Bonneville Power Administration

Overview

Summary by Program

(accrued expenditures in thousands of dollars)

	FY 2003	FY 2004	FY 2005
CAPITAL INVESTMENTS			
Power Business Line	135,591	177,400	188,000
Transmission Business Line	318,619	386,000	268,600
Capital Equipment & Bond Premium	19,156	34,200	30,300
Total Capital Investments	473,366	597,600	486,900
Accrued expenditures will require budget obligations of . . .	473,366	597,600	486,900
Operating Expenses	2,859,568	3,080,439	3,149,561
Projects Funded in Advance	11,212	27,600	89,800
Capital Transfers (cash)	543,687	246,508	303,098
BPA Net Outlays	-462,000	-30,000	-10,000
BPA Staffing (FTE)	3,153	3,205	3,166

Summary by Program notes:
These budget estimates are subject to continual change due to changing economic and institutional conditions in the electric utility industry in the Pacific Northwest.

Net Outlay estimates are based on forecasted market conditions, current cost savings to date, and anticipated use of rate adjustment and financial management tools. Net Outlays will change throughout the rate period as BPA experiences actual market and hydro conditions and responds with management actions.

Revenues, included in the Net Outlay formulation, are calculated consistent with rate period management goals and assume a number of rate, cost and cash adjustments. Assumed adjustments include the use of a combination of tools that include Cost Recovery Adjustment Clause (CRAC) adjustments, cost re-estimates, net revenue risk adjustment, debt service refinancing strategies and/or short-term financial tools to manage net revenues and cash. Adjustments for depreciation and 4(h)(10)(C) credits are also assumed.

Preface

The strategic mission of Bonneville Power Administration (Bonneville or BPA) is to meet its public responsibilities through commercially successful businesses. Bonneville provides electric power, transmission, and energy services in increasingly competitive markets. Bonneville's success in the marketplace supports the achievement of its vital responsibilities for fish and wildlife, energy conservation, renewable resources, and low-cost power for the people of the Pacific Northwest. Bonneville succeeds by satisfying its customers and enhancing the economic and environmental health of the region.

The organization of BPA's FY 2005 budget reflects Bonneville's business line basis for utility enterprise activities. Bonneville's two major areas of activity on a consolidated budget and accounting basis include Power and Transmission with administrative costs included. The Power Business Line includes line items for Fish and Wildlife, Conservation and Energy Efficiency, Residential Exchange, Associated Projects O&M Costs and Northwest Power and Conservation Council (Council).

This Overview describes Strategic Context, Mission, Benefits, Strategic Goals, and Funding by General Goal. The Annual Performance Results and Targets, Means and Strategies, and Validation and Verification sections address how the goals will be achieved and how performance will be measured. Finally, this Overview will address Program Assessment Rating Tool (PART) and Significant Program Shifts.

Strategic Context

Following publication of the Administration's National Energy Policy, the Department of Energy (Department or DOE) developed a Strategic Plan that defines its mission, four strategic goals for accomplishing that mission, and seven general goals to support the strategic goals. Each program has developed quantifiable goals to support the general goals. Thus, the "goal cascade" is the following:

Department Mission – Strategic Goal (25 yrs) – General Goal (10-15 yrs) – Program Goal (GPRA Unit) (10-15 yrs)

To provide a concrete link between budget, performance, and reporting, the Department developed a "GPRA[a] unit" concept. Within DOE, a GPRA unit defines a major activity or group of activities that support the core mission and aligns resources with specific goals. Each GPRA unit has completed or will complete a Program Assessment Rating Tool (PART). A unique program goal was developed for each GPRA unit. A numbering scheme has been established for tracking performance and reporting[b].

The goal cascade accomplishes two things. First, it ties major activities for each program to successive goals and, ultimately, to DOE's mission. This helps ensure the Department focuses its resources on fulfilling its mission. Second, the cascade allows DOE to track progress against quantifiable goals and to tie resources to each goal at any level in the cascade. Thus, the cascade facilitates the integration of budget and performance information in support of the GPRA and the President's Management Agenda (PMA).

Mission

The strategic mission of Bonneville is to meet its public responsibilities through commercially successful businesses. Bonneville provides electric power, transmission, and energy services in increasingly competitive markets. Bonneville's success in the marketplace supports the achievement of its vital responsibilities for fish and wildlife, energy conservation, renewable

[a] Government Performance and Results Act of 1993

[b] The numbering scheme uses the following numbering convention: First 2 digits identify the General Goal (01 through 07); second two digits identify the GPRA Unit; last four digits are reserved for future use.

resources, and low-cost power for the people of the Pacific Northwest. Bonneville succeeds by satisfying its customers and enhancing the economic and environmental health of the region.

Benefits

Bonneville provides electric power (about forty-five percent of the electricity consumed in the region), transmission (about three-fourths of the region's high voltage transmission capacity), and energy efficiency throughout the Pacific Northwest, a 300,000 square mile service area. Bonneville markets the electric power produced from 31 operating Federal hydro projects in the Pacific Northwest owned by the U.S. Army Corps of Engineers (Corps) and the U.S. Department of Interior, Bureau of Reclamation (Bureau), and also acquires non-Federal power, including the power from the Columbia Generating Station, to meet the needs of its customer utilities.

Strategic Goals

The Department's Strategic Plan identifies four strategic goals (one each for defense, energy, science, and environmental aspects of the mission plus seven general goals that tie to the strategic goals). The Bonneville program supports the following goal:

Energy Strategic Goal: To protect our national and economic security by promoting a diverse supply and delivery of reliable, affordable, and environmentally sound energy.

General Goal 4, Energy Security: Improve energy security by developing technologies that foster a diverse supply of reliable, affordable and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies, exploring advanced technologies that make a fundamental improvement in our mix of energy options, and improving energy efficiency.

Bonneville has one Program Goal that contributes to the General Goals in the "goal cascade". This goal is Market and Deliver Federal Power:

Program Goal 04.54.00.00: Market and Deliver Federal Power: Customers receive the benefits of Federal power that produce sufficient revenues to repay the American taxpayers' investments allocated to power.

Contribution to General Goal 4:
Bonneville contributes to this goal through its following strategic business objectives:1) Achieve high and continually improving customer satisfaction; 2) Increase the value of our business and share the expanded benefits; 3) Be a low-cost provider of power and transmission services in the region; 4) Achieve and maintain financial integrity; 5) Keep the system safe and reliable; 6) Invest in results to enhance the region's natural environment; and 7) Transform Bonneville into a diverse, employee-centered, high-performing, business-oriented organization.

