

Follow-Up to questions from public meetings on FY 2007–FY 2012 Capital Planning Review

1. **Q.** The present time frame for comment established by BPA is too short for BPA stakeholders to provide meaningful input into his initial capital planning process. Is it possible to extend the comment period to mid-August?

A. The comments are needed by July 7 in order to provide input in the FY 2008 Federal budget. Any comment submitted later than that will be too late to impact the FY 2008 budget but will be considered fore future budgets.
2. **Q.** BPA’s business units developed the Capital Planning Review information to be consistent with BPA’s balanced scorecard (slide 19 of the presentation). Would BPA please explain in detail its balanced scorecard and the process?

A. http://www.bpa.gov/corporate/about_BPA/StratDocs/AgencyStrategyMap.pdf
3. **Q.** BPA uses a Least Cost principle in its selection of capital projects (Slide 21). Would BPA please explain this principle and how it is applies to capital programs?

A. BPA picks projects that have the highest return, even if it is not increasing revenue. We look at the tradeoffs and select the highest value assets and fund it in a least cost way.
4. **Q.** Through the Capital Planning Review, BPA is involving stakeholders in capital management and giving stakeholders the opportunity to influence how the agency makes capital investments that affect future power and transmission rates (slide 22). Going forward could BPA please explain how and when the stakeholders will be involved?

A. In 2008 this Capital Planning Review process will reflect a “One BPA” approach and will include capital and expense. At this time stakeholders will get a comprehensive look at BPA’s capital and expense programs and have the opportunity to influence BPA’s future spending.
5. **Q.** Why are BPA’s forecasted capital expenditures materially higher than its historical actual capital expenditures (slides 23 & 24)?

A. The historical numbers reflect actuals spending amounts while the future years reflect forecasts. There is always a slippage factor (usually 15-20%) of projects that are not completed according to the forecast. The forecasts do not take into account the slippage factor and assume that all projects will proceed as planned.
6. **Q.** Why do the amounts differ for projected transmission capital investments (slide 27) FY 2007 to FY 2012 from the amounts on slide 28?

A. Page 27 shows capital investments by program while page 28 shows this same information by categories of expenditures. The difference in the totals between the two slides is slide 28 excludes projects funded in advance. Projects funded in advance are capital projects that are paid for in advance by a customer and BPA retains ownership of the asset. The depreciation expense and the advances for the asset are recognized over the life of the asset so that the benefit is recognized over time keeping these charges from entering the rate case.

7. **Q.** What will be the future effects on depreciation based on the Transmission Plant-in-Service forecasts (slide 29)?
A. Based on BPA’s rule of thumb, an investment of \$200 million with a depreciation life of 40 years would result in a depreciation cost of about \$5 million per year with an interest expense of about \$10.6 million per year for a total cost of approximately \$15.6 million per year.
8. **Q.** On slide 35 BPA/TBL states “Transition of BPA approach from a reactive to proactively manage network congestion solution.” Could BPA please provide detailed examples of how BPA/TBL proposes to accomplish this?
A. This will be addressed in the PIR technical workshop:
July 11, 2006
BPA Rates Hearing Room
Phone bridge is available by dialing 503-230-5566 and then entering 1234# after the tone.
9. **Q.** What is the difference between Projects approved and underway and New Starts as they relate to Transmission (slide 37)?
A. Projects approved and under way are projects that have been previously approved for funding and are multi-year projects. New starts are approved, funded, and work started in the current fiscal year.
10. **Q.** Is it possible to have a detailed discussion of the Transmission capital planning process as it relates to the matrix team reviews of all proposals? In particular the ranking of projects according to strategies, necessity, consequences and business analysis (slide 38)?
A. This will be addressed in the PIR technical workshop:
July 11, 2006
BPA Rates Hearing Room
Phone bridge is available by dialing 503-230-5566 and then entering 1234# after the tone.
11. **Q.** How does BPA calculate the probability of occurrences in TBL decision factors (slide 39)?
A. TBL will look at the risks of the project. The following is the probability scoring:
- Known that it will definitely occur this year – Information submitted in Project Authorization Request (PAR) indicates that the event will definitely occur within the coming year; or the project needs to be started in the coming year in order to be successfully completed on time.
- High probability of occurrence or needed this year – Information submitted in PAR indicates the event probably will occur within the coming year; or the project needs to be started in the coming year in order to be successfully completed on time.
- Medium probability of occurrence or need – Information submitted in PAR
Indicates the event probably will occur within the coming three years; or the project needs to be started within the next three years in order to be successfully completed when it is required.

