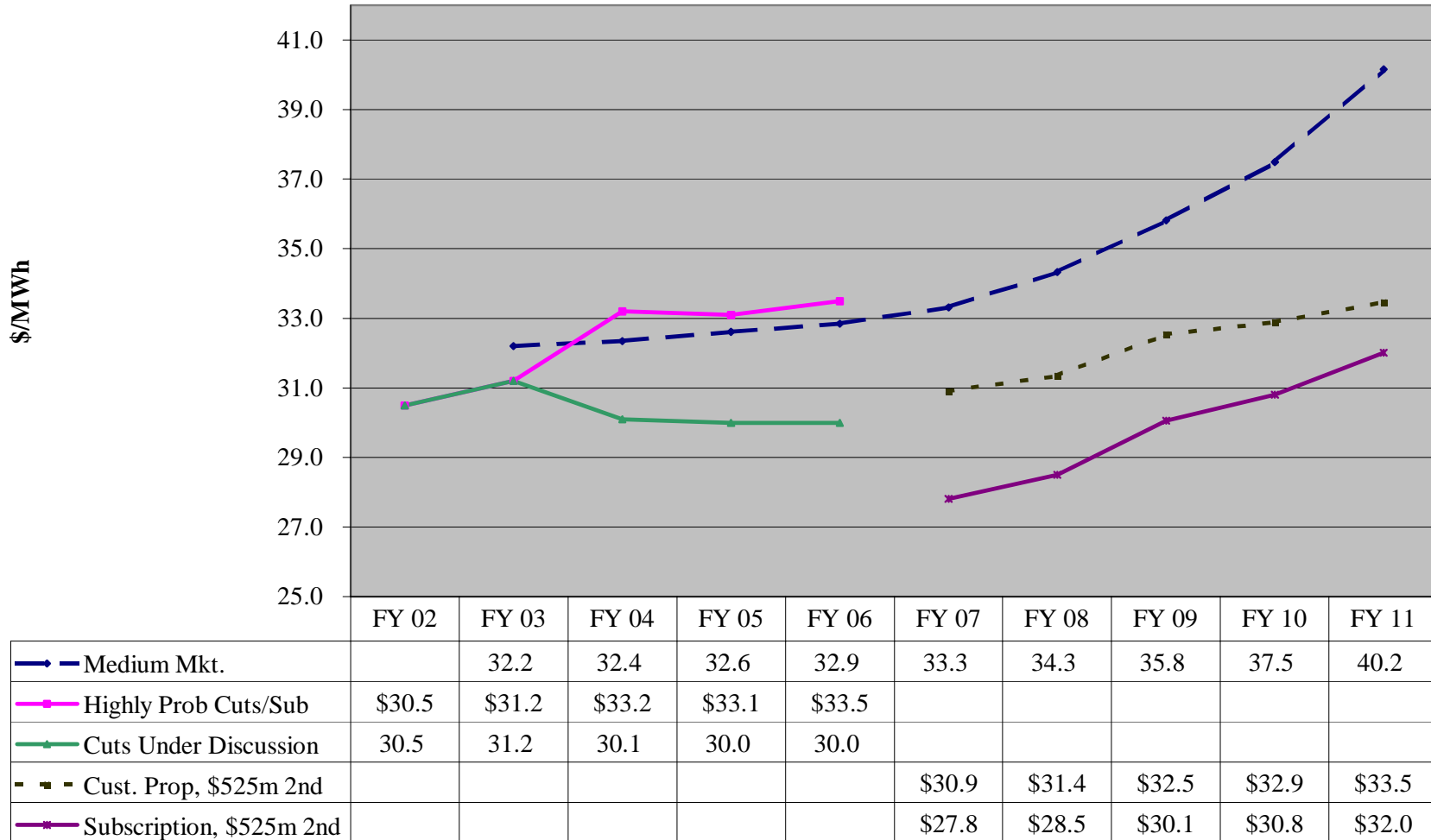
Market Price for Flat Product, PBL Rate for Shaped Product
 FY02-06 assumes ~\$620m/yr in Secondary Revenue Credits

Graph 2

Estimated FY02-11 Rates vs. Medium Market (\$36 FY07-11)

(FY02-06 Rates Based on CRAC Forecasts)

(Assumes: \$100m/yr PNRR, 750 aMW DSI, \$40m/yr Cuts & \$40m/yr Deferral into FY07-11)



