

Reuven, Karol-Jo - KC-7

From: Cheney, Katherine - KC-7¹
Sent: Monday, July 01, 2002 1:40 PM
To: Reuven, Karol-Jo - KC-7
Subject: FW: FOIA Request for Borrowing Authority Documents

-----Original Message-----

From: Mahar, Dulcy - KC-7
Sent: Friday, June 28, 2002 6:42 PM
To: Cheney, Katherine - KC-7
Subject: FW: FOIA Request for Borrowing Authority Documents

Here is the original note on the FOIA. Note that Mary Hawkin needs things ASAP as July 5 is when she has to respond.

-----Original Message-----

From: Mahar, Dulcy - KC-7
Sent: Wednesday, June 12, 2002 5:31 PM
To: BAKER, LYNN; Benson, CHERI; Cheney, KATHERINE; COLGROVE, LISA; HANSEN, MICHAEL; HANSEN, PAUL; HAUSER, KAREN; HEIDMANN, ERIC; HYMAN, ARETHA; KUEHN, VIRGINIA; LIND, SHERRY; MAHAR, DULCY; MOSEY, EDWARD; MOSEY, INGRID; MURLIN, WILLIAM; ODGAARD, JOHN; REUVEN, KAROL; STENEHJEM, CARLENE; TEMPLETON, IAN; THOMAS, DAVID; ZIMMERMAN, RYAN
Subject: FW: FOIA Request for Borrowing Authority Documents

We have a Freedom of Information Act (FOIA) request for these documents. I believe it was filed by the Northeast-Midwest Coalition. It is extremely important to comply. So if you know of any documents that contain references to borrowing authority in the time frame below, please give them to me so I can give them to finance in one lump. This includes press releases, Journal articles, news shorts, etc.. It appears that the documents they are referring to are external. I don't know if talking points will fall in this category since, while they are internal, they are intended for briefing external people. Let's err on the side of providing everything, and let legal omit what they feel can be omitted.

-----Original Message-----

From: Hawken, Mary - DFF-2
Sent: Wednesday, June 12, 2002 5:10 PM
To: Mahar, Dulcy - KC-7; Majkut, Paul S - LC-7; Roach, Randy A - L-7; VanZandt, Vickie - TO; Meyer, Charles - TM-DITT2; Nelson, Marg - D-7; Stauffer, Nicki - A-7; Hickok, Steven G - D-7; Wright, Stephen J - A-7; Norman, Paul - P; Stier, Jeffrey K - KN-DC; Delwiche, Gregory K - PG-5; Whitney, Carolyn A - T-DITT2; Weedall, Michael J - PN-1; Curtis, Jim - DF-2; Dinan, Linda - D-7; Maher, Mark W - T-DITT2
Cc: Moorman, Geoffrey - DFS-2; Davidson, Larry - DFR-2; Seifert, Roger - KN-DC; Armstrong, David J - DFW-2; Federovitch, Michael - TMF-MODD; Tetnowski, Sonya M - PL-6; Leathley, Kimberly - PM-6; Fox, Roy B - PGF-6; Pynch, John - PN-1; Tollefson, Gene - CILR-4; Marlowe, William D - KN-DC; McElhaney, Judy - D-7; Yoakum, Ann - D-7; Jones, Sheron - KN-DC; Davenport, Karen - DF-2; Quinata, John F - TOE-PPO1-2
Subject: FOIA Request for Borrowing Authority Documents

This is a heads up that you have been identified to produce Federal Borrowing Authority documents in response to a Freedom of Information Act request. I am the Authorizing Official on this request. The request was received June 6. With 20 working days to process, the response is due July 5. Time is critical. I need you to gather (1) communications regarding proposed increases in borrowing authority by the BPA that were **transmitted outside of BPA between May 1, 2001, through June 6, 2002**, and (2) communications regarding proposed increases in borrowing authority by the BPA that were **received by BPA from sources outside the agency between May 1, 2002, through June 6, 2002**.

Submit all documents to my office via Sue Sandford, DFF-2 by COB June 25. Should you not produce any documents, you will need to provide me with a statement of the reason why you did not provide any documents.

I will be sending you a formal request for this information shortly. I will include the official FOIA



Talking Points

2002 index

Need to write some talking points? Here's how.

- June 5- - The Energy Northwest connection to BPA's debt restructuring program
- June 3- - BPA's Purchase of the Klondike Wind Project
- May 21- - Hatchery Costs
- May 15- - BPA/Corps/Reclamation 2001 Progress Report
- May 13- - BPA Second Quarter Review and PBL Financial-Based CRAC Forecast
- May 8- - Debt Service Reassignment
- April 12 - - Idaho water lease program for 2002
- April 8 - - 2002 Spill Operations
- March 8 - Soliciting Non-Federal Participation in BPA Transmission Projects
- March 6 - Wallula-McNary Transmission Line Project
- February 28 - RTO West Reliability
- February 27 - BLACKFEET (DUCK LAKE) WIND PROJECT
- February 25 - Standstill Agreements with Golden Northwest Aluminum
- February 15 - RTO West Cost Benefit Study Summary
- February 08 - Schultz-Hanford Area 500-kV Transmission Line Project
- February 07 - Soliciting Non-Federal Participation in BPA Transmission Projects
- February 07 - BPA Capital Program
- February 04 - RTO West Cost Benefit Study
- February 04 - Power Business Line FY 2001 audited fiscal year-end financials and the Financial-Based CRAC
- January 31 - Save a Watt Campaign
- January 30 - Celilo modernization project delayed
- January 17 - Interim Infrastructure Talking Points For Use Before the President's Budget is Released on Feb. 4 [BPA Talking Points January 18, 2002](#)
- January 07 - Kangley - Echo Lake Transmission Line Project

Updated, June 8, 2002 by BPA Communications, 503-230-5131.

*(When using on-line E-mail internally, remember to include your name and routing in the **message body.**)*

other talking points



Talking Points

2001 index

Need to write some talking points? Here's how.

- December 13 - BPA buys wind power from Stateline project
- December 03 - Effect of Enron bankruptcy on BPA
- December 03 - RTO West Cost-Benefit Analysis
- December 03 - RTO West Dec. 1 Filing to FERC
- November 21 - 2001-2002 chum operations
- November 20 - The next LB CRAC adjustment
- November 14 - Condon Wind Project
- November 1 - NLSL Policy Discussion Extended
- October 24 - Inspector General's Report on BPA Fiber Optics Installation
- October 18 - Fish Passage Center releases misleading report
- October 17 - BPA Reviews Columbia Plateau Project Proposals
- October 5 - BPA AND KAISER AGREE ON LOAD INTERRUPTION RIGHTS
- October 3 - BPA's 2001 Treasury payment and 4(h)(10)(C) credits
- September 26 - Kangley - Echo Lake Transmission Line Project
- September 04 - Transmission Curtailment and Delivery of Requirements Power
- September 19 - Feasibility of completing nuclear plant to be studied
- August 30 - Power Business Line Investment Plan
- August 29 - No FB CRAC trigger for FY 2002
- August 10 - CRAC x 3 and the DDC
- August 10 - BPA Completes First Phase of Regional Air Quality Impact Study
- August 8 - Federal agencies increase spill
- August 3 - BPA Completes First Phase of Regional Air Quality Impact Study
- August 1 - Community Conservation Challenge (C3)
- August 1 - Draft Implementation Plan for FCRPS Biological Opinions
- July 26 - Transmission Curtailment and Delivery of Requirements
- July 24 - Federal agencies agree to limited summer spill regime
- July 20 - TBL Contract Strategy and Estimated Inventory Investments
- July 19 - Draft Implementation Plan for FCRPS fish recovery efforts
- July 18 - Short talking points
- July 3 - Federal agencies decide no summer spill
- June 29 - BPA makes six-month wholesale rate adjustment
- June 28 - Summer spill decision
- June 25 - New Large Single Load (NLSL)
- June 22 - Releasing results of load mitigation effort
- June 21 - Emergency Load Dropping Response
- June 15 - BPA Talking Points on FCRPS spring and summer spill
- June 15 - BPA and California agree on summer contingency plan
- June 14 - BPA Fish and Wildlife Implementation Plan Draft Environmental Impact Statement
- June 8 - BPA curtails capacity on West of Hatwai cutplane
- June 6 - BPA Releases Preliminary Estimate of Load-Based CRAC
- May 31 - Response to Northeast-Midwest Coalition Report
- May 25 - Morgan Stanley transmission purchases

- May 25 - Summary of Supplemental Rate Proposal
- May 25 - BPA releases Draft Supplemental ROD
- May 18 - The Need for \$2 Billion in New Borrowing Authority
- May 16 - BPA starts spill
- May 16 - RTO West Federal Energy Regulatory Commission April 26, 2001 Order on October, 2000 Filings
- May 8 - How RTO West may affect BPA employees
- April 30 - Green Tag Program
- April 19 - BPA Launches Cumulative Air Quality Impact Study
- April 19 - Feasibility of completing nuclear plant to be studied
- April 13 - BPA response to California ISO study
- March 23 - BPA assesses transmission infrastructure
- March 14 - BPA's 2001 Treasury payment and 4(h)(10)(C) credits
- February 27 - BPA's 2001 estimated cost of operations for fish
- February 22 - Proposed principles for FCRPS emergency operations in 2001
- February 13 - Feb. 12 - BPA declares power emergency
- February 12 - DSI propose remarketing right for 2002-2006 period
- February 1 - BPA 2001 First Quarter Financial Results: real and as shown under new FASB rules
- February 1 - BPA and Kaiser negotiations stalled
- January 22 - BPA and CFAC inck remarketing agreement
- January 18 - Power shortage prompts call for increased hydro generation
- January 15 - BPA's tight energy supply and the plan to manage through it
- January 10 - Agreement between Alcoa and BPA benefits consumers and fish
- January 3 - BPA to remarket power for Goldendale Northwest Aluminum

Updated January 9, 2002 by BPA Communications, 503-230-5131.

*(When using on-line E-mail internally, remember to include your name and routing in the **message body.**)*

other talking points

The Energy Northwest connection to BPA's debt restructuring program

BPA Talking Points

June 5, 2002

These talking points address some concerns Energy Northwest has raised about how it and ratepayers might be affected by BPA's debt restructuring program. They also address some statements made in an article published in the *Tri-City Herald* on May 27 as well as in a *Clearing Up* article dated June 3. See the May 6, 2002, Debt Service Reassignment talking points for more background on the program. For additional information on the Energy Northwest connection, call Don Carbonari at (503) 230-3798, Anita Mertsching at (503) 230-3413 or Dave Armstrong at (503) 230-7544.

Background

BPA constantly evaluates its long-term debt, both federal and nonfederal (primarily Energy Northwest bonds), to find ways of reducing its debt service costs. Over the past two fiscal years, the agency has completed four refinancings as part of its debt restructuring program. The additional money in the Bonneville Fund due to the refinancings has been or will be used to pay off some of BPA's higher-cost federal debt to the U.S. Treasury. The effect of these and future planned refinancings would be to extend the debt on (nuclear) Projects 1 and 3 and the Columbia Generating Station from the 2001-2012 period until 2013-2018 and reduce federal debt by the same amount. This will result in reduced overall debt service costs. It will also create room within BPA's federal borrowing authority so the agency can borrow funds to finance much needed hydroelectric system improvements, conservation and transmission infrastructure projects. The restructuring would not, by itself, change the total dollar amount of the agency's existing debt but would reduce the debt service costs because the debt would be at lower interest rates.