Funding by General Goal

(Accrued Expenditures)

	(dollars in thousands)				
	FY 2003	FY 2004	FY 2005	$ Change	% Change
General Goal 4, Energy Security					
Program Goal 04.54.00.00					
Bonneville Power Administration					
CAPITAL INVESTMENTS					
Power Business Line	135,591	177,400	188,000	+10,600	+6.0%
Transmission Business Line	318,619	386,000	268,600	-117,400	-30.4%
Capital Equipment & Bond Premium .	19,156	34,200	30,300	-3,900	-11.4%
Total Capital Investments	473,366	579,600	486,900	-110,700	-18.5%
Accrued expenditures will require budget obligations of	473,366	597,600	486,900	-110,700	-18.5%
Operating Expenses	2,859,568	3,080,439	3,149,561	+69,122	+2.2%
Projects Funded in Advance	11,212	27,600	89,800	+62,200	+225.4%
Capital Transfers (cash)	543,687	246,508	303,098	+56,590	+23.0%
Net Outlays	-462,000	-30,000	-10,000	+20,000	+66.7%
BPA Staffing (FTE)	3,153	3,205	3,166	-39	-1.2%

Funding by General Goal Notes:
These budget estimates are subject to continual change due to changing economic and institutional conditions in the electric utility industry in the Pacific Northwest.

Net Outlay estimates are based on forecasted market conditions, current cost savings to date, and anticipated use of rate adjustment and financial management tools. Net Outlays will change throughout the rate period as BPA experiences actual market and hydro conditions and responds with management actions.

Revenues, included in the Net Outlay formulation, are calculated consistent with rate period management goals and assume a number of rate, cost and cash adjustments. Assumed adjustments include the use of a combination of tools that include CRAC adjustments, cost re-estimates, net revenue risk adjustment, debt service refinancing strategies and/or short-term financial tools to manage net revenues and cash. Adjustments for depreciation and 4(h)(10)(C) credits are also assumed.

Annual Performance Results and Targets

Bonneville Power Administration

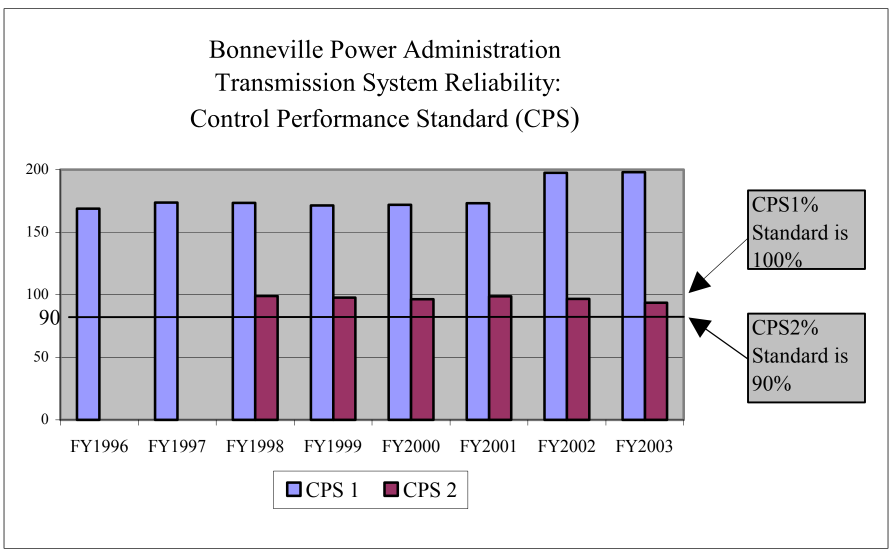
FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results	FY 2004 Targets	FY 2005 Targets
Transmission System Reliability Performance: Met Goal Actual: CPS1: 172.3% CPS2: 96.4%	**Transmission System Reliability Performance:** Met Goal Actual: CPS1: 173.1% CPS2: 98.7%	**Transmission System Reliability Performance:** Met Goal Actual: CPS1: 197.5% CPS2: 96.8%	**Transmission System Reliability Performance:** Met Goal Actual: CPS1: 198.0% CPS2: 93.6%	Receive monthly control compliance ratings that meet or exceed the Control Performance Standard (CPS) 1 and 2 established by the NERC.	Receive monthly control compliance ratings that meet or exceed the Control Performance Standard (CPS) 1 and 2 established by the NERC.
Repayment of Federal Power Investment: Met Goal Actual: $316 million	**Repayment of Federal Power Investment:** Met Goal Actual: $237 million	**Repayment of Federal Power Investment:** Met Goal Actual: $505 million	**Repayment of Federal Power Investment:** Met Goal Actual: $544 million	Meet planned annual repayment of principal on Federal power investments.	Meet planned annual repayment of principal on Federal power investments.
Recordable Injury Frequency Rate: Met Goal Actual: 2.1 injuries	**Recordable Injury Frequency Rate**: Met Goal Actual: 2.0 injuries	**Recordable Injury Frequency Rate**: Met Goal Actual: 1.7 injuries	**Recordable Injury Frequency Rate**: Met Goal Actual: 2.6 injuries	Achieve a safety performance of a 3.3 recordable accident frequency rate for recordable injuries per 200,000 hours worked or the Bureau of Labor and Statistics' industry rate, whichever is lower.	Achieve a safety performance of a 3.3 recordable accident frequency rate for recordable injuries per 200,000 hours worked or the Bureau of Labor and Statistics' industry rate, whichever is lower.

Transmission System Reliability Performance Indicator

This indicator defines a standard of minimum monthly control performance as established by the North American Electric Reliability Council (NERC). Each control area is to have the best operation above the minimum monthly control compliance ratings that can be achieved within the bounds of reasonable economic and physical limitations. Each control area shall monitor its control performance on a continuous basis against two standards, CPS1 and CPS2.

CPS1 and CPS2 are the performance rating indicators that U.S. and Canadian electric utilities have developed to help assure the reliability of the North American high voltage distribution system for the benefit of the public. These measurers are intended to indicate whether or not electric utility systems are being operated within acceptable operating parameters. CPS1 helps assure generation and load balance and also measures support system frequency. CPS2 helps limit any imbalance magnitude to acceptable levels.

In FY 2003, Bonneville exceeded the minimum compliance level required by NERC with a CPS1 of 198.0% and a CPS2 of 93.6%.