Low probability of occurrence or need – Information submitted in PAR does not indicate the event probably will occur within the next three years.

12. **Q.** Could BPA provide a reconciling crosswalk between the categories listed on slide 48 and the actual capital projects to be undertaken?

A. This will be addressed in the PIR technical workshop:

July 11, 2006

BPA Rates Hearing Room

Phone bridge is available by dialing 503-230-5566 and then entering 1234# after the tone.

13. **Q.** How was the lost revenue effect calculated without the hydro investment program (slide 63)?

A. The assumed decline in availability is based on historical data, consistent with slide 61. The revenue impact was derived from the value of availability model for the hydro system.

14. **Q.** What is included in the 25% burden added on slide 64?

A. The burden rate is overhead, which includes contracting, project management, engineering & design (E&D), and supervision & administration (S&A).

15. **Q.** For the Columbia Generating Station capital investment what is the depreciation / amortization period – 2018? – 2024? -2024+?

A. 2024

16. **Q.** Are there any surprises left in the CRFM program?

A. The materials provided regarding CRFM reflect all known information.

17. **Q.** What is the accumulated capitalized interest on the CRFM program to date and the total forecasted capitalized interest at completion of the program?

A. To be provided

18. **Q.** Details of capital expenditures are required for Corporate Facilities Management – security (\$57 million) (slide 81) – new starts (\$19 million).

A. Security Capital Cost Detail

Year	Projects Approved and under way	New Starts
2007 - 2010	\$500 thousand Portland Headquarters Enhancements <ul style="list-style-type: none"> • Access Control systems • Detection and assessment systems • Protective barriers 	\$52 million <ul style="list-style-type: none"> • Design and construction of Bonneville’s: Primary Emergency Operations Center • Design and Construction of Bonneville’s Alternate Emergency Operations Center • Design and installation of the Bonneville Executive Command Center in Portland • Seismic Hardening for field sites <ul style="list-style-type: none"> ○ Breakers, transformers, etc. • Spare equipment and parts for field sites • Access control, detection & assessment, and protective barrier systems

2011 - 2012		\$5 million <ul style="list-style-type: none"> • Spare equipment and parts for field sites • Access control, detection & assessment, and protective barrier systems
-------------------	--	---

Corporate Facilities Management Capital Cost Detail

Year	Projects Approved and under way	New Starts
2007	\$564 thousand <ul style="list-style-type: none"> • Facilities projects to maintain and/or enhance critical systems and/or security measures and major facilities maintenance projects. 	\$9 million <ul style="list-style-type: none"> • Facilities projects to maintain and/or enhance critical systems and/or security measures and major facilities maintenance projects at Portland HQ and Ross Complex • Network Reconstruction Project to consolidate the number of locations of critical information technology systems requiring upgrading buildings and building mechanical systems for cooling and backup power (Note: BPA is continuing to scrub these numbers and expects this number to go down substantially)
2008 - 2012		\$10 million <ul style="list-style-type: none"> • Facilities projects to maintain and/or enhance critical systems and/or security measures and major facilities maintenance projects at Portland HQ and Ross Complex

19. **Q.** How much is third party financing costing as opposed to relying on the US Treasury for borrowing?

A. BPA has completed one third-party financing transaction, for the Schultz-Wautoma line. The details of the financing of this project can be found on slide 19 of the 2004 PIR debt management presentation. The presentation is available at:

http://www.transmission.bpa.gov/Business/Customer_Forums_and_Feedback/Programs_in_Review/documents/080304_PIR_DebtOpt.pdf. We are continuing to look for non-federal financing opportunities but no additional projects have been currently approved.

20. **Q.** What is the impact DOP on all of this?

A. The primary purpose of Debt Optimization is to restore borrowing authority for the Agency without negatively impacting rates. For the past six years BPA has managed the program adhering to these principles. When BPA makes its Debt Optimization advanced Treasury payment at the end of FY 2006, it will bring the borrowing authority restored under the program up to \$ 1.2 billion.

