



# BPA proposes spending levels for rates, seeks public engagement

The rates the Bonneville Power Administration charges for its power and transmission services affect most residents of the Pacific Northwest, but few people know how those rates are set or when to engage with the agency about their development.

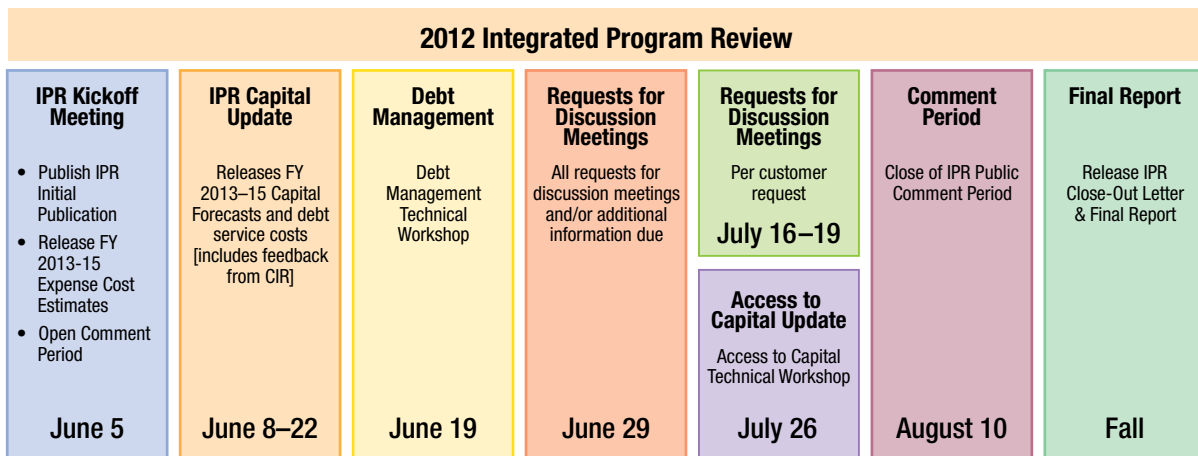
By the time the rate setting begins for the 2014 and 2015 fiscal years, which we expect to be in November 2012, it will be too late for meaningful participation concerning costs because those figures will already have been determined.

The cost levels that drive the rates are worked out before the rate case in a process called the Integrated Program Review. The IPR is being conducted this summer throughout the region. Now is the time to engage with BPA and offer input on the agency's proposed spending levels for the 2014–2015 fiscal years.

## The Integrated Program Review — looking at expenses

Customers and other interested parties were frustrated for years because program expense levels were not discussed in a single, coordinated process. The Integrated Program Review was created in 2008 to address those concerns by giving people a chance to examine and comment on most program level expenses for both Power and Transmission ahead of the rate case.

The 2012 IPR is now underway. It provides citizens, customers and other stakeholders an opportunity to engage with the agency and other interested parties in a rigorous review of BPA's programs and their value, goals and costs before rates are set for the 2014 and 2015 fiscal years. The process as it now unfolds is shown below.



As the graphic suggests, the process includes FY 2013 numbers for comparison with those for the new rate period.



## IPR expenses and more

People are deeply concerned about program expenses because they immediately affect rates, but they are not the only elements that influence the rates. For this reason, the illustrations highlight the IPR expenses but also show the non-IPR costs (power purchases and capital-related costs, for example). The overall IPR process includes all these elements as well as various ways BPA can manage debt and gain access to capital to cover needed investments.

In **POWER SERVICES**, IPR expenses make up about 43 percent of all cost components. Non-IPR components, which include matters covered in the rate case such as power purchases and Residential Exchange Program benefits, make up about 23 percent. Capital-related costs reflect the largest non-IPR category at about 35 percent.

Capital-related costs are outside the scope of the IPR process. They are, however, costs that arise from

decisions made about capital investments in previous years and must be included in the agency's rates. They include, for example, nonfederal debt service (Energy Northwest bonds for building Columbia Generating Station), depreciation and amortization, and various interest expenses.