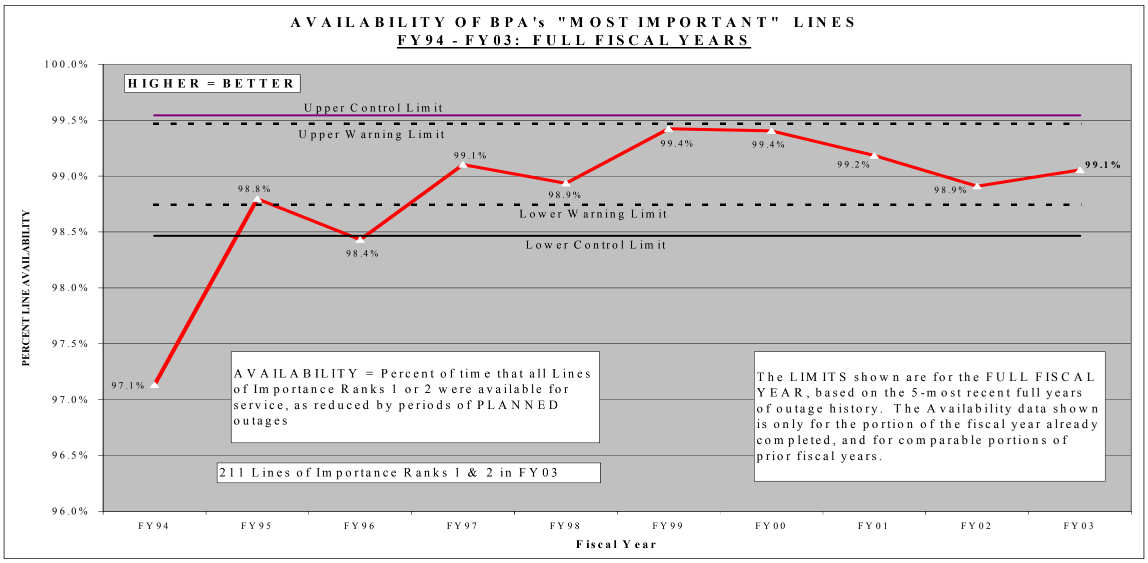


Transmission System Availability Performance Indicator

In response to the President's management initiatives and emphasis on performance measures, BPA has added a fourth measure to the agency's annual performance results and targets. This indicator helps ensure that high availability is maintained on the system's "most important" lines throughout the year. Bonneville management uses indicator results to schedule planned outages to more efficiently utilize line availability to meet load requirements. This indicator supports Bonneville's fifth Strategic Business Objective to keep the system safe, reliable and available.

Bonneville's "most important" lines are defined as those with a Line Importance Rank of 1 or 2. Control-chart techniques are used to determine the "natural range" of variability in line availability for these lines. Actual availability is then compared with warning limits and control limits derived from that historical performance. For the purpose of this measure, availability is reduced only by planned outages, so this measure assesses the rate at which planned outages reduce availability for the most important lines on the system.

In FY 2003 Bonneville's transmission line availability for its most important lines was 99.1%, well within control chart limits.

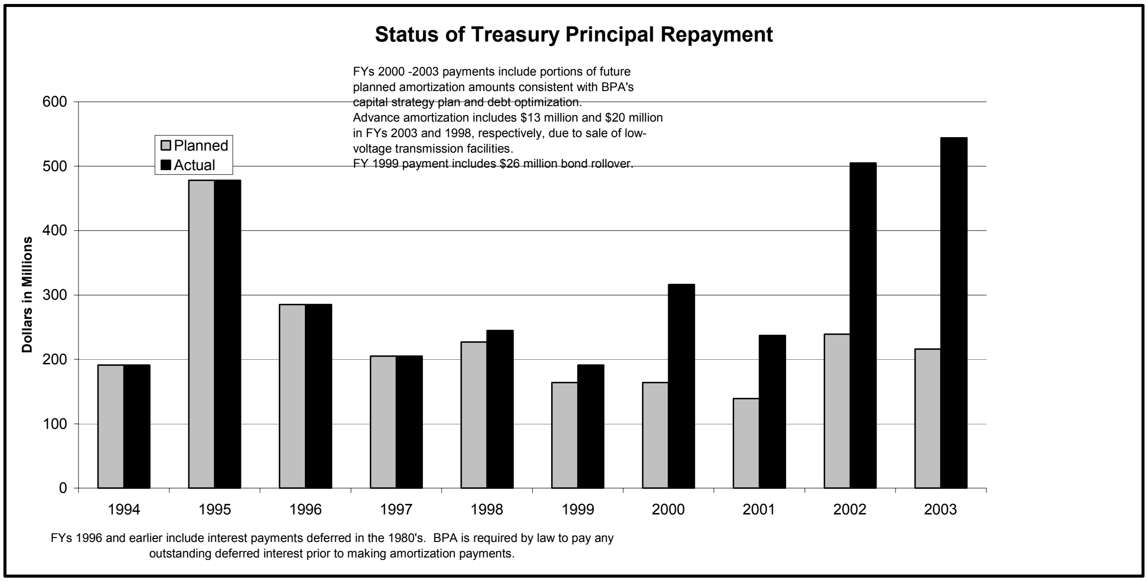


Repayment of Federal Power Investment Performance Indicator

This indicator measures the variance of actual from planned principal payments to the U.S. Treasury (Treasury). The indicator will be zero if the actual payment is equal to the planned payment.

Treasury payment outyear estimates for planned amortization are based on rate case estimates when available and planned amortization for future rate case periods. These estimates may change due to revised capital investment plans, actual Treasury borrowing, and accelerated amortization payments. In recent years, BPA has made amortization payments in excess of those scheduled in its FERC-approved rate filings, resulting in a balance of advance repayment.

The following chart displays principal repayment only.



Recordable Injury Frequency Rate Performance Indicator

This indicator measures the recordable accident frequency rate by first multiplying the number of recordable injuries by 200,000. This number is then divided by the total hours worked. The Power Marketing Administrations measure their performance against a Bureau of Labor and Statistics standard industry case rate.

The national average recordable injury frequency rate is based on Bureau of Labor and Statistics. The Bureau of Labor's data is collected from organizations representing the private sector in the generation, transmission, and distribution of electric energy. The Bureau of Labor and Statistics includes a 2002 national average recordable injury frequency rate of 3.7 injuries per 200,000 hours worked. Bonneville's recordable injury frequency rate for FY 2003 was 2.6 injuries.

Means and Strategies

Bonneville provides electric power, transmission, and energy services while supporting the achievement of its vital responsibilities for fish and wildlife, energy conservation, renewable resources, and low-cost power in the Pacific Northwest.

To improve system adequacy, reliability and availability, BPA has embarked on major transmission infrastructure projects to shore up the region's transmission system and to help meet the region's future power needs. These projects are meant to address multiple challenges, such as the need to relieve the growing number of congested transmission paths, the pressure to keep up with growing energy demands, and the need to meet FERC's open access policy in support of competitive markets.

As part of these initiatives, Bonneville is also working to improve efficiencies and initiate cost reductions. Bonneville coordinates its power operational activities with the Corps, the Bureau, the North American Electric Reliability Council, regional electric reliability councils, its customers, and other stakeholders to provide the most efficient use of Federal assets. Ongoing work with the Corps and Bureau is focused on improving the reliability of the Federal Columbia River Power System (FCRPS), increasing its generation efficiency and optimization of hydro facility operation.

Bonneville is committed to continue funding its share of the region's efforts to recover listed Columbia Basin fish and wildlife. BPA works closely with the Northwest Power and Conservation Council, regional fisheries managers, the U.S. Fish and Wildlife Service, the Corps and Bureau, as well as other federal agencies to prioritize and manage fish and wildlife program projects.

Bonneville initiatives are impacted by external factors such as continually changing economic and institutional conditions in the electric utility industry, competitive dynamics and the continued restructuring of the electric industry.