Messages

- The goal of the debt restructuring program is to lower debt service costs while creating more room under BPA's federal borrowing authority limit.
- The restructuring reduces the cost of BPA's debt, which reduces costs to Northwest ratepayers, but does not change the total amount of debt nor the time period within which BPA is to service the debt. Only the composition (federal versus nonfederal) of the debt changes.

- The funds freed up from refinancing Energy Northwest bonds will flow to the Bonneville Fund and will not be used for operational expenses but to pay down higher-cost federal debt.
- New borrowing from Treasury will be used to construct new transmission infrastructure projects that will be paid for out of increased transmission revenues and to invest in hydro improvements and other critically needed assets that will be paid for out of power revenues.

Questions and answers

1. Is refinancing Energy Northwest debt a new idea?

No. Energy Northwest bonds carried very high interest rates reflective of the time they were issued in the 1970s. The goal even then was to refinance them as bond rates went down. Refinancing has been nearly constant since the late 1980s. These refinancings help keep BPA rates down and save ratepayers money.

2. Is anything different in this round of refinancing?

The most notable changes are that the Columbia Generating Station bond payoff date will be extended from 2012 to 2018 and, for all three projects, bonds that would have been paid off between now and 2012 will be extended to the 2013-2018 time period.

3. Is that significant?

BPA doesn't think so because the debt on the unfinished Project 1 already runs to 2017 and the debt on the unfinished Project 3 runs to 2018. The refinancing of the Columbia Generating Station bonds does not extend the time before which all the Energy Northwest bonds will be retired. And, in contrast to refinancings prior to FY 2001, federal debt will be paid off sooner than it is currently scheduled.

4. What is the point of extending the Energy Northwest debt?

BPA plans to use a series of annual refinancings to extend about \$3 billion of certain Energy Northwest debt to 2013-2018. Money in the Bonneville Fund that would have been used to retire lower-cost Energy Northwest debt will then be used to retire higher-cost Treasury debt, which will result in reduced debt service costs and improved borrowing authority. The *Tri-City Herald* article stated that Bonneville is requesting the refinancings so it can put off steep payments. This is not accurate because equivalent payments will be made toward federal debt repayment.

5. There is concern that BPA will use the money gained from refinancing the Energy Northwest bonds to fund day-to-day expenses. Is that true?

No.

BPA does not plan to use the proceeds of the bond sales to fund day-to-day operations. As described above, an equal amount of federal debt will be paid off. BPA has every incentive on behalf of its regional customers to follow through on this debt restructuring to assure that BPA has continued access to Treasury borrowing authority to fund BPA's capital program, which includes hydroelectric system improvements, conservation and transmission infrastructure projects.

6. How will the new Treasury debt be paid?

The current transmission grid is inadequate to reliably serve the needs in BPA's service area and the demand for power is going up. New generating plants are coming online, and more are being planned. The new transmission infrastructure projects will be financed from Treasury borrowings that will then be repaid through revenues established in the rate proceedings for the Transmission Business Line. Likewise, the new power infrastructure projects will be financed through Treasury borrowings and repaid through PBL's rate design.

7. When the payments come due on Energy Northwest debt in the 2013-2018 time frame, how can the region be assured that BPA will be able to meet those payments?

There will be no additional financial pressure on the region's ratepayers because the agency's federal debt service requirement will have been reduced by an equivalent amount. In other words, for every dollar of additional principal due on Energy Northwest debt, there is a dollar reduction in principal due on federal debt. BPA has developed a solid history of repaying its obligations over the last 19 years and will continue to establish rates and manage its operations to ensure a very high probability of continuing to make all of its debt obligations in full and on time.

8. What happens to the agency's ability or responsibility to pay for new transmission lines if it joins a regional transmission organization?

Nothing. As the proposed Northwest regional transmission organization (RTO West) is evolving, BPA would remain responsible for the construction, maintenance and financing of its transmission grid. Further, what are called "company rates" would be in force for at least the first eight years of the RTO's existence. That assures the agency would be able to collect sufficient revenue to cover its expenses, including the infrastructure building costs. While it is not known how transmission rates will look after the company rates expire, it is a safe assumption that full cost recovery will be an integral part of the regulatory framework.

9. Does this program mean we reap near-term benefits by incurring long-term costs?

No.

The *Tri-City Herald* article stated that the refinancings help BPA in the short term. It also stated that the program reduces BPA's interest costs for the next decade. To be clear, we believe this program will save Northwest ratepayers, on average, about \$20 million per year between 2000 and 2018, a benefit for almost two decades. There are no additional long-term costs when BPA's debt is viewed in its entirety.

10. Does the debt restructuring program have any impact on Energy Northwest or its reputation?

No.

BPA believes that, in spite of historical perceptions and the controversy surrounding the outstanding Energy Northwest debt, regional ratepayers understand that it is in their best interest for BPA to pay off its highest cost debt (federal) before its lowest cost debt (Energy Northwest bonds). Because BPA's rates are based on its total annual debt service, the composition of BPA's total debt portfolio really doesn't matter — what matters is that BPA manages its debt portfolio to minimize the cost of debt to BPA's regional ratepayers. We believe that the ratepayers have a favorable view of Energy Northwest as a necessary partner and facilitator in aiding BPA manage its overall debt in their best interests.

Furthermore, when Energy Northwest sells refinancing bonds backed by BPA, investors understand that it is BPA's credit that is the security for the bonds, as evidenced by the high credit ratings. Although a large amount of outstanding debt will continue to appear on the balance sheet of Energy Northwest, this should not affect its future business endeavors because the financial community realizes that BPA is responsible for repayment of the Energy Northwest bonds for Projects 1 and 3 and for the Columbia Generating Station.

BPA believes that the reputation of Energy Northwest can only be negatively affected if BPA and the region fail to make a required debt service payment. BPA has always placed a high priority on ensuring repayment of Energy Northwest debt service.

**BPA Second Quarter Review
and
PBL Financial-Based CRAC Forecast
Talking Points
May 13, 2002**

For additional information contact ZoeAnne Arrington (5715) or Michelle Manary (5858).

Background

BPA is issuing two pieces of financial information as part of the Second Quarter Review.

- 1) Review of FY 2002 Second Quarter Financial Results:** This forward-looking item forecasts Agency end-of-year net revenues and financial reserves. (Corporate: Finance)

- 2) Forecast of the Financial-Based CRAC:** This is a preliminary forecast of whether the Financial-Based Cost Recovery Adjustment Clause (FB CRAC) is likely to trigger at the end of FY 2002, as determined by the August end-of-year forecast of PBL Accumulated Net Revenues without Energy Northwest refinancing or FAS 133. (Power Business Line)

Given these forecasted year-end results, and absent a change in the wholesale power market this summer, PBL will trigger the FB CRAC for FY 2003. These talking points explain key points of the Second Quarter Review and the preliminary FB CRAC forecast.

Messages

- BPA's financial situation remains difficult. The Second Quarter Review forecast of Agency net revenues for FY 2002 is \$83.7 million with Energy Northwest Refinancing and FAS 133.

- BPA's difficult financial situation is most clearly reflected in preliminary forecasts of PBL accumulated net revenue (ANR), which is the basis for triggering the FB CRAC. The Second Quarter Review forecasts PBL FY 2002 accumulated net revenues (accumulated beginning in FY 2000) of negative \$554 million. The FB CRAC triggers based on the PBL ANR; the trigger level for FY 2003 is forecasted FY 2002 PBL ANR of negative \$408 million.

- While this forecast is preliminary, the FB CRAC will likely trigger for FY 2003 unless there is a significant change in the PBL's financial situation. The final determination of whether the FB CRAC will trigger is based upon the Third Quarter Review that is

published in August. If the FB CRAC were to trigger, a rate increase would take effect in October.

- If the FB CRAC were to trigger at the maximum of 11%, the total rate impact would be about 6% over current rates, or 2 to 3% over current rates if the IOUs and publics were to reach agreement on the rate case settlement of the Residential Exchange Program.
- PBL's preliminary forecasted negative accumulated net revenues are the result of a number of complex factors. The most important is a significant drop in PBL revenues this year as a result of lower-than-average seasonal hydropower combined with unexpectedly low market prices. (See the April 2002 Steve Wright letter).
- PBL is aggressively managing costs and has brought FY 2002 expense budgets down to the level in the 2002 rate case, which was based on the aggressive targets of the 1998 Cost Review. PBL is continuing to work to bring down FY 2002 budgets and to reduce projected out-year costs. BPA will confer with the region this summer on its projected costs and revenues through 2006. (See the May 2, 2002, Paul Norman letter for details on PBL's costs for 2002.)

Questions and Answers

1. What does BPA expect to see as its net revenues and financial reserves in FY 2002?

BPA's Second Quarter Review forecasts net revenues of about \$83.7 million for the Agency this year. Last year, the Agency net revenues were negative \$216.8 million. The Second Quarter Review forecasts \$109 million in Agency financial reserves at the end of FY 2002, down from \$625 million at the end of FY 2001.

2. What is the difference between reserves and net revenues?

Annual net revenue is calculated using commonly accepted accounting standards, and is reported on BPA's annual financial statement. Net revenue focuses on services provided and costs incurred, not necessarily on when the resulting cash is received or disbursed. In contrast to net revenues, BPA's financial reserves are a measure of BPA's cash position. BPA's cash position can be very different than its net revenue position to the extent there are timing differences between accruals and cash flow. Common timing differences include accounting depreciation (a non-cash expense) vs. actual amortization payments, and the lag between sending/receiving bills and receiving/dispersing cash payments.

3. Why are BPA Net Revenues positive yet reserves are dropping by \$500 million in FY 2002?

At the beginning of FY 2002, BPA reserves were \$625 million. The current estimate for end-of-year reserves is \$109 million. The main reasons for the difference between the positive net revenue picture and the declining cash picture are as follows:

- Energy Northwest (ENW) refinancing. About \$376 million of reduced expenses for Columbia Generating Station have been realized this year through a number of different mechanisms (bond refinancing, reserve fund free ups, etc.). This entire amount shows up as an increase in PBL's net revenues. But virtually none of it contributes to BPA's end-of-year reserves, since most will be used to retire additional federal debt at the end of the year consistent with the agreement with Energy Northwest and in order to make more federal borrowing authority available. Without this reduction in expenses due to refinancing, etc., forecast net revenues for this year would be negative \$307 million as a result of current year operations.
- September cash lags. Revenues and expenses are "booked" and therefore reflected in net revenue calculations in the month that power is sold or bought. Cash flows differently because it reflects the actual timing of invoices, bills, and payments received. In September of 2001, our net revenues for the month were negative. These negative net revenues flowed into 2002 and reduced this year's cash. Our forecast for September 2002 is for positive net revenues. These net revenues will flow into FY 2003 and will increase next year's cash. The net effect is to have a cash drain for this year of over \$100 million.
- Net billing. Due to our rate increase and a significant shift of load to net billing/preference customers this year, our customers are now paying off their ENW obligations sooner than they otherwise would have. Because ENW's fiscal year is different from ours (July thru June), this leads to a situation where our customers are sending revenues to ENW for FY 2002 that exceed one year's ENW budget. In other words, customers are sending cash to ENW in our FY 2002 for a large portion of ENW's FY 2002 budget and most of ENW's FY 2003 budget. The consequence of this is that as our customers pay more to ENW under net billing during our FY 2002, less is being paid to BPA. This effect causes a cash drain to BPA of over \$100 million in this year.