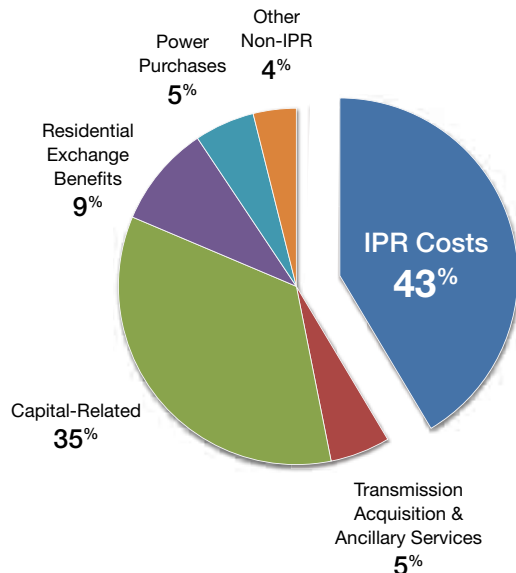
In **TRANSMISSION SERVICES**, capital-related costs contribute an even larger portion of total costs — 47 percent. IPR expenses for Transmission's programs are 40 percent, while the non-IPR categories make up 12 percent.

## Putting it all together

The impact all these costs together will have on rates is what matters. While we won't know the rates until the rate case is over in the summer of 2013, we can extrapolate from what we currently forecast.

### Potential Power Revenue Requirement

Proposed Power Services Expenses FY 2014–15

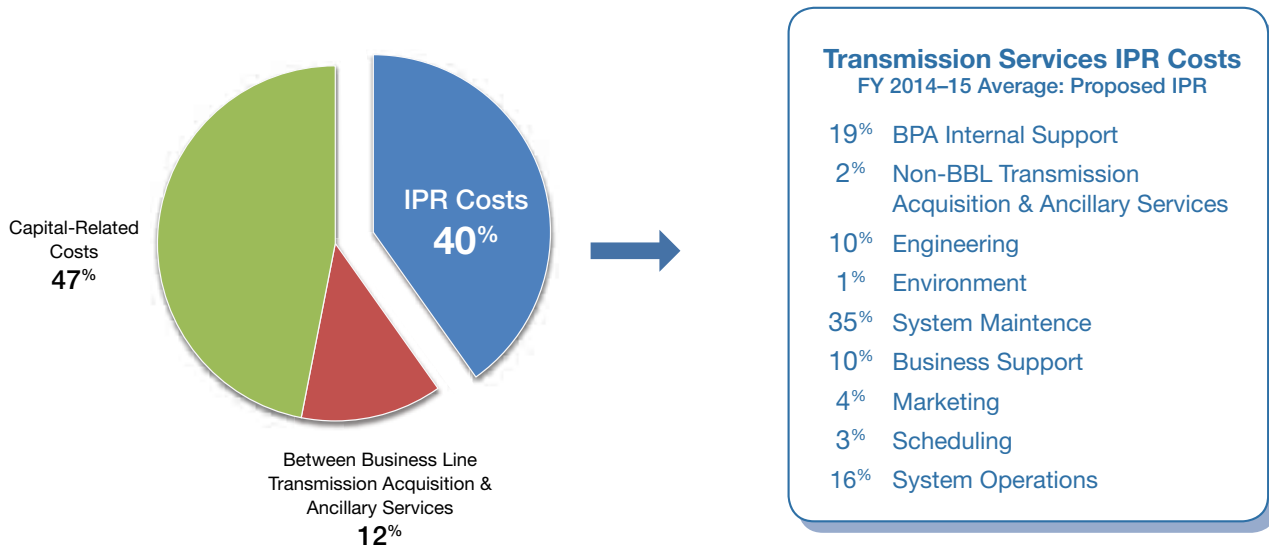


#### Power Services IPR Costs FY 2014–15 Average: Proposed IPR

- 6% BPA Internal Support
- 1% NW Power & Conservation Council
- 22% Fish & Wildlife, LSACP, Environmental Requirements
- 7% Non-Generation Operations
- 4% Energy Efficiency
- 3% Renewables
- 18% Corps of Engineers
- 12% Bureau of Reclamation
- 27% Columbia Generating Station

## Potential Transmission Revenue Requirement

Proposed Transmission Services Expenses FY 2014–15



### Power Services

The table on page 4 shows cost areas and their potential for increasing current on rates.

The upper half of the table shows the potential effect on rates of IPR costs and some non-IPR elements.

The first two columns show the IPR cost targets (FY 2012 start-of-year budget numbers adjusted for inflation), while the second two columns show the “proposed” numbers, figures developed by the various program managers that exceed the IPR cost targets). Those increases over the cost targets were included only after the program managers provided sufficient justification to warrant the increase.