21. **Q.** What is the effect of borrowing authority over time?

A. In 1999, before Debt Optimization began, BPA forecasted that Federal borrowing authority would be depleted by about 2004. Because of the Debt Optimization transactions completed to date, the borrowing authority forecast has been extended to 2011. If the

program continues as currently planned, we estimate Federal borrowing authority will be extended to approximately 2013.

22. **Q.** Compare what was in the budget to the actual capital investment.

A. Congressional Budget

	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Transmission	163	160	165	217	232	262	431	463	359
Corps & Bureau	18	13	74	79	76	90	117	105	116
Conservation	54	32	9	1	0	0	42	28	36
Fish & Wildlife	40	39	27	27	27	35	38	36	36
Capital									
Equipment	12	9	12	35	21	13	28	29	30
Agency	287	253	287	359	356	400	656	661	577

* Each year's budget numbers reflect that same year's Federal budget submission

23. **Q.** Provide the assumptions behind the sustainable capital graph.

A. Base Case- Based on 20 year repayment study completed for 2006 Congressional Budget

Full Debt Optimization Program- In addition to the base case this includes forecasted debt optimization refinancing and matching federal amortization.

Proposed Full 3rd Party Financing Program- a 2005 Second quarter preliminary evaluation of eligible projects that can be third party financed according to BPA's statutory authority based on the 06 Federal capital budget submittal.

Conservative 3rd Party Financing Program- 50% of the preliminary evaluation of eligible projects that can be third party financed according to BPA's statutory authority based on the 2006 Federal capital budget submittal.

24. **Q.** On slide 70 it says the power plan calls for 52 aMW, but slide 71 shows aMW of 22 or 27. How does BPA achieve the rest?

A. For the 2007-2009 period, BPA anticipates achieving 20 aMW/year from the Conservation Rate Credit program and another 10 aMW/year from our Market Transformation efforts (via the Northwest Energy Efficiency Alliance). When these amounts from our expensed conservation programs are combined with the 22 aMW/year from the capital bilateral contracts program it will give us the 52 aMW/year. For the post-2009 period, we anticipate a similar program structure with higher levels of production from each component to achieve the higher aMW/year target.

25. **Q.** On slide 74, estimated total costs are shown as \$1.5 to \$1.83 billion. Does this include AFUDC?

A. Yes, these costs include AFUDC.

26. **Q.** Please provide a copy of BPA's "Capital Policy" (regarding Fish, slide 69).

A. The capitalization policy can be found on this link:

http://www.efw.bpa.gov/Integrated_Fish_and_Wildlife_Program/FW%20Capitalization%20Policy%2011-4-04.pdf

27. **Q.** Please provide the most recent edition of the chart from slide 90 and explain the differences among the various cases.

A. This is the most recent graph – this budget is currently before Congress.

28. **Q.** When BPA calculates the cost effectiveness of conservation, is it accurate to say that BPA uses a time period that is the same as the time period for depreciation?

A. No. They are two separate analyses. BPA relies on the Council's cost effectiveness determination which is based on a total resource benefits and costs approach (regardless of who pays the costs) for determining the useful life of conservation investments. In the current Power Plan, the average useful life is 15 years (see Appendix E of the Council's 5th Power Plan). This analysis determines which investments are cost effective for the region that, when taken together, establish the regional conservation savings target. BPA makes its decision on how to finance and account for its share of the conservation investments independent of the Council's analysis.

For more information please refer to page 5 of the final PFR II report:

http://www.bpa.gov/power/pl/review/06-01-2006_pfr2_final_report.pdf

29. **Q.** Why has BPA elected to use a much shorter conservation amortization period for rate purposes than is used in determining conservation cost effectiveness?

A. The change in the conservation amortization period was a result of a shift in the nature of investments from one of power augmentation to conservation acquisition. Analysis indicates that this change would create almost no change in the revenue requirement in FY 2007-2009. There would be a significant decrease in the FY 2012-2015 period. Then after FY 2015, the reduction would shrink markedly. Additionally, the five-year treatment puts less pressure on BPA's access to limited borrowing authority, reduces the risk of stranded investments, and appears to be more consistent with industry practice. Even though customer feedback encouraged BPA to extend the amortization life to 15 years, BPA believes the other factors listed above outweigh the benefits of extending the amortization life at this time.