4. Why have BPA's financial reserves dropped more this year compared to last year, given that the Agency had net revenues of negative \$216.8 million in FY 2001 and is forecasting positive net revenues of \$83.7 million this year?

During FY 2001, the drought and very high power prices resulted in BPA applying fish credits against its payments to Treasury totaling \$625 million. The availability of federal fish credits masked the severity of BPA's operational losses in 2001. Without these credits, BPA's FY 2001 net revenues would have been closer to negative \$817 million, with a resulting ending reserve amount of only \$25 million.

For more information, go to: <http://www.bpa.gov/power/psp/rates/Adjustments/FBcrac/index.shtml>.

With average water this year and with market prices back down to normal, fish credits for 2002 will be more typical in the general range of \$50 million.

5. Why not use the proceeds from ENW refinancing to pay program costs and reduce the need for an FB CRAC?

The Energy Northwest board agreed to these refinancings with the understanding that use of the proceeds would be dedicated to repayment of Treasury debt. The refinancings are specifically designed to create room within BPA's existing borrowing authority with the U.S. Treasury to allow borrowing for much needed new capital investments. If this capital is used instead to pay current expenses, the money won't be there to build the needed infrastructure.

Also, the rate schedule requires that the FB CRAC accumulated net revenue calculations be based on Energy Northwest debt service as forecasted in the 2002 power rate proposal, not including any refinancings. So using the refinancing proceeds for program costs rather than Treasury payments would not affect the FB CRAC calculation.

6. What is the FB CRAC?

The FB CRAC is a mechanism that requires BPA to raise wholesale power rates for a one-year period (October through September) if the PBL's financial position in the prior year decreases below a pre-determined threshold. Under the GRSPs, the maximum amount of revenues that can be raised in FY 2003 is \$135 million (accounting for Slice, the total raised from the FB CRAC is about \$100 million). At the maximum level, the FB CRAC adds about 11% to base rates for power.

7. How much discretion does BPA have in determining whether or not the FB CRAC will trigger?

Virtually none. Whether the FB CRAC triggers is determined by the results of the Third Quarter Review compared to the pre-determined FB CRAC thresholds. This is basically a mechanical process in which the necessary information is plugged in and the crank turned to yield the results. The process was established in the rate case for the FY 2002 Wholesale Power Rates.

8. What is the FB CRAC threshold for FY 2002?

The FB CRAC threshold is based on a forecast of PBL accumulated net revenues rather than a forecast of Agency net revenues. Accumulated net revenues for purposes of the FB CRAC are PBL net revenues, accumulated since FY 2000, without taking into account either the Energy Northwest refinancing proceeds or mark-to-market adjustments required by Financial Accounting Standards (FAS) 133 (an accounting adjustment for "certain derivative instruments and hedging activities").

For more information, go to: <http://www.bpa.gov/power/psp/rates/Adjustments/FBcrac/index.shtml>.

The FB CRAC will trigger for FY 2003 if PBL's accumulated net revenues fall below negative \$408 million at the end of FY 2002. BPA now forecasts the PBL to end the fiscal year with accumulated results of about negative \$554 million.

9. If PBL is forecasting that the FB CRAC may trigger, does that mean that there will be a rate increase in October 2002? If so, how much?

These numbers are preliminary and the determination will be made in August on whether the FB CRAC for FY 2003 will take effect in October. If it does trigger the preliminary numbers for the FB CRAC and the LB CRAC indicate that the rate would be about 6% higher than current rates.

The LB CRAC is forecasted to decline to about 38% above base rates in October 2002. If the FB CRAC were to trigger at the maximum amount of about 11%, the total rate would be about 49% above base rates, for a rate increase over current rates of about 6%. For comparison, the current LB CRAC is 41% and the LB CRAC for October 2001 through March 2002 was 46%.

The rate increase over current rates would be less (about 2 or 3% over current rates) if the IOUs and publics reach agreement to defer or eliminate the additional \$50 million payment to the IOUs under the Residential Exchange Program settlement. If this settlement were to occur, the LB CRAC would be about 3 to 4% less which would result in a potential combined LB and FB CRAC of about 45%, for a rate increase of about 2% over current combined rates. (See attached graph.) BPA is encouraging a solution that will remove the \$50 million payment to the IOUs and lower the LB CRACs.

10. West Coast power prices are back down to normal, aren't they?

West Coast power prices affect the FB CRAC in that the Agency sells surplus energy, which keeps the cost of Priority Firm (PF) power lower than it otherwise would be. The low power prices reduce these revenues and put additional pressure on the FB CRAC. Most of the costs of purchasing augmentation power are being covered in the Load-Based (LB) CRAC and do not affect the FB CRAC. Because customers placed 3,000 megawatts more load than BPA had available from the existing system, the Agency was required to both augment the system and engage in load reduction contracts in order to manage the situation. Some of the costs associated with augmentation and load reductions, incurred in the middle of the West Coast power crisis when wholesale power costs were high, were short-term, but quite a few are contracted into the next few years.

When BPA completed the rate case last June, it expected this year's surplus power prices to average around \$55 a megawatt-hour. In fact, this was a conservative estimate since it was well below the extreme prices that the region had been experiencing. But market prices have continued to drop, going as low as \$20 per megawatt-hour. As a result of lower prices and reduced hydro system output, we are seeing a shortfall of approximately \$460 million in net surplus power revenue this year below rate case projections. This is the most significant

For more information, go to: <http://www.bpa.gov/power/psp/rates/Adjustments/FBcrac/index.shtml>.

driver of our overall financial situation. See Steve Wright's letter of April 2002 for additional details.

11. Are PBL FY 2002 expenses projected to be higher than the PBL final rate case proposal for this year?

Paul Norman's May 2, 2002, letter to the region identified the actions the PBL is taking to manage its costs. Of the three cost categories, Program, Fixed, and Subscription, PBL has managed to the aggressive costs that were projected in the Rate Case for the Program and Fixed cost categories. Subscription costs are those costs associated with serving additional load beyond that which can be served by the FCRPS. Most of these additional costs, mainly resulting from the need to purchase power to serve the higher load, are recovered through the LB CRAC. However, the LB CRAC does not cover the subscription-related items in the following categories:

- Additional residential exchange settlement costs of about \$60 million resulting from an increase in the market price forecast between the May 2000 and June 2001 Rate Case studies.
- Difference in the shape of the load BPA serves, which has resulted in additional costs compared to those forecast in the rate case.
- Augmentation power that was purchased in six-months blocks using conservative assumptions about water availability for hydropower production. Actual month-to-month loads are sometimes less than the amount of augmentation power we have purchased so these augmentation costs are not covered by the LB CRAC. Because spot market prices are now substantially lower than the augmentation contract prices, we are currently selling any excess augmentation power at a loss.

See Paul Norman's May 2, 2002, letter for additional details.

12. What is PBL doing to control its costs?

The Power Business Line, where the cost/revenue gap appears, has cut net program expenses for FY 2002 by more than \$100 million from start-of-year budgets. In general, PBL has scrubbed its budget everywhere to reduce outlays without jeopardizing its essential mission. PBL has:

- Cut travel budgets, support services, consulting services and overtime in all departments.
- Reduced new initiatives in Energy Web and technology leadership and lowered new spending in renewables and conservation-market transformation.
- Reduced planned spending on PBL IT projects and on Corps of Engineers and Bureau of Reclamation O&M.
- Reevaluated fish and wildlife budgets to assess what work would actually get done in 2002.
- Moved some items, such as a spent nuclear fuel storage facility, from the expense to the capital category, reducing expenses this year.
- Reduced staff levels 26 percent compared to 1995, despite increased workload.

For more information, go to: <http://www.bpa.gov/power/psp/rates/Adjustments/FBcrac/index.shtml>.

- Agency-wide reductions in Corporate and Shared Services spending. The overall budget for Corporate in 2002 has been cut more than 10 percent.

For additional details, see Paul Norman's May 2, 2002, letter.

13. Where does TBL come into all this?

Though TBL net revenues do not affect whether or not the FB CRAC triggers, they certainly affect Agency net revenues. As part of BPA's overall financial review, the TBL is also examining its budgets and managing its costs. TBL is forecasting it will recover its costs for FY 2002 with sufficient revenues.

14. How does this affect the Slice purchasers?

The FB CRAC does not apply to Slice Product purchases, but is applied to the Block Product Purchases made by Slice customers. The Slice Product differs from BPA's other Subscription products in the way the Slice purchaser directly assumes some of BPA's risks. The core Subscription products include two mechanisms for dealing with BPA's risk of not meeting its financial obligations. These mechanisms are the Planned Net Revenues for Risk (PNRR) and the FB CRAC.

Neither the PNRR nor the FB CRAC applies to the Slice Product. Instead, the Slice Product addresses financial risks in a different manner that provides an equivalent assurance that BPA can meet its financial obligations. The Slice Product addresses BPA's financial risks by: (1) shifting the power supply and market price risks directly to the Slice purchaser, and (2) incorporating an annual True-Up Adjustment Charge for differences between planned and actual costs (and credits) of the Slice Revenue Requirement along with the Net Minimum Revenue Requirement calculation that addresses the cash obligations of BPA. These mechanisms assure that Slice purchasers pay a proportionate share of the PBL's costs.

15. What is happening with respect to the Slice True-Up Adjustment Charge?

BPA currently is initiating a dialogue with Slice purchasers on the projected size of the Slice True-Up Adjustment Charge. Slice is a new product, whose sale began on October 1, 2001, a little over 7 months ago. Because of its newness, the implementation of various aspects of the Slice product, such as the True-Up Adjustment Charge calculation, has yet to be fully developed and tested. BPA expects that the estimate of the Slice True-Up Adjustment Charge will be refined over time, as actual data becomes more available on each of these items. BPA will discuss the Slice True-Up Adjustment Charge with Slice purchasers over the next few months to achieve a common understanding of and agreement on the calculation.

The Slice True-Up Adjustment Charge calculation will not be final until audited financial results for FY_ 2002 are available in December 2002, and the Charge will not be billed to Slice purchasers until January 2003. However, BPA will begin discussions now with Slice purchasers, so that these customers will understand the data collection process associated with

the True-Up Adjustment Charge, and so that they will be able to plan for the impact that the True-Up Adjustment Charge may have on their financial situation.