Private and public sector partners have been and continue to be an important part of BPA's collaborative efforts to promote and foster efficient use of energy. BPA has initiated efforts to explore non-federal financial participation in its transmission infrastructure projects with transmission customers and others in the region. In addition, BPA's Conservation Augmentation and its Conservation and Renewables Discount programs offer several ways for customers to participate in regional conservation.

As part of its annual planning process, Bonneville is currently re-examining its overall business strategy for how it conducts business and delivers public benefits in order to address the challenges of the changing marketplace and growing business risks. In addition, BPA will examine industry benchmarking techniques and development of associated efficiency measures.

Validation and Verification

To validate and verify program performance, Bonneville conducts various internal and external reviews and audits. Bonneville's programmatic activities are subject to review by Congress, the General Accounting Office, the Department's Inspector General, and other governmental entities. Bonneville accounts are reviewed annually by an independent outside auditor. In addition, BPA uses Institute of Electrical and Electronics Engineers standard measures to monitor and evaluate system reliability performance, and participates yearly in an independent reliability benchmarking study.

Program Assessment Rating Tool (PART)

The DOE implemented a tool to evaluate selected programs. PART was developed by the Office of Management and Budget (OMB) to provide a standardized way to assess the effectiveness of the federal government's portfolio of programs. The structured framework of the PART provides a means through which programs can assess their activities differently than through traditional reviews. The current focus is to establish outcome- and output-oriented goals, the successful completion of which will lead to benefits to the public, such as increased national security and energy security, and improved environmental conditions. DOE has incorporated feedback from OMB into the FY 2005 budget submission, and will take the necessary steps to continue to improve performance.

In the 2004 PART review by OMB, Bonneville received high scores of 89 and 100 in the Planning and Management sections. These high scores reflect Bonneville's strong program management system and internal and external program and management reviews. Bonneville's somewhat lower scores in the Purpose and Results sections were attributed in part to its rate setting processes and the need for improved performance measures. Recent enactment of BPA's Safety Net Cost Recovery Adjustment Rate is an example of how BPA is working to continuously improve its rates processes. This rate adjustment helped BPA establish its rates with a Treasury payment probability at a targeted 80 percent for the FY 2004-2006 period. Additionally, BPA's FY 2003 Treasury payment marks the 20th year that BPA has made its payment on time and in full. Regarding PART feedback on performance measurement, BPA is currently re-examining its overall strategy and associated performance measures and improving its linkage between financial performance and strategy. In addition, BPA will examine industry benchmarking techniques and development of associated efficiency measures and targets, both short and long term. With respect to the marketing and cost recovery findings, BPA completed a Lessons Learned Report to the Administrator as well as a similar Report to the Region that assessed its recent financial challenges and included recommendations in part to assure cost recovery and added efficiencies. Implementation of the Lessons Learned Report recommendations from both reports is currently underway.

Significant Program Shifts

Bonneville is the DOE's electric Power Marketing Administration for the Federal Columbia River Power System (FCRPS). Bonneville provides electric power, transmission and energy efficiency throughout the Pacific Northwest. Created in 1937 to market and transmit the power produced by the Bonneville Dam on the Columbia River, Congress has since then directed Bonneville to sell at wholesale the electrical power produced from 31 operating Federal hydro projects and to acquire non-Federal power and conservation resources sufficient to meet the needs of Bonneville's customer utilities. Bonneville serves a 300,000 square mile area including Oregon, Washington, Idaho, Western Montana, and parts of Northern California, Nevada, Utah and Wyoming.

The Bonneville Project Act of 1937 provided the foundation for Bonneville's statutory utility responsibilities and authorities. In 1974, passage of the Federal Columbia River Transmission System Act (Transmission System Act) placed Bonneville under provisions of the Government Corporation Control Act (31 U.S.C. 9101-9110). The Legislation provided Bonneville with "self-financing" authority and established the Bonneville Fund, a revolving fund, allowing Bonneville to use its revenues from electric ratepayers to directly fund all programs and to sell bonds to the Treasury to finance the region's high-voltage electric transmission system requirements. In 1980, enactment of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) expanded Bonneville's utility obligations and responsibilities to encourage electric energy conservation, develop renewable energy resources, and protect, mitigate and enhance the fish and wildlife of the Columbia River and its tributaries. In support of these responsibilities, Bonneville's Treasury borrowing authority was expanded to allow the sale of bonds to finance conservation and other resources and to carry out fish and wildlife capital improvements. The Northwest Power Act also required regional energy plans and programs and created the Northwest Power Planning Council, now called the Northwest Power and Conservation Council (Council).

Bonneville's program is mandatory and nondiscretionary. As such, Bonneville is "self-financed" by the ratepayers of the Pacific Northwest and receives no annual appropriations from Congress. Under the Transmission System Act, Bonneville funds the expense portion of its budget and repays the Federal investment with revenues from electric power and transmission rates. Bonneville's revenues fluctuate primarily in response to market prices for fuels and stream flow variations in the Columbia River System due to weather conditions and fish recovery needs. Bonneville's permanent, indefinite statutory borrowing authority authorizes the agency to sell bonds to the Treasury up to a cumulative outstanding total of $4.45 billion. Through FY 2003, Bonneville has returned approximately $19.4 billion to the Treasury for payment of FCRPS O&M and other costs (about $2.9 billion), interest (about $10.6 billion), and amortization (about $5.9 billion) of appropriations and bonds. Bonneville made its full FY 2003 payment of $1,057 million, including $315 million in accelerated amortization. Total FY 2003 credits for fish were about $175 million including Fish Cost Contingency Fund credits of $78.7 million. For FY 2004, Bonneville plans to pay the Treasury $770 million, of which $247 million is to repay investment principal, $492 million is for interest, and $32 million is for other payments including $31 million for Pension and Post-retirement Benefits. FY 2004 4(h)(10)(C) credits are estimated at $77 million. The FY 2005 Treasury payment is currently estimated at $851 million.

Treasury payment outyear estimates for interest levels are based on rate case estimates updated for revised capital investment plans. Amortization is based on rate case estimates when available and planned amortization for future rate case periods. These estimates may change due to revised capital investment plans, actual Treasury borrowing, and accelerated amortization payments. In recent years, BPA has made amortization payments in excess of those scheduled in its FERC-approved rate filings resulting in a balance of advance repayment. The cumulative amount of advance amortization payments as of the end of FY 2003 is $800.4 million.

Starting in FY 1997, Bonneville began direct funding the Bureau's Pacific Northwest power O&M costs and in FY 1999 began direct funding Corps Pacific Northwest power O&M costs. Bonneville began direct funding the U.S. Fish and Wildlife Service (USFWS) in FY 2001 to pay for O&M costs of the Lower Snake River Compensation Plan facilities. Bonneville's direct funding arrangement includes a portion of power O&M capital investments, and per its authority, Bonneville plans to direct fund Bureau hydropower research expenses of benefit to the FCRPS. Direct funded capital costs, previously funded through appropriations, are now being paid through BPA borrowing from the U.S. Treasury. BPA's total O&M direct funding was $208 million in FY 2003.

