

Interest, Pension and Post-retirement Benefits - Operating Expense and Capital Transfers

Operating Expense Mission Supporting Goals and Objectives

Interest expense provides for the payment of interest due on FCRPS debt. This consists of capital investment in FCRPS hydroelectric generating and transmission facilities of BPA, the Corps and the Bureau. Investments were financed by Congressional appropriations and BPA borrowings from the U.S. Treasury. BPA repays FCRPS debt through its power sales and transmission services revenues.

Since receiving Treasury borrowing authority in 1974 under the Transmission System Act, all BPA borrowing has been at market rates. As of October 1, 1996, all of BPA's repayment obligations on FCRPS appropriated investment (Corps and Bureau FCRPS investment and BPA investment financed with appropriations prior to the Transmission System Act) which were unpaid as of September 30, 1996, were restructured and assigned new current-market interest rates. The Bonneville Appropriations Refinancing Act of 1996 (Act) called for resetting (reducing) the unpaid principal of FCRPS appropriations and reassigning (increasing) interest rates. New principal amounts were established as of the beginning of FY 1997 at the present value of the principal and annual interest payments BPA would make to the U.S. Treasury for these obligations in the absence of the legislation, plus \$100 million. The new principal amounts are then assigned new interest rates based on the Treasury yield curve rates prevailing at the end of FY 1996. BPA's outstanding repayment obligations on appropriations at the end of FY 1996 were \$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. Implementation of the refinancing took place in 1997 after audited actual financial data was available. As called for in the legislation, BPA submitted its calculations and interest rate assignments implementing the Act to Treasury for their review and approval. Treasury approved the implementation calculations in July 1997. The Act also calls for all future FCRPS appropriations to be assigned prevailing Treasury yield curve interest rates.

Interest estimates are a direct function of costs of Treasury borrowing to BPA, repayment status of outstanding FCRPS investments, and projected additions to FCRPS plant in service. These estimates may change over time depending on forecasted market conditions. The interest cost estimates below include the impact of BPA's appropriation refinancing legislation.

The Administration has proposed legislation to require all federal agencies to pay the full normal Government share of the accruing cost of retirement for current Civil Service Retirement System (CSRS) employees. The legislation also requires agencies to pay the full accruing cost of post-retirement health benefits for current civilian employees and the post-retirement health costs of all retirees.

Bonneville Pension and Post-retirement Benefits costs, consistent with the proposed legislation, are estimated as follows: \$17.0 million in FY 2003, \$18.7 million in FY 2004, \$18.9 million in FY 2005, \$19.2 million in FY 2006, \$19.5 million in FY 2007, and \$18 million in FY 2008. These costs would be paid to a receipt account with the Office of Personnel Management. These estimates include a small DOE allocation of Pension and Post-retirement Benefit costs associated with the General Services Administration and the U.S. Geological Survey for FYs 2002-2003. The associated Corps, Bureau, and USFW costs are assumed to be paid by the respective agencies with the power related portion of these costs reimbursed through direct funding by Bonneville. These estimates are subject to revision following additional review.

Bonneville has been paying its unfunded liability of the CSRS and post-retirement benefits into the General Fund of the U.S. Treasury (receipt account 892889) since FY 1998. These payments are consistent with the FY 2001 Administration's budget which assumed Bonneville would prospectively cover the full unfunded liability that accrues in fiscal years after FY 1997 of the Civil Service Retirement and Disability Fund (Disability Fund), the Employees Health Benefits Fund (Health Fund) and the Employees Life Insurance Fund (Insurance Fund) that it had not covered prior to FY 1998. As part of the FY 2001 Administration's Budget, Bonneville assumed its entire CSRS cost recovery would be phased in over a ten-year period given that wholesale power and transmission rates for Bonneville were contractually frozen until the end of FY 2001 in order to meet competitive market pressures. BPA paid \$55.2 million in FY 2002, and the following amounts are to be recovered by Bonneville through rates and paid into the General Fund of the U.S. Treasury: \$35.1 million in FY 2003, \$30.9 million in FY 2004, \$26.5 million in FY 2005, \$23.2 million in FY 2006, \$21.1 million in FY 2007, and \$19 million in FY 2008. Cost estimates include Bonneville and the power related portion of Corps, Bureau of Reclamation, and the United States Fish & Wildlife Pension and Post-retirement Benefits.

Funding Schedule (Accrued Expenditures)

	(dollars in thousands)				
	FY 2002	FY 2003	FY 2004	\$ Change	%Change
BPA Bond Interest (Net)	89,126	124,195	138,489	+14,294	+11.5%
BPA Appropriation Interest	66,902	65,279	63,484	-1,795	-2.7%
Corps of Engineers Appropriation Interest	198,713	166,634	175,193	+8,559	+5.1%
Lower Snake River Comp Plan Interest	16,144	16,458	16,458	0	0.0%
Bureau of Reclamation Appropriation Interest	43,792	43,616	42,396	-1,220	-2.8%
	414,677	416,182	436,020	+19,838	+4.8%
Subtotal, Interest – Operating Expense Pension & Post-retirement Benefits . . .	55,200	35,100	30,900	-4,200	-12.0%
Total, Interest, Pension and Post- retirement Benefits	469,877	451,282	466,920	+15,638	+3.5%

Capital Transfers

Mission Supporting Goals and Objectives

This activity conveys funds to the U.S. Treasury for repayment of certain FCRPS costs not included in the Associated Project Costs budget. Since capital transfers are cash transactions they are not considered budget obligations.

Funding Schedule (Accrued Expenditures)

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
BPA Bond Amortization	308,101	170,000	123,700	-46,300	-27.2%
Bureau Bond Amortization	0	17,766	758	-17,008	-95.7%
BPA Appropriation Amortization . .	23,913	26,247	17,020	-9,227	-35.2%
Corps Appropriation Amortization	172,998	98,218	79,504	-18,714	-19.1%
Total, Capital Transfers	505,012	312,231	220,982	-91,249	-29.2%