

SN-03 BPA Data Response

Request No.: WA/BPA:021

Request: Witnesses: Keep, *et al.*
Exhibit: SN-03-E-BPA-04
Page(s): Page 13, line 22 through page 14, line 2

Please elaborate on why management directed staff to set SN CRAC so that PBL net revenues are at least equal to zero over the rate period.

Response:

BPA's direction is based upon several factors. One such factor is that section 7(a)(1) of the Northwest Power Act states, in part, that BPA shall establish rates that recover, in accordance with sound business principles, the costs associated with the acquisition, conservation, and transmission of electric power, and other expenses incurred by the Administrator. Net revenues are one of the fundamental business metrics, and cost recovery requires non-negative net revenues. Another factor is that BPA has a general concern about the poor state of the Pacific Northwest economy. As such, BPA is concerned that a standard that recovered a greater level of net revenues may not be sustainable under these conditions. Finally, while the relaxed TPP standard and the new TRP standard captured changes in cash reserves over the rate period, they did not directly address whether the Power Business Line was bringing in enough revenue to cover its costs (as adjusted for ENW debt service and the removal of FAS 133 adjustments). These three factors, in combination, led to management directing staff to produce an SN CRAC design that would produce PBL net revenues that have an expected value of at least zero over the rate period.

April 10, 2003