This FY 2005 budget proposes Bonneville accrued expenditures of $3,149 million for operating expenses, $90 million for Projects Funded in Advance, $487 million for capital investments, and $303 million for capital transfers in FY 2005. The budget has been prepared on the basis of Bonneville's major areas of activity, Power and Transmission. This structure supports Bonneville's competitiveness in the increasingly deregulated wholesale electric energy market. This industry deregulation stems largely from the 1992 Energy Policy Act and ensuing FERC Orders 888 and 889 requiring separation of utilities power and transmission functions. As a Federal agency, Bonneville is not subject to FERC's jurisdiction, but chooses to comply with the FERC orders because it views compliance as essential to successfully compete in the current and future electric power market. Further, Bonneville supports DOE's October 1995 "Power Marketing Administration Open Access Policy which states the Power Marketing Administrations' commitment to offer transmission services to eligible entities in a manner comparable to the services offered by FERC-jurisdictional transmission providers to the extent not otherwise prohibited by law.

Spending levels in this budget are still subject to change to accommodate competitive dynamics in the region's energy markets, debt optimization strategies, and the continued restructuring of the electric industry.

- Bonneville's FY 2005 budget reflects the significant financial and business events that have shaped Bonneville's response to the physical and competitive pressures of the region's electricity situation. BPA is striving to enhance its competitive, cost-effective delivery of business-line utility products and services and continued delivery of the public benefits of its operations, while ensuring its ability to make its payments to the Treasury on time and in full.

- The last several years have been particularly challenging with Bonneville drawing heavily on its financial reserves. Bonneville, in October 2002, had a forecasted financial gap between power revenues and power expenses estimated at $1.2 billion over the power rate period FY 2002 through FY 2006. That forecast was based on no reduction in costs, no use of the power rate adjustment clauses for FY 2004 through FY 2006 beyond the Load-Based Cost Recovery Clause (explained below), no use of debt optimization proceeds from refinancing Energy Northwest (ENW) debt, and no Financial Accounting Standard 133 accounting treatment of certain transactions. Bonneville's first priority has been to restore its financial balance. Through implementation of a variety of financial tools, Bonneville is working to assure full recovery of its costs by the end of the rate period in FY 2006. About $400 million in forecasted program and internal operations expense reductions are being implemented over the power rate period. These forecasted expense reductions are reflected in this FY 2005 budget. In addition to seeking further cost reductions, other possible financial management tools, such as rate adjustment clauses, and organizational efficiency improvements, are being implemented to substantially reduce the gap between power revenues and expenses for the entire power rate period. The power rate adjustment clauses in effect through FY 2006 and Bonneville's debt optimization strategy are described more fully later in this Overview section.

- In establishing separate rate processes for the first time for the power and transmission functions, Bonneville's FY 2002 transmission and ancillary service rates were designed to be effective for FYs 2002 and 2003 rather than a five-year period. The two-year transmission rate period was designed to support the transition toward formation of a regional transmission organization (RTO). With work to develop an operational RTO continuing, BPA initiated a rate setting process for the FY 2004-2005 period. In November 2002, BPA signed a rate settlement agreement with most of its customers that provides for a 1.5 percent increase for most transmission and ancillary service rates for FYs 2004 and 2005. BPA submitted a final transmission rate proposal, consistent with the settlement agreement, to the Federal Energy Regulatory Commission (FERC) and was granted final approval of its fiscal year 2004-2005 transmission rates and tariffs on September 23, 2003.

- For the power function, Bonneville concluded its power rate setting process for FYs 2002-2006 in May 2000 and submitted its power rate proposal to FERC. Subsequently, extremely high volatility and price uncertainty in power markets led Bonneville to reexamine its rate proposal. As a result, Bonneville made the decision to amend its power rate proposal knowing that a significant rate increase was likely.

- In June 2001, after a public process, Bonneville submitted a supplemental power rate proposal to FERC and was subsequently granted interim approval in September 2001 and final approval in July 2003. This proposal focused primarily on modifications to proposed risk mitigation measures. Bonneville and many parties to the rate case collaboratively developed the terms of the proposal. A key feature is a three-component Cost Recovery Adjustment Clause (CRAC): one component, the Load-Based (LB) CRAC tied to Bonneville's power system load, allows a rate adjustment every six months to reflect Bonneville's actual costs of purchasing power to augment the power system. A second component, the Financial-Based (FB) CRAC based on the Power Business Line's financial status, allows a one-year rate increase in any year of the five-year rate period, to restore reserve levels if end-of-year power accumulated net revenues drop below a threshold level. The third component, the Safety-Net (SN) CRAC, requires an expedited public process and approval by FERC. The SN CRAC allows Bonneville to change the parameters of the Financial-Based CRAC costs if BPA were to forecast missing a payment to the Treasury or other creditor, or actually misses such a payment. These rate adjustment mechanisms allow Bonneville to keep its base rates low for the FY 2002-2006 rate period while providing flexibility to make adjustments as needed to meet any financial shortfalls developing over the rate period. As in the original filing, the Supplemental Proposal continues to reflect implementation of Bonneville's fish and wildlife obligations while maintaining the ability to make Bonneville's planned payments to the U.S. Treasury on time and in full.

- The initial Load-Based CRACs provided an increase in FY 2002 of about 43% on average over base rates. The Load-Based CRAC declined to about 36% above base rates for the FY 2003 period. The Financial-Based CRAC triggered in October 2002 with a rate impact in FY 2003 of about 11% over base rates. With the coincident decline in the Load-Based CRAC and the increase from the Financial Based CRAC, Bonneville's total power rates for FY 2003 were slightly above the FY 2002 level (approximately 46% above base rates in FY 2003 compared to about 43% above base rates in FY 2002). Bonneville triggered the Safety-net CRAC for FY 2004 at about 10% above base rates. Therefore in total, the three CRACs together will result in rates about 45% above base rates for FY 2004, or about 1% below FY 2003 rates.

- In February 2003 the SN CRAC was triggered based on a reduced Treasury payment probability, and was followed by an initial power rate proposal calling for an overall power rate increase estimated at about 15 percent over FY 2003 rates. Since the initial SN CRAC trigger in February 2003, Bonneville's near-term financial condition improved due to improved hydro conditions, better market prices, additional expense reductions, contract termination savings, and cash flow improvements. Consequently, Bonneville's final SN CRAC Record of Decision, submitted in June 2003 to FERC for review and approval, describes an average 5 percent increase over FY 2003 rates. The proposal remains under review by FERC. A subsequent calculation made in December 2003 resulted in an overall decrease of about 1% below FY 2003 rates. In anticipation of changing market conditions and the potential for improvement or worsening of Bonneville's financial condition over the rate period, the rate proposal provides Bonneville with the ability to re-trigger the SN CRAC and also provides a rebate mechanism to mitigate the rate impact on Northwest ratepayers if needed.