The Slice True-Up Adjustment Charge calculation and related data collection process lags the FB CRAC calculation and related data collection process by several months. The FB CRAC will be reflected on customer bills beginning October 2002, whereas the Slice True-Up Adjustment Charge will be reflected on Slice Expedited Bills beginning as early as January 2003. Therefore, at this time, detailed discussions of the Slice True-Up Adjustment Charge will be conducted only with Slice purchasers. BPA will release more information publicly as discussions with Slice purchasers progress, and as the estimate of the Slice True-Up Adjustment Charge becomes firmer.

The Slice True-Up is “work-in-progress.” However, many of the same costs that are driving the forecast that is predicting an FB CRAC trigger for the non-Slice customers will be included in the Slice True-Up.

16. What’s the bottom line for this year?

It looks like BPA will end FY 2002 with a slight increase in Agency net revenues, but a larger decrease in cash. But it appears that the FB CRAC will likely trigger at the end of FY 2002 to recover additional revenues in FY 2003 to help restore BPA’s reserves to their baseline level.

17. Will a Safety-Net Cost Recovery Adjustment Clause (SN CRAC) rate adjustment be needed in FY 2003?

We want to avoid triggering the SN CRAC and plan to work hard to do so. However, the picture of our out-year finances is not clear enough at this time to know if an SN CRAC adjustment will be needed. The SN CRAC will trigger if BPA either misses a payment to the U.S. Treasury or other creditor, or forecasts a greater than 50% probability of missing such a payment in the current fiscal year.

This summer we will be sharing more detailed information on the out-year costs and revenues that affect rates, including the SN CRAC. At this time we will also be consulting with customers and other parties on our options for managing those costs and revenues.

18. How will customers be kept informed of PBL’s ANR and other rates issues during the year?

- Each quarter, BPA will post on its Web site preliminary, unaudited, year-to-date aggregate financial results for generation, including ANR.
- By January of each year, BPA will post on its Web site the AANR attributable to the generation function for the prior fiscal year ending September 30.
- In May and August of each year, at the same time that BPA posts its quarterly results, BPA will post on its Web site an end-of-year forecast of ANR attributable to the generation function.

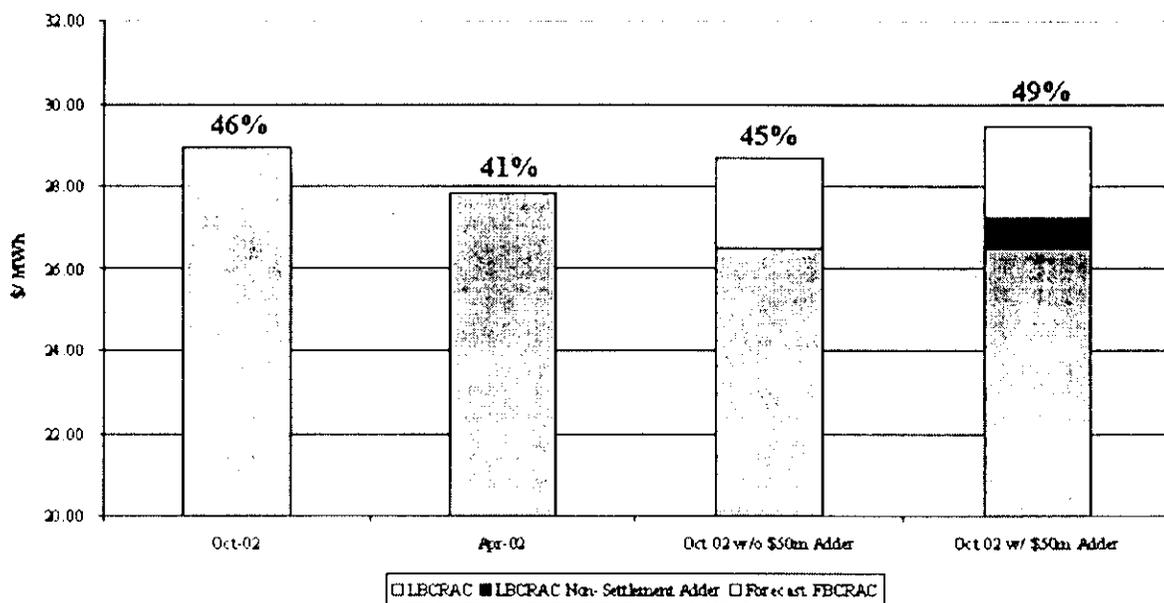
For more information, go to: <http://www.bpa.gov/power/psp/rates/Adjustments/FBcrac/index.shtml>.

- PBL conducts rates Workshops every six months to discuss and set each LB CRAC. The next Workshops are on June 13 and 27, in which PBL will discuss and set LB CRAC 3 for rates for the first six months of FY 2003, starting in October 2002.
- BPA will notify the customers by the end of August if the FB CRAC will trigger for the subsequent year. If the FB CRAC triggers, the rates take effect in October.

For more information, go to: <http://www.bpa.gov/power/psp/rates/Adjustments/FBcrac/index.shtml>.

Attachment

Estimates Flat PFD2 with LB & FB CRACs



For more information, go to: <http://www.bpa.gov/power/psp/rates/Adjustments/FBcrac/index.shtml>.

Talking Points
Debt Service Reassignment
May 6, 2002

Background

In its ongoing efforts to stretch its capital sources, BPA is considering a financial mechanism to increase opportunities to restructure low cost debt and refresh the amount of borrowing authority available to BPA for transmission projects, without that mechanism raising power or transmission rates.

The concept, “debt service reassignment,” would expand BPA’s existing debt restructuring program. It would reassign some of the debt service associated with refinanced Energy Northwest debt to the transmission business line. This would increase capital available to fund needed transmission infrastructure at the lowest possible cost without harming taxpayer or power ratepayer interests. Debt service reassignment to fund transmission investments could make up to \$1.8 billion available to retire federal debt related to transmission investments.

Messages:

- Debt service reassignment will increase the total debt restructuring benefits available to BPA (reduction in interest expense and increased Treasury borrowing authority) by allowing debt restructuring to include transmission debt.
- Debt service reassignment will not increase TBL’s or PBL’s overall costs or rates.
- Power-related capital programs, including conservation and fish and wildlife, are already benefiting from BPA debt restructuring.
- Debt service reassignment will not meet all of BPA’s capital funding needs, but it will allow time to find additional sources of funding without delaying needed transmission projects.
- Given the magnitude of needed infrastructure investments, BPA needs to use all available capital funding tools.

Questions and Answers

How does this concept fit within BPA’s capital program, and specifically, its debt optimization effort?

BPA faces more than \$2 billion more in capital needs over the next decade than available in its existing borrowing authority. The agency is pursuing all available mechanisms to obtain needed financing. These include:

- Additional borrowing authority, which must be granted by Congress.
- Restructuring and optimizing the agency's existing debt portfolio.
- Seeking third-party participation in targeted capital projects.

Debt service reassignment is part of restructuring and optimizing the agency's debt portfolio. It will help reduce debt service costs and make the best use of existing borrowing authority. Debt service reassignment has the potential to expand these benefits by approximately \$1.8 billion, and to spread the benefits to BPA's transmission functions.

For discussions of BPA's capital program as a whole and debt optimization specifically, see earlier BPA talking points on the subjects listed below and posted at <http://webip1/Corporate/KC/tp/bpa/00tp/TP061900.shtml>:

- Soliciting Non-Federal Participation in BPA Transmission Projects. Feb. 7 and March 8, 2002
- BPA Capital Program. Feb. 7, 2002
- The Need for \$2 Billion in New Borrowing Authority. May 18, 2001
- BPA Capital Plan. June 19, 2000

What is debt service reassignment?

There are three steps to the process. It's based on the fact that all BPA debt is paid from the Bonneville Fund. The Bonneville Fund is the source of payments for BPA's debt on an agency-wide basis. Net billing of both transmission and power revenues is the source of payments for Energy Northwest debt.

Then, in ratemaking, BPA assigns responsibility for debt service for specific debts to either power or transmission rates, depending on whether transmission or power customers benefit from the associated investments.

Given that financial structure, here's how debt service reassignment would work.

- 1) All Energy Northwest refinancings put cash in the Bonneville Fund from reduced net billing costs.
- 2) In debt service reassignment, where increased cash is to be used for transmission purposes, BPA would set transmission rates to recover the debt service for those Energy Northwest refinancing bonds that helped produce the increased cash in the Bonneville Fund.
- 3) BPA would pay transmission-related federal debt from the Bonneville Fund, creating room for new borrowing for transmission projects. TBL would be

responsible for recovering the cost of those refinancing bonds that allowed the freeing up of additional transmission borrowing authority.

Under debt service reassignment, PBL's rates would not be set to recover costs associated with such refinancing bonds.

How would debt service reassignment work?

Under debt service reassignment, as cash flows to the Bonneville Fund from Energy Northwest debt extension, BPA would repay Treasury debt related to transmission investments. This would replenish available Treasury borrowing capacity to fund new transmission investments. The Transmission Business Line would then assume responsibility for setting rates to recover the costs of debt service on the new Energy Northwest refinancing bonds that enable this replenishment of Treasury borrowing authority.

Where is Energy Northwest debt service assigned now?

BPA currently assigns all Energy Northwest debt service, including all debt extension to date, to the Power Business Line because the nuclear projects are a power capital investment. BPA assigns responsibilities for debt service to specific business lines consistent with business line capital programs. The business lines are responsible for recovering those costs in rate setting.

Why would debt service reassignment increase the size of BPA's debt optimization program?

BPA has limited the use of debt restructuring as a source of funding PBL investments to approximately \$1.2 billion because, above that level, Energy Northwest debt extension would begin having the effect of raising power rate levels in the near term. BPA's repayment study schedules repayment of federal debt and irrigation assistance to produce combined federal and non-federal debt service levelized over the repayment period. Only about \$1.2 billion of Energy Northwest debt can be extended without raising that levelization and thereby raising power rates. The final maturity on all Energy Northwest bonds will remain in 2018. Only existing bonds that mature earlier than 2018 will be extended closer to that date.

Using debt service reassignment to fund transmission investments, however, would make another approximately \$1.8 billion available to retire federal debt related to transmission investments.

What does the Energy Northwest board have to say about all this?

The Energy Northwest Board must approve each refinancing of its bonds, and is regularly informed as to the results and objectives of the debt restructuring program. To date, the

Board has been willing to assist BPA in this aspect of BPA's overall debt management efforts.

Will the restructuring increase the probability of the FBCRAC or SNCRAC triggering?

No, it won't. Development of the CRACs took the debt restructuring program into account. In fact, there will be a slight reduction in the probability that these CRACs might trigger due to the interest expense savings from the overall program.

Will Slice customers be affected by debt service reassignment?

No. PBL revenue requirements would be unchanged. These refinancings would pass through as a neutral, no-impact element in the true-up to actual costs for the Slice participants.

Will these transactions meet FERC's requirements for separation of transmission and generation/power market functions?

BPA's rates, costs and revenues for power and transmission are carefully separated under BPA's mandating legislation and consistent with Federal Energy Regulatory Commission guidance on separate accounting. BPA has a long track record of carefully tracking costs and revenues for the two functions.