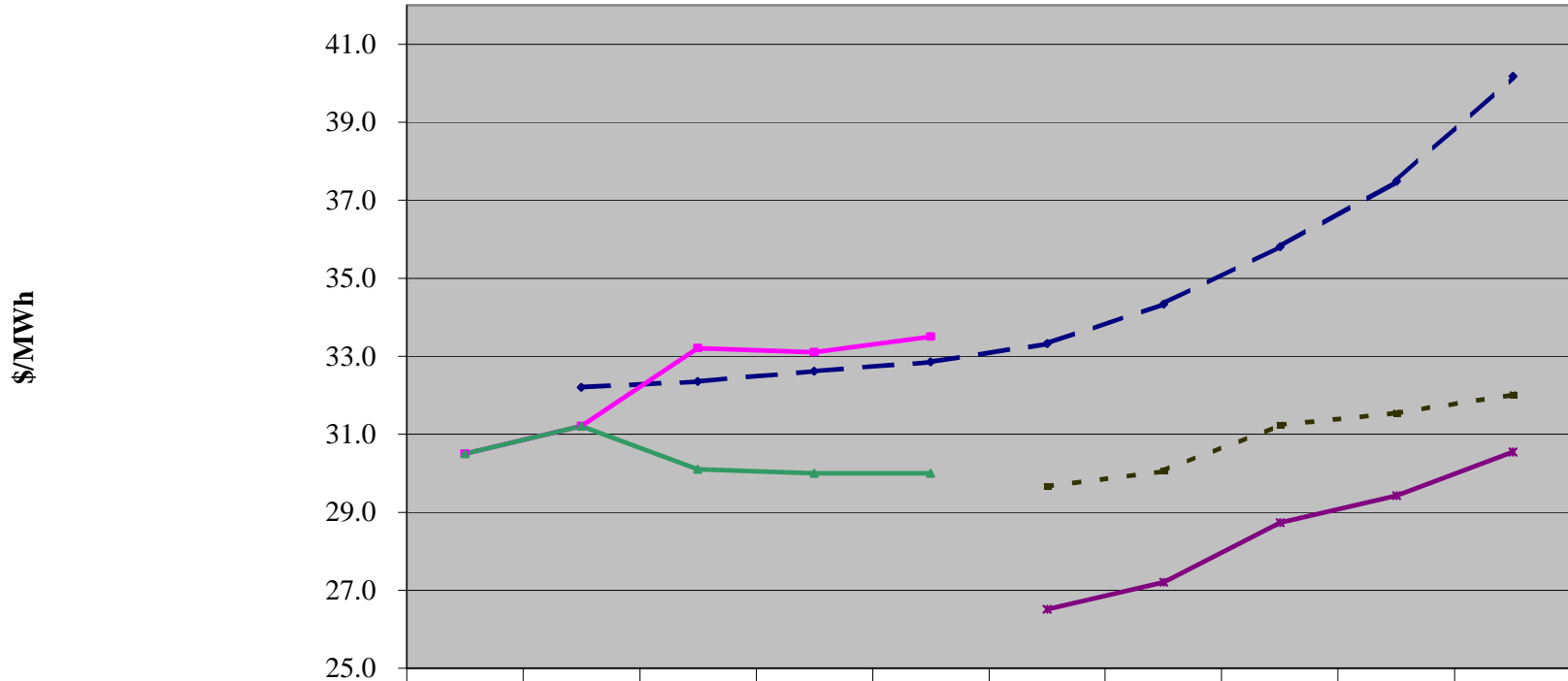
**Market Price for Flat Product, PBL Rate for Shaped Product
FY02-06 assumes ~\$620m/yr in Secondary Revenue Credits**

Graph 3

Estimated FY02-11 Rates vs. Medium Market (\$36 FY07-11)

(FY02-06 Rates Based on CRAC Forecasts)

(Assumes: \$100m/yr PNRR, 750 aMW DSI, \$40m/yr Cuts & \$40m/yr Deferral into FY07-11)



	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11
— Medium Mkt.		32.2	32.4	32.6	32.9	33.3	34.3	35.8	37.5	40.2
— Highly Prob Cuts/Sub	\$30.5	\$31.2	\$33.2	\$33.1	\$33.5					
— Cuts Under Discussion	30.5	31.2	30.1	30.0	30.0					
- - Cust. Prop, \$650 2nd						\$29.7	\$30.1	\$31.2	\$31.6	\$32.0
— Subscription, \$650 2nd						\$26.5	\$27.2	\$28.7	\$29.4	\$30.6

Market Price for Flat Product, PBL Rate for Shaped Product
 FY02-06 assumes ~\$620m/yr in Secondary Revenue Credits