- Through significant additional cost cutting and deferrals since the beginning of FY 2003 and implementation of the SN CRAC, Bonneville has retained a high probability of making its Treasury payment throughout the remaining FY 2004-2006 rate period and has significantly reduced the power net revenue gap to about $200 million. Bonneville believes that its rates will continue to be lower than the cost of new natural gas fired generation when shaped to serve load similar to the shaping ability of the Federal System. Bonneville has conducted a review and has concluded that its rates are likely to remain competitive now and in the future.

- Bonneville is continuing efforts to help meet the region's long-term power and transmission infrastructure needs. Bonneville is planning infrastructure investments in the Pacific Northwest to meet Northwest transmission needs that will also continue a competitive wholesale market in the Western Interconnection that encompasses 15 western states, 2 Canadian provinces and 2 Mexican states.

- Bonneville has identified a number of actions that it is taking or could take over the next several years to provide additional electrical infrastructure relief. These actions include federal hydro generation efficiencies and additions, additional renewable resource generation and conservation efforts, long and short-term power purchases and construction of transmission projects that reinforce the grid and integrate new generation. As part of these efforts, Bonneville has designed a process to review and prioritize the investments. Part of this process, developed with stakeholder input, will provide investor-owned utilities and public utilities an opportunity to evaluate proposed major transmission infrastructure additions for their cost, benefits, and their contribution to reliability, as well as schedules for project completions. Bonneville has moved this process to the Transmission Planning Committee of the Northwest Power Pool, which will provide a broader review of any proposed infrastructure project. Bonneville will also engage DOE and other regional stakeholders in discussions to clarify needed generation improvements and conservation.

- Bonneville received an additional $700 million in available Treasury financing through the FY 2003 Appropriations Act to help assure a sufficient level of infrastructure planning over the next decade. In utilizing this newly available Treasury financing, BPA will encourage private-sector or other non-federal financing or joint financing of transmission line expansions and additions, develop a five-year investment plan with the participation of the regional Infrastructure Technical Review Committee or its successor in the region, use funds only for authorized purposes, include the proposed use of the funds in its annual budget submissions and select projects based on cost effectiveness criteria for achieving the objective. The new law increases to $4.45 billion the aggregate amount of bonds Bonneville is authorized to sell to the U.S. Treasury and have outstanding at any one time. Bonneville is pursuing other strategies to sustain funding for its infrastructure investment requirements. These additional strategies include optimization of Energy Northwest debt, revenue financing of some amount of transmission investments, and seeking when possible third party financing sources.

- Bonneville is continuing efforts to explore non-federal funding in its transmission infrastructure projects with transmission customers and others in the region. This effort has been designed to obtain as much interest as is possible in cost effective and timely non-federal participation and financing of transmission infrastructure that can be operated and maintained integrally with the Federal grid. A set of principles for non-federal financial participation was developed by Bonneville and publicly announced in OASIS (Open Access Same-Time Information System)/Federal Register postings in early 2002. That posting initiated a formal schedule for soliciting interest in non-federal participation. The schedule is sufficiently flexible to accommodate the level of interest expressed and the schedule of individual transmission projects. The Schultz-Wautoma 500kV transmission project in this FY 2005 budget is included under Capital Investments with Treasury financing assumed in order to assure funding availability; however, BPA hopes to fund this project through non-federal financing later this year.

- Consistent with scorekeeping procedures developed under the Budget Enforcement Act of 1990, some agency lease-purchase transactions constitute a form of federal agency debt for budget purposes. This reflects the fact that these long-term transactions result in liabilities that make a claim on future agency resources similar to a traditional loan transaction. At the time the Budget was being printed, BPA was considering whether it would enter into such a lease-purchase transaction. BPA's debt to the U.S. Treasury is currently limited by statute. To ensure the integrity and usefulness of this limitation, the Administration is considering proposing legislation calling for certain nontraditional financing transactions that are entered into after the date the legislation is enacted and that are similar to debt-like transactions to be treated as debt and counted toward BPA's statutory debt limit. This legislative proposal will be fully vetted with BPA stakeholders.

- This FY 2005 budget includes capital and expense estimates for the Power Business Line based on the SN CRAC rate proposal process. The Transmission Business Line (TBL) capital and expense estimates are based on the TBL rate settlement agreement and final 2004 transmission rate proposal. Capital investment levels also reflect management decisions from BPA's cross-agency Business Operations Board review process. Estimates included in this budget also reflect the significant changes affecting the West Coast power and transmission markets along with planned infrastructure investments designed to address the long-term needs of the region. FY 2003 costs are based on Bonneville's audited actual financial results.

- Revenue estimates in this budget, included in the Net Outlay formulation, are calculated consistent with cash management goals and assume a combination of adjustments. Assumed adjustments include the use of a combination of tools, for example, upcoming CRAC adjustments, reduced cost estimates, a net revenue risk adjustment, debt service refinancing strategies and/or short-term financial tools to manage net revenues and cash.

- Revenue adjustments for depreciation and fish credits are also assumed. These credits offset BPA's fish and wildlife program costs allocable to the non-power project purposes of the FCRPS, consistent with the Northwest Power Act. Estimates in this FY 2005 budget for 4(h)(10)(C) are $67 million and $66 million for FYs 2004 and 2005. Fish Cost Contingency Fund credits of $79 million are included for FY 2003. Net Outlay estimates are based on current cost savings to date and anticipated cash management goals. They are expected to follow anticipated management decisions throughout the rate period that along with actual market conditions will impact revenues and expenses. Total FY 2003 credits for fish were about $175 million including Fish Cost Contingency Fund credits of $78.7 million.

- Bonneville is continuing to participate in the development of a regional transmission organization called RTO West in response to FERC's Order 2000 and consistent with the Administration's support for competitive wholesale energy markets. Bonneville is working closely with the region's investor-owned utilities, Bonneville's public agency customers, as well as other stakeholders through a public collaborative process called the Regional Representatives Group (RRG) to design a regional proposal that addresses the specific needs and opportunities of the Pacific Northwest. A recent proposal that has broad regional support includes the creation of a regional transmission organization that is independent of market interests. At its core is a flexible business model providing for a staged, voluntary implementation process and a governance structure that provides for a set of check and balances to ensure the region has a hand in shaping how the entity serves the region's needs. BPA plans to maintain its current level of resources and budget for these activities in FY 2005.