As far back as the 1974 Transmission System Act, which made BPA a self-financed entity, BPA was required to equitably allocate transmission costs between federal and non-federal users of the transmission system. As a result, FERC required BPA to demonstrate in its rate filings that transmission costs are truly transmission costs by separately accounting for actual generation and transmission revenues and costs. While BPA has not yet raised the issue of debt reassignment for TBL investments with FERC, BPA believes that FERC should be receptive to the idea because it is consistent with the principles of cost responsibility and separate accounting.

What if Congress approves additional borrowing authority for BPA?

BPA would still intend to use debt service reassignment as a matter of sound business practice and responsible financial management. Specifically:

- 1) Unless the new authority is in excess of \$2 billion, more than now proposed by the administration or either house of Congress, it would not be sufficient to finance the entire infrastructure program.
- 2) This program results in significant interest expense savings that lower BPA's total costs.

Why specify that debt service reassignment would benefit transmission projects, as opposed to, say, fish and wildlife?

BPA functions supported by the Power Business Line, including energy efficiency, renewable resources and fish and wildlife, are already benefiting from the debt optimization program. All of the debt optimization that can be assigned to power business line functions without raising power rates is already being accessed. Debt service reassignment makes it possible to optimize more debt without raising power or transmission rates, but only by reassigning the debt service to transmission

What have been the results of the Debt Restructuring program so far?

Four Energy Northwest bonds sales extending nuclear project debt have been completed to date. Approximately \$950 million of cash flow from the completed debt extensions will be used to amortize additional federal debt over the next ten fiscal years.

How much additional Federal amortization has been made as a result of the last four refinancings?

Approximately \$183 million of additional federal amortization has been made in fiscal years 2000 and 2001 to alleviate the pressure on borrowing authority. In fiscal 2002, BPA expects to amortize an additional \$262 million in federal debt due to cash flows from the restructuring program.

BPA Debt Service Reassignment Principles

1. Between business line transactions arising from the restructuring of Energy Northwest debt will be made in such a way that neither business line nor its customers will be any worse off compared to continued access to Treasury borrowing authority.
2. Within the constraints of the repayment model, the transactions will make use of low cost capital without permanently foregoing any debt restructuring opportunities.
3. The transactions will be solely a ratemaking and accounting mechanism with no impact on external BPA debt instruments and their security, including no impact on the probability of making payments to the Treasury and vendors.
4. The transactions will be defensible in rate case proceedings, and will not jeopardize the tax-exempt status of the refinancing bonds.
5. The transactions will adhere to Federal Energy Regulatory Commission separate accounting requirements.

Soliciting Non-Federal Participation in BPA Transmission Projects

BPA Talking Points

March 8, 2002

Background

The Northwest's federal power and transmission systems require significant new capital investments in the next few years, more than can be funded from BPA's existing and anticipated lines of credit with the U.S. Treasury. The agency is therefore exploring all options to provide needed capital. One potential source is the possibility of third-party participation in specific, appropriate BPA capital projects. BPA is currently exploring possible third-party participation in certain specified transmission projects. These talking points outline what third-party participation might mean and how BPA is approaching it for transmission projects. For discussion of the overall issue of BPA's capital program, see separate talking points.

<http://webip1/Corporate/KC/tp/bpa/02tp/tp020702A.shtml> For additional information on third-party participation, please contact Robert Lahmann at (360) 418-2092.

Messages

- BPA is proceeding with needed transmission projects using its available borrowing authority, while seeking all other potential sources of capital.
- Non-federal participation in specific BPA transmission projects is one option. It could take several forms, from financing mechanisms to capacity leases. BPA is open to ideas from potential project partners.
- On March 5, 2002, BPA posted notices <http://www.transmission.bpa.gov/oasis/bpat/Notices/forum/messageview.cfm?catid=43&threadid=238> soliciting expressions of interest from non-federal parties who may wish to participate in one or more of BPA's planned transmission projects. The deadline for submissions is April 15.
- Eighteen of BPA's 20 top-priority transmission projects are open for potential non-federal participation. (The other two are too far into construction to accommodate a change in arrangements.)
- BPA has developed principles for non-federal participation to make sure the interests of its customers, ratepayers and the federal government are adequately addressed, and to assure equity to all interests. These principles are part of the participation solicitation.

Questions and Answers

1. What are BPA's current transmission projects and what capital do they need?

BPA has identified and transmission experts from Northwest utilities have prioritized 20 transmission projects needed soon to maintain a reliable grid. Cumulatively these projects

will cost \$1.3 billion. The first nine projects, needed variously between 2003 and 2006, will cost \$683 million.

2. Why is third-party participation one of the capital options BPA is pursuing?

First and foremost, BPA needs more capital to complete these projects than it can now tap from its existing sources. Certain types of third-party participation might work within BPA's existing authorities. There are several successful precedents. For example:

- ~~Four investor-owned~~ Several Northwest utilities bought long-term specific amounts of capacity in BPA's AC Intertie lines to California, in return for providing capital to build that project.
- The Goshen-Drummond and Swan Valley-Teton transmission projects are owned by the financing customers. BPA, however, built the lines, leases them with an option to buy them at any time, and receives vested title when the leases expire.
- The Western Area Power Administration just completed an arrangement under which publicly and privately owned entities will jointly finance 90 percent of the much-needed Path 15 project in California, in return for 90 percent ownership of that project. Western did, however, have special authority for this project.

3. What kind of third-party participation is BPA looking for?

It depends on the project. Many of the most crucial transmission projects are pieces of a larger plan to reinforce BPA's main grid. BPA does not have a particular view how third parties might participate in these main-grid reinforcements. Two of BPA's current top-priority transmission projects are not eligible for non-federal participation because they are too far along to change approaches. On the other hand, projects that primarily integrate a new power plant might easily lend themselves to participation by the project developer or another interest.

BPA is open to third-party participation on 18 of its 20 current top-priority transmission projects (known as the G20). The two exceptions are G6, Schultz Series Capacitors, and G7, Celilo Modernization. These projects are well underway, and their financing arrangements have been determined.

Details on the projects being considered for non-federal participation are posted on TBL's external web site at

http://www.transmission.bpa.gov/tbllib/Publications/Infrastructure/default_files/slide0001.htm

4. Is BPA looking at third-party financing or third-party participation?

Both are possible under the "third-party participation" title and solicitation.

5. What are the pros and cons of third-party financing and third-party participation?

Each mechanism might provide capital to get some needed projects on line, in time.

Third-party financing could be arranged, for example, through groups of BPA customers. BPA would own the project and amortize the cost through rates. Interest would likely be taxable and carry higher rates than Treasury borrowing or existing Energy Northwest debt. Higher costs either reduce funding available for actual public benefits, increase rates, or both. The scope and cost of third-party financing that might be available is now unknown.

Third-party participation could involve acquisition of ownership or ownership-like interests in assets in payment for use of third-party capital. Only those projects which other entities feel would repay their investment are likely to attract third-party participation. The AC Intertie arrangement and WAPA's Path 15 added or will add significant capacity to those paths, a portion of which can easily be assigned to participants. Many of BPA's current G20 transmission projects do not add new capacity but reinforce overstretched, existing transmission paths. BPA is interested to learn what sort of interest there might be in participation in these projects.

6. What is the role of BPA's third-party participation principles?

BPA has developed principles for non-federal participation to make sure the interests of its customers, ratepayers and the federal government are adequately addressed, and to assure equity to all interests. The principles will:

1. Determine which infrastructure projects are eligible for non-federal participation.
2. Define the sideboards on the types of participation that BPA will pursue.

BPA's third-party participation/financing principles are appended to these talking points.

7. What kind of interest does BPA expect to receive?

Several kinds of entities might be interested. For example, an equipment or supply manufacturer might be interested in installing series capacitors and leasing them to BPA with option to buy. Or, a generator that wants to use a line might be willing to put up money in return for long-term capacity.

8. How would securing capacity rights to BPA lines for specific entities meet Federal Energy Regulatory Commission directives on open and non-discriminatory transmission access?

FERC is currently considering rules for use of transmission capacity needed for new power plant integration. BPA is trying to be flexible and anticipate where FERC might go. While FERC's rules are not directly applicable to BPA, they provide useful information and guidance. BPA's principles are therefore likely to reflect FERC's existing and anticipated direction.

9. Couldn't BPA just borrow money from a third party and repay it?

No. BPA is not authorized in law to borrow money directly from financial markets. Its direct source of capital financing is the U.S. Treasury. BPA has backed third-party debt associated with Energy Northwest nuclear projects, some small generation projects and some energy conservation projects. This solicitation may produce new, creative ideas that will help meet the region's needs and adhere to BPA's principles.

10. Could utilities ask for long-term capacity rights, as they did in AC Intertie arrangements?

Yes, that's one possibility.

11. What happens next?

BPA's solicitation of interest was published in FedBizOpps and posted on OASIS on March 5, 2002. Statements of Interest are due on or before April 15, 2002. What happens next will depend on the response to the solicitation of interest, and the objectives and perspectives of respondents. If only one party is interested in participating in a particular project, BPA may conduct bilateral negotiations. If many parties are interested in a given project, BPA may issue a competitive solicitation.

12. Why just transmission?

BPA is focusing its current effort on transmission projects for several reasons. BPA has found in the past that adding the costs associated with third-party involvement in small-scale projects, such as some energy efficiency projects, can become prohibitive. Investments that are non-revenue producing, such as fish and wildlife projects, would likely not appeal to financial sources that expect a return on investment. Generation investments are not being considered because BPA needs all of the capability of the system to meet its own load obligations. Unlike transmission, there are no situations where BPA can envision assigning capability of such an infrastructure investment to another party.

13. How much of BPA's capital needs might non-federal participation provide?

We don't know. The solicitation will teach us what interest is out there, what kind or how much.

**BPA PRINCIPLES FOR NON-FEDERAL PARTICIPATION
TRANSMISSION INFRASTRUCTURE PROJECTS**

1. The process is intended to obtain as much interest as is possible in cost effective non-federal participation and financing of transmission infrastructure projects.
2. Non-federal participation may include ownership or ownership like interests but will require complete control, operation and maintenance of the infrastructure assets by BPA.

3. Development of agreements for non-federal participation must not delay critical project completion.
4. The process should anticipate the rules being developed in FERC's NOPR process on integration of generation resources and take them into consideration.
5. Conditions of non-federal participation must be permissible under BPA's Open Access Transmission Tariff and existing statutory authority.
6. Risks incurred or avoided by BPA will be quantified to assess the total cost of any non-federal participation.
7. Adequate real property rights must be secured.
8. Any non-federally owned project must meet BPA's system interconnection requirements.
9. Mixed ownership of equipment within a substation, while not prohibited, is not favored.

BPA Capital Program Talking Points
Feb. 7, 2002

Background

The President's budget, submitted to Congress on Feb. 4, proposes increasing BPA's borrowing authority with the U.S. Treasury by \$700 million. BPA strongly supports this proposal. BPA's capital needs for the next decade exceed its existing borrowing authority by \$2 billion. The \$700 million would delay BPA hitting its borrowing authority ceiling by about two years (2006 instead of 2004). The agency needs about \$1.3 billion to fund to completion infrastructure projects planned to begin construction in the next five years.

