Bonneville Power Administration   IPR2 Background

Based on conversations during and after the May 2 PPC meeting, we recognize that we may have introduced some confusion related to one of the IPR2 proposals. We believe that there are at least two areas of confusion that we will address here.

1. Is the proposal to expense some F&W spending really revenue financing?
2. Is this proposal applicable for two years?

- Energy Northwest has made some changes in its budget in two major categories
  - Increase in capital spending
  - An expense reclassification and capitalization of some specific costs based on benchmarks of other plants
- These changes in forecasts result in overall expense reductions (O&M reduction net of debt service increases) for the next 7 to 8 years. In subsequent years expenses increase.
- For BPA FY 2014/15 the result is approximately $25M net expense reduction in total for the 2 years.
- Since this is an expense reclassification, not a spending reduction, BPA is considering whether to mitigate the long-term effects of this change in the IPR2.

Additionally:
- BPA capitalizes some Energy Efficiency and Fish and Wildlife spending as regulatory assets and finances that spending with borrowing authority.
- These regulatory assets have shorter accounting lives than federal hydro investments, 12 and 15 years respectively compared to 75 years for fed hydro.
- BPA is proposing to expense approximately $25 million of F&W spending that was previously slated for regulatory asset treatment.
- BPA would also use $25 million less Federal borrowing authority.
- **We have called this revenue financing, in that the funding for this spending would come from FY 2014/15 rates rather than debt. F&W costs are expense with the exception of recovering certain costs over time in rates as has been past practice. By not including them as capital in rates, they are by default expense. Expenses are not financed but are fully recovered in current rates, which may have made the revenue financing reference confusing.**
- This proposal would neutralize the revenue requirement effect of reduced CGS expense in the FY 2014/15 period.
- This proposal is intended to apply only in this rate period, however, interest and amortization expense will be lower for 15 years. We are not proposing to reverse this specific action in future rate periods associated with this proposal.
- Introducing or continuing other such accounting or cost classification changes, is a topic of a longer discussion that explores a number of alternatives. We intend to have this longer-term discussion in the summer/fall of 2013.

Other clarification:

- At the PPC meeting on May 2, we may have inadvertently contributed to confusion by mentioning that we revise regulatory asset assumptions every 2 years.
- In every rate case we confirm that we are going to recover the costs associated with existing and future regulatory assets over time through rates.
- Then the accounting treatment follows the rate treatment. This accounting-follows-rates treatment is unique for regulatory assets and the utility regulated industry.
- Historically, we have made minor or major changes to regulatory asset assumptions, such as amortization periods or programs capitalized in nearly every rate period.
- We would like to consider a more strategic approach and will have a public process to discuss alternate strategies in the near future – not as part of this IPR2.