- Bonneville efforts to keep its rates as low as possible are augmented by the implementation of the Bonneville Appropriations Refinancing Act (part of the Omnibus Consolidated Rescissions and Appropriations Act of 1996) that refinanced Bonneville's outstanding repayment obligations on appropriations. The legislation called for increasing low interest rates on historic appropriations to current Treasury market rates and resetting (reducing) the principal of FCRPS appropriations unpaid as of the end of FY 1996. New principal amounts were established as of the beginning of FY 1997, at the present value of the principal and annual interest payments Bonneville would make to the Treasury for these obligations in the absence of the Act, plus $100 million. The new principal amounts were then assigned new interest rates based on the Treasury yield curve rates prevailing at the end of FY 1996. Bonneville's outstanding repayment obligation on appropriations at the end of FY 1996 was $6.7 billion, with a weighted average interest rate of 3.4 percent. The refinancing reduced the principal amount to $4.1 billion, with a weighted average interest rate of 7.1 percent. As called for in the legislation, Bonneville submitted its calculations and interest rate assignments implementing the refinancing to Treasury for their review and approval. Treasury approved the implementation transactions in July 1997.

- Consistent with assumptions for the power rate case and this FY 2005 budget, Bonneville has reached a settlement of the Residential Exchange Program for regional utilities for the post-2001 period. Regional utilities were eligible to participate in the Residential

Exchange Program beginning in 2001, except for the nine public agency utilities that previously executed settlement agreements for terms extending through June 30, 2011. To settle the Residential Exchange, Investor Owned Utility (IOU) customers will receive 1,900 average MW (aMW) in power and financial benefits, at prices generally equivalent to the priority firm power rate, over the FY 2002-2006 rate period. In FY 2007 the total amount of settlement benefits changes to 2200 aMW. No settlement offer was made to Bonneville's preference customers, or public agency utilities, because none had forecasted average system costs that were sufficiently high to qualify for Residential Exchange benefits. See the Operating Expenses- Power Business Line section for additional discussion of the settlement agreements.

- In April 2003, Bonneville entered into a settlement agreement with Enron Corporation (Enron) relating to its associated power sales and purchase agreements. This agreement followed Enron's filing for bankruptcy protection in December 2001 and was approved in advance by the Enron Bankruptcy Court, the U.S. District Court for the Southern District of New York in March 2003. Under the settlement, a $99 million payment to Enron was paid directly from the U.S. Treasury's (Treasury) judgment fund in June 2003. The agreement calls for Bonneville to fully reimburse the Treasury by the end of December 2006 for the judgment funds used plus interest. Consistent with a Memorandum of Understanding with the Treasury, Bonneville makes interest payments on the outstanding debt to the Treasury's "miscellaneous receipts" account.

- Bonneville also implemented a load reduction strategy in 2001. This strategy was designed to help bridge the gap between the amount of load on the system and the amount of power purchases required to meet that load in a way that would minimize the cost, given that spot market prices at that time ranged as high as $1,000/MWh. Bonneville, with help from all customer groups, was successful in reducing its load commitments by over 2,000 aMW. These load reductions varied in length of time, from a few months to up to two years over the rate period. Two load reductions from two of the region's IOUs will last the entire 5 years of the rate period. Thus, the load reduction efforts early in the rate period were developed to help minimize Bonneville's market exposure. Bonneville now expects to have minimal, if any, market exposure for augmentation purposes.

- As part of its continuing competitive efforts, Bonneville is working to further optimize debt service costs. Bonneville has reached agreement with ENW to pursue refinancing of certain Energy Northwest bonds. Bonneville pays the debt service on these bonds under the terms of earlier net billing agreements. A component of the refinancing strategy will be to extend the final maturity on the Columbia Generating Station (formerly WNP-2) debt. In addition, for Projects 1 and 3, some debt currently maturing prior to FY 2012 will be extended into the 2013-2018 time period. Bonneville has committed to Energy Northwest to use the reductions in debt service resulting from this extension to amortize Federal debt earlier than currently scheduled, except in the case of an extreme financial emergency. Implementation of the refinancing components will be subject to favorable market conditions and interest rate environment. Thus only the Federal amortization due to actual debt service savings of debt service refinancings are included in cost estimates for this FY 2005 budget.

- As part of its strategic staffing efforts and infrastructure project requirements, Bonneville has seen an increase in Full-Time Employee (FTE) levels since FY 2000. This increase is expected to peak in FY 2004 and decline after that through FY 2006. The decline in FTE through FY 2006, the end of the current power rate period is planned to occur through attrition and is due primarily to the stringent cost reductions needed to restore Bonneville's financial health. Bonneville does not believe this reduced FTE level is sustainable over the long term and is projecting FTE levels of 3,204 following FY 2006. Bonneville FTE projections for FYs 2004 and 2005 are 3,205 and 3,166, respectively.

- Bonneville is committed to continue funding its share of the region's efforts to recover listed Columbia Basin fish and wildlife. In its 2002 Power Rate Proposal for FYs 2002-2006, Bonneville incorporated fish and wildlife funding principles that were developed and supported by a broad base of regional interests. Consistent with these principles, rates were set to provide sufficient revenue to satisfy Bonneville's fish and wildlife responsibilities. In its SN CRAC-03 rate proposal, filed with FERC in June 2003, BPA included forecasts of fish and wildlife program costs at the average of the range established in the 2002 Proposal. Bonneville is working closely with the Northwest Power and Conservation Council (Council), regional fisheries managers, National Oceanic and Atmospheric Administration Fisheries Service (NOAA Fisheries), the United States Fish & Wildlife Service (USFWS), U.S. Army Corps of Engineers (Corps), U.S. Bureau of Reclamation (Bureau), and other federal agencies to prioritize and manage fish and wildlife costs to remain within the funding estimates established in rates. Included with the budget schedules section of this budget document is the current tabulation of the history of Bonneville's fish and wildlife costs.

- To the extent possible, Bonneville is integrating its implementation of Endangered Species Act (ESA) actions with the Council's Fish and Wildlife Program. Many of the actions in the FCRPS Biological Opinions and the Council's Program overlap, particularly in the areas of habitat, hatchery and harvest offsite mitigation measures. The Action Agencies' (Corps, Bureau, and Bonneville) FCRPS Biological Opinion Implementation Plans describe an approach that maximizes the use of the Council's regional processes to identify and select projects that avoid jeopardizing the survival of the ESA-listed species and to protect, mitigate and enhance all fish and wildlife; both listed and non-listed, affected by the operation of the FCRPS. The Provincial Review process, sponsored by the Council, provides the mechanism for integrating activities under the existing Fish and Wildlife Program with the measures focusing on ESA-listed fish stocks in the NOAA Fisheries and USFWS Biological Opinions.

- Bonneville and the other Action Agencies will continue to prioritize funding for fish and wildlife projects, including biological opinion implementation, and will focus funding on those projects that provide the most biological benefit at the least cost. General and specific criteria, including factors for selecting projects focused on targeted stocks, will be further refined as Bonneville and the region gain experience with the Provincial Review processes.