The agency is exploring other potential ways to raise capital, such as third-party participation in or financing of BPA transmission projects. BPA also has been restructuring its overall outstanding debt to optimize its portfolio and create room within its existing borrowing authority for new capital funding. For more information, contact David Armstrong at X7544.

Messages:

- BPA strongly supports the president's budget proposal.
- In the next six to eight months, Congress will act on the 2003 budget, including whether to increase BPA's borrowing authority.
- BPA's capital needs for the next 10 years exceed its existing borrowing authority by \$2 billion.
- For 2002, BPA throttled back modestly its capital construction program and is restructuring some of its debt portfolio to keep key projects mostly on schedule. If the agency doesn't get additional borrowing authority for 2003, it will have to re-evaluate and re-prioritize its entire capital program, including transmission, hydro improvements, energy conservation and fish and wildlife.
- BPA is actively pursuing other options to raise capital. Other alternatives usually cost more, are more limited in their applications and are less certain. BPA is actively pursuing:
 - Restructuring existing debt.
 - Seeking third-party financing or participation in transmission projects.

Questions and Answers

1. What's the prognosis? How does BPA expect to muddle through here?

With \$700 million in additional borrowing authority as proposed by the president, BPA will be able to proceed with its immediate construction program. (The president's 2003

budget is posted at www.omb.gov.) However, the long-term issue is still unresolved. BPA will wait until this summer to see how Congress disposes of the issue before reevaluating its capital program. Meanwhile, BPA will explore other potential financial tools to raise needed capital.

2. What financial tools other than borrowing authority is BPA exploring?

1. Non-federal participation or financing: Publicly owned or investor-owned utilities, product suppliers, or others might participate in a BPA project. There are precedents. On the AC Intertie, Northwest utilities paid the majority of the capital cost for the addition of the Third AC Intertie project up front in return for life-of-facility contracts for capacity rights on the entire AC Intertie.

The size, scope and effects of this potential source of capital are not yet known. BPA plans to solicit general expressions of interest in participation in transmission projects through a notice posted on OASIS and published in the Federal Register in the next few weeks. Other forms of non-federal participation, such as tribal or state agency financing for hatchery improvements, may be explored separately.

2. Debt Restructuring: BPA routinely refinances existing debt, including Energy Northwest debt, to reduce net costs to ratepayers, keep rates low and maintain financial flexibility. BPA is also restructuring its non-federal and federal debt portfolio to pay off higher cost Treasury debt sooner than planned. This reduces BPA's annual debt service and speeds up repayments to the U.S. Treasury. Paying Treasury debt back early creates more room under BPA's Treasury borrowing ceiling.

3. What is BPA's existing source of capital?

BPA currently has \$3.75 billion in borrowing authority that was provided by Congress in \$1.25 billion increments in 1974, 1981 and 1983.

4. How much additional capital does BPA need?

BPA's use of its existing borrowing authority stands at \$2.7 billion. Its infrastructure program means the existing \$3.75 billion Treasury debt ceiling will carry BPA only through 2003. By 2011, BPA's capital requirements will exceed its existing borrowing authority by \$2 billion. Completion of the program through 2011 using borrowing authority for all financing would require a ceiling of \$5.75 billion.

5. What are the pros and cons of the different capital sources?

BPA's line of credit with the U.S. Treasury is the fundamental capital source approved for the agency by Congress. BPA's Treasury borrowings carry current interest rates, and fully repay the Treasury with interest. The possibility of additional borrowing authority for BPA is now uncertain and will remain so until legislation passes and is signed by the president.

Other forms of financing frequently carry higher costs, and the extent of their availability is unknown. Higher-cost financing means more money goes to pay interest. This reduces dollars available to carry out actual projects and/or puts pressure on rates.

6. *Where is BPA focusing its capital investments? (These are total capital investments by category, not incremental borrowing needs)*

The Secretary of Energy has determined that the U.S. energy infrastructure – that network of the electric generators, transmission lines, refineries and pipelines that convert raw resources into usable fuel – is woefully antiquated and inadequate to meet future needs. The Secretary has stated that unless these and other U.S. energy challenges are addressed, America’s energy supply will be continually at risk. BPA capital investments comprise crucial investments to strengthen the Northwest's overstretched energy infrastructure. The capital program breaks down as follows:

1. Transmission: BPA has identified 20 crucial transmission projects needed by 2006, which cumulatively will cost \$1.3 billion in new capital investments; the top nine of these projects cost \$683 million. If more than 5,000 megawatts of new generation come on line in the region, the resulting additional transmission business will pay for the new transmission projects without an increase in transmission rates. Transmission’s total capital program through 2011 is expected to total \$3.3 billion. All costs will be recovered through BPA transmission rates. *(For details, see talking points, keeping current, and Vicki VanZandt power point presentations on transmission infrastructure. Contact Hugh Moore)*

2. Federal Hydropower: The Northwest’s federal hydro projects have an average age of 45 years. An Asset Management Strategy required by Congress found a need to invest nearly \$1 billion over the next 10-15 years. Without investments, recent history indicates generation availability may decline as much as 1.75 percent a year. BPA’s planned \$1.272 billion in investments would increase federal power output by 380 average megawatts through generation efficiency improvements, optimization of hydro operations and new generation capacity at existing projects. This is equivalent to two new combined-cycle combustion turbines at a fraction of the fixed cost and with no additional fuel cost. *(For details, see PBL’s Sept. 2001 power point presentation, “PBL Capital Investment Plan.” Contact Liz Evans.)*

3. Energy Conservation: BPA is required by the 1980 Northwest Power Act to acquire all cost-effective conservation possible when developing energy resources. BPA expects its \$500 million capital investment in conservation over 10 years to save about 225 aMW. This capital will primarily fund conservation augmentation projects proposed and carried out by BPA customer utilities. *(Ibid.)*

4. Fish and Wildlife: BPA estimates needs of about \$36 million a year for capital construction for its fish and wildlife program through 2007, including hatchery reconfigurations and other projects. Capital projects are identified and prioritized in the

National Marine Fisheries Service and U.S. Fish and Wildlife Service biological opinions on endangered or threatened species affected by Northwest federal hydro operations, and in the Northwest Power Planning Council's Fish and Wildlife Program. *(See fish budget plans recently presented to the Northwest Power Planning Council.)*

7. *Wouldn't an increase in capital financing for BPA naturally make room for more funding for programs viewed as underfunded?*

BPA is under severe pressure to keep its costs low. Its current financial condition, current and expected power market prices, pressure on rates and federal budgetary pressures all suggest cutting costs wherever possible. In the early 1990s, faced with similar pressures, BPA cut and delayed capital projects. That's one reason the need for capital investments is so urgent now. So, BPA's capital program reflects careful prioritization of needs under fiscal constraint. Furthermore, each of the capital programs discussed above -- transmission, hydro improvements, energy conservation and fish and wildlife -- was developed in significant review and consultation with Northwest constituents.

- The **transmission** projects were reviewed and prioritized by the Infrastructure Technical Review Committee of Northwest utilities. Also, BPA is requesting public comments on non-transmission alternatives. See: http://www.transmission.bpa.gov/tblib/Publications/Infrastructure/default_files/slides0001.htm
- BPA, the U.S. Army Corps of Engineers and the Bureau of Reclamation together developed an Asset Management Strategy for Federal Columbia River Power System projects to assure they are reliable and productive. This is the source of BPA's capital program for the **hydro system**. For more, see Aug. 22, 2001 talking points, "Power Business Line Investment Plan."
- **Energy conservation** programs, including capital investments, are developed through a Regional Technical Forum convened by the Northwest Power Planning Council, and representing all interests. See the Council's web site on the subject at <http://www.nwcouncil.org/energy/rtf/Default.htm>.
- **Fish and wildlife programs**, including capital investments, are developed and prioritized through the Northwest Power Planning Council's Fish and Wildlife Program and federal biological opinions on endangered or threatened species affected by the federal hydro system. See the Northwest Power Planning Council fish site at <http://www.nwcouncil.org/fw/Default.htm>

8. *How do BPA's capital projects support the president's National Energy Policy?*

- BPA's capital projects support the goals of the President's National Energy Policy by relieving transmission system congestion, enabling the development of privately owned generating resources and encouraging the efficient use of energy.

- Transmission infrastructure investments will allow BPA to better protect the security and reliability of the federal transmission system. Power infrastructure investments will enhance the preservation of an existing, efficient generation system.
- BPA's accelerated construction program constitutes one of the most effective means of federal economic stimulus, which in this case can be provided without net taxpayer outlays.

9. What do the Northwest congressional delegation and the administration say about BPA's need for additional capital?

The region's congressional delegation and the administration both recognize and support BPA's need for adequate sources of capital. For example, in a recent letter to members of the Northwest congressional delegation, the Bush administration said it is "taking steps to reduce the chances of repeating the electricity shortages caused by inadequate generation supply and weak infrastructure." Lawrence B. Lindsey, assistant to the president for economic policy, continued, "DOE recognizes that Bonneville's transmission system needs to be expanded. The Administration will work with Congress to ensure that Bonneville has adequate resources to conduct an effective capital program."

10. Why should anyone think BPA is worthy of a bigger line of credit - in any form?

BPA's management of its finances has been widely regarded as sound, particularly through this last decade of wholesale power deregulation and the past year's power crisis. For example, Moody's Investor's Service affirmed BPA's Aa1 bond rating in November 2001 - after it and other rating agencies slashed many other utilities' ratings in the wake of the West Coast power crisis and the Enron meltdown. "Despite the significant operating pressures," Moody's said in its annual rating report, "BPA managed well with the use of numerous financial and operational strategies to maintain electric system reliability while keeping a satisfactory level of cash reserves, insuring Energy Northwest/WPPSS revenue bonds were paid and paying the U.S. Treasury in full and on time."

Similarly, Standard & Poor's affirmed its AA- rating of BPA-backed bonds in November, stating, "Bonneville has gone 18 years without deferring Treasury obligations and, as was evidenced in 2001, has a high degree of regional support to assure that this does not occur. Bonneville has also generated consistently solid debt service coverage."

11. Why can't BPA live within its existing lines of credit with the Treasury?

Actually, the agency has done pretty well with what it has. Congress has typically legislated borrowing authority for BPA in increments expected to suffice for about 10 years. However, the last adjustment was in 1983. BPA has stretched its existing borrowing authority through rigid cost control and by delaying projects for some years.

Now, however, investments must be made to maintain transmission reliability standards and help restore the balance of supply and demand in the Western Interconnection.

12. Why does it matter if BPA gets to build to its plans?

- No region in the country has been hit as hard by recession as the Northwest, and a reliable power supply is critical to the region's economic recovery and growth.
- Low-cost, plentiful electricity that can be delivered reliably encourages business and industry and creates jobs.
- The region remains committed to energy conservation as its first-priority resource. Conservation has the added benefit of reducing stress on the transmission grid. It is important to maintain a stable infrastructure to deliver conservation. It doesn't ramp up easily.
- Successful protection of fish and wildlife affected by the Northwest federal hydro system, especially endangered salmon, depends in part on BPA capital investments.