The total potential rate impact from the IPR cost target numbers is a 2 percent increase. The total potential rate impact from the IPR proposed numbers is a 6 percent increase. Most of the difference between the IPR cost target numbers and the IPR proposed numbers is driven by acknowledging and addressing the expense of maintaining the aging hydro and nuclear generation infrastructure.

In both cases, the IPR costs must be combined with increases that are not covered in the IPR (such as transmission expenses and capital-related costs), which amount to another 2 percent rate increase.

The lower portion of the table isolates one potential rate impact that, in almost all cases, outweighs the combined IPR and non-IPR costs — the effect that low natural gas prices are having on the agency’s net secondary revenue from selling surplus power.

BPA’s current forecast of natural gas prices for the FY 2014–2015 rate period suggests that net secondary revenue will decline by \$114 million annually compared to what was assumed when the agency set FY 2012–2013 power rates. This decline could increase to \$196 million annually if gas prices stay at their current depressed level. This issue is likely the most significant driver of BPA’s power rate increase for FY 2014–2015. A \$114 million reduction in net secondary revenue alone results in a roughly 8 percent rate increase for public utility customers. The \$196 million reduction would translate into a 13 percent increase, all other things being equal. (Note: These forecasts will continue to be updated until rates are set in July 2013.)

## Potential Power Services rate increases

	(Delta in \$ Million)	Rate %			Proposed (Delta in \$)	Rate %		
<b>IPR Costs:</b>								
Columbia Generating Station:	14	1%			29	1%		
Bureau of Reclamation:	1	<1%			35	2%		
Corps of Engineers:	5	<1%			22	1%		
Renewables:	1	<1%			2	<1%		
Energy Efficiency:	1	<1%			1	<1%		
Non-Generation Operations:	2	<1%			4	<1%		
Fish & Wildlife:	18	1%			19	1%		
Northwest Power & Conservation Council:	0	<1%			0	<1%		
Power Internal Support:	2	<1%			5	<1%		
<b>Total Rate Effect:</b>	<b>44</b>	<b>2%</b>			<b>117</b>	<b>6%</b>		
<b>Non-IPR Costs: 1/</b>	<b>33</b>	<b>2%</b>			<b>33</b>	<b>2%</b>		
	<b>Target</b>	<b>Rate</b>	<b>Target</b>	<b>Rate</b>	<b>Proposed</b>	<b>Rate</b>	<b>Proposed</b>	<b>Rate</b>
	<b>Current Gas</b>	<b>%</b>	<b>Low Gas</b>	<b>%</b>	<b>Current Gas</b>	<b>%</b>	<b>Low Gas</b>	<b>%</b>
<b>Revenues and Costs Affected by Gas Price:</b>								
Net Secondary Revenue: 2/	114	8%	196	14%	114	8%	196	14%
IP Rate Revenue:	-9	<-1%	-14	-1%	-13	-1%	-18	-1%
Other Revenue Credits: 3/	-8	<-1%	-3	<-1%	-8	<-1%	-3	<-1%
Purchased Power:	20	1%	5	<1%	20	1%	5	<1%
Residential Exchange Program:	-1	<-1%	-2	<-1%	-1	<-1%	-2	<-1%
Irrigation Rate Discount and Low Density Discount:	6	<1%	8	<1%	8	<1%	10	1%
<b>Total Rate Effect:</b>	<b>122</b>	<b>8%</b>	<b>190</b>	<b>13%</b>	<b>120</b>	<b>8%</b>	<b>188</b>	<b>13%</b>
		<b>12%</b>		<b>17%</b>		<b>16%</b>		<b>21%</b>

1/ Non-IPR costs include transmission expenses and capital-related costs.

2/ Net Secondary Revenue after Slice has a larger per dollar rate impact than the other revenue and expenses categories, which are before Slice amounts.

3/ Other revenue credits include such things as 4(h)10(c) credits, generation input revenues, reimburseable energy efficiency revenue, and green tags.

## Transmission Services

Transmission Services doesn't face a variable as significant as natural gas prices. Transmission relies more on long-term contracts than on short-term revenues, which provides more stability. The current estimate using the IPR proposed numbers would raise Transmission rates 13 percent.

IPR expenses alone would cause rates to increase by about 3 percent. Ceasing the practice of using financial reserves to limit rate increases would result in about

a 4 percent increase. The largest increase, of about 6 percent, would come from capital-related costs.

The primary drivers of the IPR-related cost increases are increased costs and workloads associated with new compliance and regulatory standards, the demand to optimize available transfer capacity while continuing to operate the system safely and reliably, and the need to implement automated solutions to meet Transmission business needs.