- Bonneville is also relying on the Council's upcoming sub-basin plans to further integrate needs identified through recovery planning with those of the council's Fish and Wildlife

Program and FCRPS Biological Opinion implementation. Bonneville recently entered into a two-year contract with the Council for development of sub-basin plans for the entire Columbia River Basin. The plans will be developed in close coordination with NOAA Fisheries and the USFWS to ensure the integration and prioritization of ESA-focused project activities in the Planning Council's Fish and Wildlife Program. The sub-basin plans are expected to further inform the selection of projects received under the Provincial Reviews.

- The FY 1997 Energy and Water Development Appropriations Act added section 4(h)(10)(D) to the Northwest Power Act, directing the Council to appoint an Independent Scientific Review Panel "to review projects proposed to be funded through that portion of Bonneville Power Administration's fish and wildlife budget that implements the Council's fish and wildlife program." And, ". . . in making its recommendations to Bonneville, the Planning Council shall consider the impact of ocean conditions on fish and wildlife populations; and shall determine whether the projects employ cost effective measures to achieve program objectives." Consequently, projects funded under Bonneville's direct program will be reviewed and prioritized as part of the Council initiative process.

President's Management Agenda

- In the area of the President's Management Agenda, Bonneville is leveraging the President's initiatives to achieve efficiencies while preserving the long-term value of the FCRPS. To ensure that Bonneville is able to fully leverage the initiatives, Bonneville has consolidated the implementation plan and created four cross-agency teams in the areas of Improving Financial Management, Integrating Budget and Performance, Human Capital, and Expanding E-Government. The teams report directly to the Deputy Administrator and, using the OMB and Office of Personnel Management (OPM) "Proud to Be" standards, have mapped Bonneville's current status, are developing strategies to close existing gaps and achieve greater efficiencies in Bonneville programs and operations.

- Bonneville is self-reporting its Current Status as "green" or successful on both the Financial Management and the Integrating Budget and Performance initiatives. Over the past several years, Bonneville has streamlined and integrated its strategic planning and budgeting processes, setting quantifiable outcome goals and targets, aligning its resource allocations in context of past results, and implementing the Balanced Scorecard concept of performance management. As part of this process, Bonneville executives develop Agency Strategic Business Objectives and Strategic Thrusts that formulate policy direction, establish annual performance targets, and set Agency financial targets. Bonneville has received a Clean Audit Opinion since the mid-1980s and has no material financial weaknesses reported on its financial statements. Bonneville planning and budgeting processes include extensive Bonneville stakeholder involvement, including customers, constituents, tribal and other interested parties in the region. Bonneville's financial management systems and reporting procedures meet federal standards, comply with generally accepted accounting principles and are consistent with Presidential Initiative schedule guidance.

- In the area of Expanding E-Government, Bonneville is self-reporting its Current Status as "red" and its Progress Toward Implementing the President's Management Agenda as "yellow." In an effort to close the gap in the standard of IT (Information Technology) program management (90 percent of IT projects on time and on budget), Bonneville has also completed an IT Leading Change effort (IT Process Re-engineering Study) and is now implementing a standard IT project management approach, increased rigor for approving and funding IT projects, as well as enhanced IT documentation and reporting processes. Bonneville exceeds OMB standards for IT business case preparation and for providing web access that improves citizen access by offering one-stop shopping through integrated delivery methods while reducing undue burden on our business partners and customers by reducing or eliminating the need to re-key data. Bonneville has developed an Enterprise Resource Planning system that integrates its major business process, providing its managers and employees with access to timely and accurate financial, personnel, and property reports. Bonneville in a move to further reduce operations cost, initiated an effort in January 2004 to consolidate its business and administrative IT groups. It is expected that this effort will be implemented by October 2004

- Bonneville is self-reporting "yellow" in Current Status and "green" in Progress Toward Implementing the President's Management Agenda in the area of Human Capital. Bonneville is continuing its strategic focus on transforming Bonneville into a High Performing Organization with implementation of several Leadership Development initiatives. Through its Skills Gap Assessment, as an example, Bonneville has identified competency levels for all critical jobs in order to enhance its training and development and recruiting programs. Bonneville meets or exceeds the OPM Standards of Success in the areas of Strategic Alignment, successfully eliminated one-layer of management and created a frontline organization of Customer Account Executives; Strategic Competencies (Talent), developed comprehensive staffing plans for Bonneville business lines; Leadership, implemented developmental and training programs designed to prepare employees for executive responsibilities and to strengthen current managerial leadership skills; and Performance Culture (Strategic Awareness), aligned Agency Strategic Business Objectives with quantifiable targets that are embedded in individual executive and managerial performance contracts.

Overview of Detailed Justifications

Bonneville's detailed justification summaries follow present budget requirements of budget line items on the basis of accrued expenditures. Accrued expenditure is the basis of presenting Bonneville's program funding levels in the power and transmission rate making processes, and the basis upon which Bonneville managers control their resources to provide products and services. Accrued expenditures relate period costs to period performance. Traditional budget obligation requirements for Bonneville's budget are shown on the Program and Financing Summary Schedule prepared in accord with OMB Circular A-11.

The organization of BPA's FY 2005 budget and these performance summaries reflect Bonneville's business line basis for utility enterprise activities. Bonneville's major areas of activity on a consolidated budget and accounting basis include Power and Transmission with administrative costs included. The Power Business Line includes line items for Fish and

Wildlife, Conservation and Energy Efficiency, Residential Exchange, Associated Projects O&M Costs and Council. Environmental activities are shown in the relevant business line, and in accord with OMB Circular A-11 guidance for revolving funds, reimbursable costs are incorporated within the associated business lines. All programs funded in advance will be fully funded by benefiting entities. Bonneville's interest expenses, pension and post-retirement benefits, and capital transfers to the Treasury are shown by program.

The first section of performance summaries, Capital Investments, includes accrued expenditures for investments in electric utility and general plant associated with the FCRPS generation and transmission services, conservation and energy efficiency services, fish and wildlife, and capital equipment. These capital investments will require budget obligations and use of existing borrowing authority of $487 million in FY 2005.

The near-term forecasted capital funding levels have undergone an extensive internal review as a result of implementation of a capital asset management strategy. This strategy encompasses prioritizing capital projects to be funded based on risk and other factors. Utilizing this review process helps Bonneville in its efforts to compete in the deregulated energy market. Bonneville will continue to work with the Corps and the Bureau to optimize the best mix of projects.

In addition to implementation of a capital asset management strategy, Bonneville has developed and is implementing an external capital investment review process that provides significant benefits to Bonneville by both improving direction on what the FCRPS invests in (tying investments more closely to agency strategy) and by improving how those investments are made (better analysis and review of capital investments and their alternatives). BPA will continue its efforts to refine and implement the revised capital investment review process to improve the value provided.

Bonneville's second section of the performance summaries, entitled Annual Operating Expenses, includes accrued expenditures for business line and program activities financed by power sales revenues and transmission services revenues and projects funded in advance. For FY 2005, budget expense obligations are estimated at $3,149 million. The total program requirements of all Bonneville programs include estimated budget obligations of $3,726 million in FY 2005.