13. Doesn't the recession obviate or at least delay the need for BPA capital investments?

On the contrary, building needed infrastructure will help ease the recession and provide economic stimulus, in terms of actual construction projects, but, more importantly, in assuring the availability of reliable, low-cost power on which the region's economy is based. Inability to make needed investments could exacerbate the recession.

Demand for electricity and the immediate generation shortage in the Northwest have subsided because industries shut down due to last year's power crisis. Recession has further curbed demand. Economic recovery will require the additional generation and transmission; lack of new generation and transmission could stymie economic recovery.

14. Haven't a lot of power plants been cancelled lately? Doesn't that reduce the need for at least transmission investments?

Yes, a number of projects have been cancelled. However, in most cases, parties are exploring transferring ownership; some of those projects will still be built. But most of the projects BPA has identified serve multiple purposes of easing existing congestion points and serving load centers, as well as providing additional transmission capacity to serve various new power resources.

15. Does BPA need \$1.3 billion to build all 20 planned transmission infrastructure projects over the next ten years, or \$1.3 billion in additional capital for all capital projects, including power, conservation and fish and wildlife, through 2006?

Both. It's a coincidence that the amounts are the same.

Soliciting Non-Federal Participation in BPA Transmission Projects

BPA Talking Points

Feb. 7, 2002

Background

The Northwest's federal power and transmission systems require significant new capital investments in the next few years, more than can be funded from BPA's existing and anticipated lines of credit with the U.S. Treasury. The agency is therefore exploring all options to provide needed capital. One potential source is third-party participation in BPA capital projects, particularly transmission projects. These talking points outline what third-party participation might mean and how BPA is approaching it. For discussion of the overall issue of BPA's capital program, see separate talking points. For additional information, please contact Robert Lahmann at (360) 418-2092.

Messages

- BPA is proceeding with needed transmission projects using its available borrowing authority, while seeking all other potential sources of capital.
- Non-federal participation in BPA transmission projects is one option. It could take several forms, from financing mechanisms to capacity leases. BPA is open to ideas from potential project partners.
- In early February, BPA will solicit expressions of interest from non-federal parties who may wish to participate in one or more of BPA's planned transmission projects.
- BPA is developing principles for non-federal participation to make sure the interests of its customers, ratepayers and the federal government are adequately addressed, and to assure equity to all interests. These principles will be part of the participation solicitation.

Questions and Answers

1. What are BPA's current transmission projects and what capital do they need?

BPA has identified and transmission experts from Northwest utilities have prioritized 20 transmission projects needed soon to maintain a reliable grid.

- Cumulatively these projects will cost \$1.3 billion.
- The first nine projects, needed variously between 2003 and 2006, will cost \$683 million. (For details, see the talking points and Keeping Current on the G-9 and the G-20.)

2. Why is third-party participation one of the capital options BPA is pursuing?

Because it's legal, it might work, and there are several successful precedents. Non-federal entities have participated in federal projects in many ways. For example:

- On the AC Intertie lines to California, six Northwest utilities paid the majority of the capital cost for the addition of the Third AC Intertie project up front in return for life-of-facility contracts for capacity rights on the entire AC Intertie.
- BPA built the Goshen-Drummond and Swan Valley-Teton transmission projects as, essentially, a contractor to the customers who financed those projects. These lines are physically owned by the financing customers. BPA leases the lines, has an option to buy them at any time, and receives vested title when the leases expire.
- The Western Area Power Administration has just completed an arrangement under which publicly and privately owned entities will jointly finance 90 percent of the much-needed Path 15 project in California, in return for 90 percent ownership of that project.

3. What kind of third-party participation is BPA looking for?

It depends on the project. Many of the most crucial transmission projects are pieces of a larger puzzle to reinforce BPA's main grid, rather than distinct, complete transmission paths that can carry a discrete tariff, like the AC Intertie participation described above. It is difficult to envision how third parties might be interested in participating in these main-grid elements, other than by providing strictly financial mechanisms. Also, some projects, such as G6 and G7 in BPA's G9 top-priority list, are not eligible for non-federal participation because they are too far along to change approaches. On the other hand, projects that primarily integrate a new power plant might easily lend themselves to participation by the project developer or another interest.

4. Is BPA looking at third-party financing or third-party participation?

Both are included under the "third-party participation" title and solicitation.

5. What are the pros and cons of third party financing and third party participation?

Each mechanism might provide capital to get some needed projects on line, in time.

Third party financing could be arranged, for example, through groups of BPA customers. BPA would own the project and amortize the cost through rates as usual. Interest would likely be taxable and carry higher rates than Treasury borrowing or existing Energy Northwest debt. Higher costs either reduce funding available for actual public benefits, increase rates, or both. The scope and cost of third-party financing that might be available is now unknown.

Third-party participation involves acquisition of ownership or ownership-like interests in assets in payment for use of third-party capital. Only those projects which other entities feel would repay their investment are likely to attract third-party participation. The Third AC Intertie and WAPA's Path 15 added or will add significant capacity. Adding new capacity creates opportunities to assign rights to participants without affecting existing capacity rights. So this approach has worked well. Many of BPA's current transmission projects do not add

new capacity but reinforce overstretched, existing transmission paths. It will be interesting to see what sort of interest in participation these projects produce.

6. What is the role of BPA's third-party participation principles?

BPA is developing principles for non-federal participation to make sure the interests of its customers, ratepayers and the federal government are adequately addressed, and to assure equity to all interests. The principles will:

1. Determine which infrastructure projects are eligible for non-federal participation.
2. Define the sideboards on the types of participation that BPA will pursue.

BPA's third-party participation/financing principles are appended to these talking points.

7. What kind of interest does BPA expect to receive?

Several kinds of entities might be interested. For example, an equipment or supply manufacturer might be interested in installing series capacitors and leasing them to BPA with option to buy. Or a generator that wants to use a line might be willing to put up money in return for long-term capacity.

8. How would securing capacity rights to BPA lines for specific entities meet Federal Energy Regulatory Commission directives on open and non-discriminatory transmission access?

FERC is currently considering rules for use of transmission capacity for new power plant integration. BPA is trying to be flexible and anticipate where FERC might go. BPA's principles will continue to reflect FERC's existing and anticipated direction.

9. Couldn't BPA just borrow money from a third party and repay it?

No. BPA is not authorized in law to borrow money directly from financial markets. Its direct source of capital financing is the U.S. Treasury. BPA can and does back third-party debt associated with Energy Northwest nuclear projects and some energy conservation projects. This solicitation may produce new, creative ideas that will help meet the region's needs and adhere to BPA's principles.

10. Could utilities ask for long-term capacity rights, as they have in the Third AC Intertie?

Yes, that's one possibility.

11. What happens next?

BPA's solicitation of interest will be published in the Federal Register and posted on OASIS. What happens after that depends on the response to the solicitation of interest, and the objectives and perspectives of respondents. If only one party is interested in participating in a

particular project, BPA may conduct bilateral negotiations. If many parties are interested in a given project, BPA may issue a competitive solicitation.

12. Why just transmission?

BPA is focusing its current effort on transmission projects but the third-party participation could perhaps be expanded to other areas if interest exists and is consistent with BPA's principles.

13. How much of BPA's capital needs might non-federal participation provide?

We don't know. The solicitation will teach us what interest is out there, what kind or how much.

**PRINCIPLES FOR NON-FEDERAL PARTICIPATION
TRANSMISSION INFRASTRUCTURE PROJECTS**

1. The process is intended to obtain as much interest as is possible in cost effective non-federal participation and financing of transmission infrastructure projects.
2. Non-federal participation may include ownership or ownership like interests but will require complete control, operation and maintenance of the infrastructure assets by BPA.
3. Non-federal participation or financing must not "score" on federal debt.
4. Development of agreements for non-federal participation must not delay critical project completion.
5. The result of the process should anticipate the rules being developed in FERC's NOPR process on integration of generation resources.
6. Conditions of non-federal participation must be permissible under BPA's Open Access Transmission Tariff and existing statutory authority.
7. Risks incurred or avoided by BPA will be quantified to assess the total cost of any non-federal participation.
8. Adequate real property rights must be secured.
9. Any non-federally owned project must meet BPA's system interconnection requirements.
10. Mixed ownership of equipment within a substation, while not prohibited, is not favored.

BPA Needs Capital Sources for Critical Northwest Infrastructure

Talking Points for use *AFTER* release of President's Budget, Feb. 4

Draft. Jan. 30, 2002

This draft assumes \$700 million in added borrowing authority in the president's budget.

Background

The President's budget proposes increasing BPA's borrowing authority with the U.S. Treasury by \$700 million. BPA strongly supports the president's proposal. The Northwest needs to invest immediately to fix its outdated energy infrastructure. A major part of this need lies with BPA. BPA's transmission grid is stretched to its limit. Many federal generators need repair and upgrading. Renewable resources, energy conservation and fish and wildlife recovery all require capital construction with secure sources of financing.

BPA existing line of credit with the U.S. Treasury was last updated decades ago. The proposed increased borrowing authority, if adopted by Congress, would provide enough capital to begin projects needed by 2005. To fund capital projects scheduled after 2005, BPA may need to return to Congress and the administration for further borrowing authority.

BPA is also exploring other potential ways to raise capital, such as third-party participation in or financing of BPA capital projects and restructuring BPA's existing debt, including interfunctional loans.

Messages:

- BPA is grateful to the administration for proposing to increase BPA's borrowing authority in the president's 2003 budget.
- The need for increased capital is immediate: Absent action, BPA's existing capital for new transmission would be exhausted in early 2004. Absent adequate capital, BPA would have to reprioritize all its capital investments and delay projects that the region has already identified as sorely needed.
- The president's proposed \$700 million increase in BPA's borrowing authority will permit immediate capital projects to proceed on schedule through 2005.
- For the long-term, BPA's additional capital needs exceed its existing borrowing authority by more than \$2 billion. BPA is therefore exploring all potential future sources of capital, including non-federal participation in transmission projects and debt restructuring. The need for infrastructure investment is critical and immediate to improve reliability and to help restore the balance of power supply and demand in the region.

- A sound energy infrastructure will help avoid power system emergencies such as those seen last year.
- BPA's investments will help guarantee a reliable supply and delivery of energy needed to fuel a robust economic recovery.
- Investments in energy infrastructure are critical to protecting and enhancing both the Northwest economy and environment.
- Adequate funding for BPA's capital requirements is necessary to carry out the goals of the President's National Energy Policy.

Q&A

What's the prognosis? How does BPA expect to muddle through here?

With \$700 million in additional borrowing authority as proposed by the president, BPA will be able to proceed with its immediate construction program. However, the long-term issue is still unresolved. BPA will wait until this summer to see how Congress disposes of the issue before reevaluating its capital program. Meanwhile, BPA will immediately proceed to explore other potential financial tools.

What financial tools other than borrowing authority is BPA exploring?