## Steps BPA can take to reduce the rate impacts

It is clear that capital-related costs contribute significantly to a potential rate increase for both Power and Transmission. For this reason, BPA held a debt management workshop that highlighted several areas in which the agency has the potential to reduce debt service costs. BPA will also hold a workshop on access to capital later in the summer. Where BPA gets its capital directly affects its capital costs.

The subjects BPA introduced at the debt management workshop and will continue to look at over the summer include:

- extending Columbia Generating Station debt to match the new 20-year FERC license extension on its productive life, which would save roughly \$85 million per year on average in FY 2014 and FY 2015;
- extending debt on the Lewis County hydro project (jointly developed by BPA and Lewis County PUD), which would save \$5 million per year; and

- restructuring the decommissioning fund for CGS, which would save \$23 million over the two years.

The workshop also looked at the savings that are expected to come from the uranium tails purchase agreement that Energy Northwest recently made to supply CGS with fuel. The uranium tails purchase is expected to provide \$40 million in rate relief over the two years of the rate period.

Together, these savings could shave 5.5 to 6 percentage points off the potential rate increase.

## What you can do

You can begin by immersing yourself in the information available. BPA's external website for the IPR at [www.bpa.gov/corporate/Finance/IBR/IPR/index.cfm](http://www.bpa.gov/corporate/Finance/IBR/IPR/index.cfm) contains a vast amount of material on the IPR. Of particular importance are the Initial IPR Publication, which explains in detail BPA's potential IPR expenses; the Debt Management Presentation, which outlines several approaches the agency can take to manage its debt and reduce other costs; and the Capital Spending

## Potential Transmission Services rate increases

<u>Expenses</u>	<b>Change from Rate Case 12/13 to 14/15</b>		<b>Change from 12/13 Final Proposal to 14/15 Cost Targets</b>		<b>Change from 12/13 Final Proposal to 14/15 Proposed</b>	
	<u>\$ in Millions</u>	<u>% Change in Rates</u>	<u>\$ in Millions</u>	<u>% Change in Rates</u>	<u>\$ in Millions</u>	<u>% Change in Rates</u>
1 Operations	15	1.3%	7	1%	11	1%
2 Maintenance	10	0.9%	8	1%	9	1%
3 Other	5	0.4%	4	0%	7	1%
4 Internal Operations	5	0.4%	0	0%	2	0%
5 Expense Sub-Total	35	3.0%	19	2%	29	3%
6 Capital Related Costs	70	6.0%	50	6%	50	6%
7 Use of Reserves for Rate Relief 1/	35	3.0%	35	4%	35	4%
8 Total Revenue Requirement	140	12%	104	12%	114	13%

1/ Reserves were used for rate relief for FY 12–13 but use of reserved was not assumed in FY 14–15.

- At the September 2010 Rate Workshop, Transmission Services projected FY 2012–13 rates would be approximately 8% higher.
- TS was able to use reserves to offset rate impacts to customers in FY 2012–13. TS shared with customers that BPA's rate projects for FY 2014–15 could increase up to 19% if reserves were not continued to be used to hold down rates.

Estimates. The June 5 Kick Off Presentation is a PowerPoint presentation that summarizes the material in the IPR Initial Publication.

If you have the time, attend the remaining workshops. An access to capital workshop is scheduled for July 26 and the week of July 16 is being held open for workshops on topics requested by participants [see BPA Calendar at [www.bpa.gov/corporate/public\\_affairs/calendar/](http://www.bpa.gov/corporate/public_affairs/calendar/) to check on the workshops as they are scheduled].

Many people will be particularly interested in a meeting to be held in Seattle on Aug. 2. It is an evening meeting

that will provide a broader audience with the opportunity to ask questions and provide comments to BPA on its proposed IPR spending levels. It will be held from 4:30 p.m. to 7:30 p.m. at the downtown Seattle Public Library at 1000 Fourth Ave. in downtown Seattle.

The next step is to comment. The comment period is open until Aug. 10. Comments can be submitted via email to [BPAFinance@bpa.gov](mailto:BPAFinance@bpa.gov), online at [www.bpa.gov/applications/publiccomments/OpenCommentListing.aspx](http://www.bpa.gov/applications/publiccomments/OpenCommentListing.aspx) or by mail to BPA, P.O. Box 14428, Portland, OR 97293-4428.