1. Non-federal participation: Publicly owned or investor-owned utilities, product suppliers, or others might participate in a BPA project. There are precedents. On the Third AC Intertie, for example, utilities paid shares of the capital cost of the project up front in return for 20-year contracts for shares of its capacity.

The size, scope and effects of this potential source of capital are not yet known. BPA plans to solicit general expressions of interest in participation in transmission projects through a notice posted on OASIS and published in the Federal Register in the next few weeks. BPA is now conferring with customer groups and other interested parties on issues to address in principles to guide use of non-federal participation. Other forms of non-federal participation, such as tribal or state agency financing for hatchery improvements, may be explored separately.

2. Debt Restructuring and Interfunctional Loans: BPA routinely refinances existing debt, including Energy Northwest debt, to reduce net costs to ratepayers, keep rates low and maintain financial flexibility. This reduces BPA's annual debt service and speeds up repayments to the U.S. Treasury. To allow both power and transmission business lines to benefit from this mechanism, BPA is investigating the possibility of loaning some of the proceeds from the power business line to the transmission business line. Interfunctional loans would be made within principles set to assure neither business line's customers are

disadvantaged and that the tool is used within BPA's existing authorities. BPA will discuss these principles with customers and other interested parties.

CONTINUE WITH REMAINING RELEVANT Q&A FROM INTERIM TALKING POINTS.

Interim Infrastructure Talking Points

For Use Before the President's Budget is Released on Feb. 4

Jan. 17, 2002

Background

The Northwest needs to invest immediately to fix its outdated energy infrastructure. A major part of this need lies in the Bonneville Power Administration. BPA's transmission grid is stretched to its limit. Many federal hydro generators need repair and upgrading. Renewable resources, energy conservation and fish and wildlife recovery all require capital construction with secure sources of financing.

BPA normally finances capital investments with loans from the U.S. Treasury, which it repays with interest. But the agency's existing line of credit with the Treasury, last updated decades ago, is about to be exhausted.

Messages:

- Last year, Congress considered but did not pass legislation to increase BPA's borrowing authority by \$2 billion. This, together with existing borrowing authority, would have met BPA's capital needs through about 2011. BPA needs at least \$1.3 billion to support fully the infrastructure projects planned for construction starts in the next five years.
- In February, the administration will propose its fiscal 2003 budget. We hope it will include increased borrowing authority for BPA.
- In the next six to nine months, Congress will act on the 2003 budget, including whether to increase BPA's borrowing authority.
- Since BPA didn't get new borrowing authority last year, the agency throttled back modestly its 2002 capital construction program. With some restructuring of its debt portfolio, the agency can free up some borrowing room under its current ceiling to assure that the multi-year projects begun this year can be completed. This will keep key projects mostly on schedule in the 2002 construction season.
- If BPA doesn't get additional borrowing authority for 2003, the agency will have to re-evaluate and re-prioritize its entire capital program, including transmission, hydro improvements, energy conservation and fish and wildlife. We'll have to take a hard look at what we can really support.
- To support its capital program for the next 10 years, including infrastructure additions that are crucial to solving transmission congestion and generation supply problems, BPA needs \$2 billion in increased borrowing authority.

- Adequate capital funding is critical to maintaining a reliable transmission grid, achieving energy conservation, and protecting fish and wildlife affected by the federal hydro system.
- Borrowing authority is not BPA's only source of financing for the capital program, but other alternatives usually cost more, are more limited in their applications and are less certain.
- The alternatives for financing capital program are:
 - Finance from current revenues by sharply increasing rates,
 - Restructure existing debt,
 - Seek annual appropriations,
 - Seek third-party financing (often more expensive), or
 - Seek third-party participation (limited applications).
- Higher-cost financing means more money goes to pay interest. This reduces dollars available to carry out actual projects and/or puts pressure on rates.

What is BPA's existing source of capital?

BPA currently has \$3.75 billion in borrowing authority that was provided by Congress in \$1.25 billion increments in 1974, 1981 and 1983.

How much additional capital does BPA need?

BPA's use of its existing borrowing authority stands at \$2.7 billion. Its infrastructure program means the existing \$3.75 billion Treasury debt ceiling will carry BPA only through 2003. Completion of the program through 2011 using borrowing authority for all financing would require a ceiling of \$5.75 billion.

By 2011, BPA's capital requirements will exceed its existing borrowing authority by \$2.0 billion. The investments are needed to help prevent recurrence of the West Coast energy crisis, support economic recovery and help meet the region's long-term power and transmission infrastructure requirements, consistent with the President's Energy Plan.

Where is BPA focusing its capital investments? (These are total capital investments by category, not incremental borrowing needs)

1. Transmission: BPA has identified 20 crucial transmission projects needed by 2006, which cumulatively will cost \$1.3 billion in new capital investments; the top nine of these projects cost \$683 million. If more than 5,000 megawatts of new generation come on line in the region, the resulting additional transmission business will pay for the new transmission projects without an increase in transmission rates. Transmission's total capital program through 2011 is expected to total \$3.3 billion. All costs will be recovered through BPA transmission rates. *(For details, see talking points, keeping current, and*

Vicki VanZandt power point presentations on transmission infrastructure. Contact Hugh Moore)

2. Federal Hydropower: The Northwest's federal hydro projects have an average age of 45 years. An Asset Management Strategy required by Congress found a need to invest nearly \$1 billion over the next 10-15 years. Without investments, recent history indicates generation availability may decline as much as 1.75 percent a year. BPA's planned \$1.272 billion in investments would increase federal power output by 380 average megawatts through generation efficiency improvements, optimization of hydro operations and new generation capacity at existing projects. This is equivalent to two new combined-cycle combustion turbines at a fraction of the fixed cost and with no additional fuel cost. *(For details, see PBL's Sept. 2001 power point presentation, "PBL Capital Investment Plan." Contact Liz Evans.)*

3. Energy Conservation: BPA is required by the 1980 Northwest Power Act to acquire all cost-effective conservation possible when developing energy resources. BPA expects its \$500 million capital investment in conservation over 10 years to save about 225 aMW. This capital will primarily fund conservation augmentation projects proposed and carried out by BPA customer utilities. *(Ibid.)*

4. Fish and Wildlife: BPA estimates needs of about \$36 million a year for capital construction for its fish and wildlife program through 2007, including hatchery reconfigurations and other projects. Capital projects are identified and prioritized in the National Marine Fisheries Service and U.S. Fish and Wildlife Service biological opinions on endangered or threatened species affected by Northwest federal hydro operations, and in the Northwest Power Planning Council's Fish and Wildlife Program. *(See fish budget plans recently presented to the Northwest Power Planning Council.)*

Does BPA need \$1.3 billion to build all 20 planned transmission infrastructure projects, or \$1.3 billion for additional capital for all capital projects, including power, conservation and fish and wildlife, through 2006?

Both. It's a coincidence that the amounts are the same.

What financial tools other than additional federal borrowing authority might be available to BPA?

1. Raising Rates: BPA can finance capital projects from current revenues. This means increasing rates sharply.

2. Annual Appropriations: Congress gives many agencies annual appropriations for capital projects but decided that was not the best means of sustaining critical infrastructure for a self-financed agency like BPA. The Transmission Act of 1974 was designed to allow BPA to let contracts to build multi-year transmission projects, and so add to the region's transmission grid in a timely manner. The same need for major projects requiring multi-year capital commitments exists today.

3. Debt Restructuring: Debt restructuring can extend the repayment period for non-Treasury debt, accelerate repayment of Treasury debt, and so make room under BPA's existing borrowing cap to finance new capital projects.

4. Third-party Financing: BPA customers or other third parties might provide financing for BPA projects. This approach has been used in energy conservation but is often expensive and time consuming to consummate. This is also the approach used in Energy Northwest projects.

5. Non-federal Participation: Publicly owned or investor-owned utilities, product suppliers, or others might participate financially in a BPA project in return for specific benefits. On the Third Oregon-California AC Intertie, for example, utilities paid shares of the capital cost of the project in return for 20-year contracts for shares of its capacity.

Why can't BPA just borrow money directly from banks or financial markets?

Because Congress has not specifically granted BPA that authority. Under the U.S. Constitution, private companies have unlimited charters – they hold all authorities not prohibited by law. They can borrow money anywhere, as long as the law doesn't say they can't. In contrast, federal agencies have limited charters – they can only do those things specifically authorized by Congress.

What's so critical about BPA's infrastructure needs?

The Secretary of Energy has determined that the U.S. energy infrastructure – that network of the electric generators, transmission lines, refineries and pipelines that convert raw resources into usable fuel – is woefully antiquated and inadequate to meet future needs. The Secretary has stated that unless these and other U.S. energy challenges are addressed, America's energy supply will be continually at risk.

How do BPA's capital projects support the president's National Energy Policy?

- BPA's capital projects support the goals of the President's National Energy Policy by relieving transmission system congestion, enabling the development of privately owned generating resources and encouraging the efficient use of energy.
- Transmission infrastructure investments will allow BPA to better protect the security and reliability of the federal transmission system. Power infrastructure investments will enhance the preservation of an existing, efficient generation system.
- BPA's accelerated construction program constitutes one of the most effective means of federal economic stimulus, which in this case can be provided without net taxpayer outlays.

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The region's congressional delegation and the administration both recognize and support BPA's need for adequate sources of capital. For example, in a recent letter to members of the Northwest congressional delegation, the Bush administration said it is "taking steps to reduce the chances of repeating the electricity shortages caused by inadequate generation supply and weak infrastructure." Lawrence B. Lindsey, assistant to the president for economic policy, continued, "DOE recognizes that Bonneville's transmission system needs to be expanded. The Administration will work with Congress to ensure that Bonneville has adequate resources to conduct an effective capital program."

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Why can't BPA live within its existing lines of credit with the Treasury?

Actually, the agency has done pretty well with what it has. Congress has typically legislated borrowing authority for BPA in increments expected to suffice for about 10 years. However, the last adjustment was in 1983. BPA has stretched its existing borrowing authority through rigid cost control and by delaying projects for some years. Now, however, investments must be made to maintain national transmission reliability standards and help restore the balance of supply and demand in the Western Interconnection.

Why does it matter if BPA gets to build to its plans?

- No region in the country has been hit as hard by recession as the Northwest, and a reliable power supply is critical to the region's economic recovery and growth.

- Low-cost, plentiful electricity that can be delivered reliably encourages business and industry and creates jobs.
- The region remains committed to energy conservation as its first-priority resource. Conservation has the added benefit of reducing stress on the transmission grid. It is important to maintain a stable infrastructure to deliver conservation. It doesn't ramp up easily.
- Successful protection of fish and wildlife affected by the Northwest federal hydro system, especially endangered salmon, depends in part on BPA capital investments.

Doesn't the recession obviate or at least delay the need for BPA capital investments?

On the contrary, building needed infrastructure will help ease the recession and provide economic stimulus, in terms of actual construction projects, but, more importantly, in assuring the availability of reliable, low-cost power on which the region's economy is based. Inability to make needed investments could exacerbate the recession.

Demand for electricity and the immediate generation shortage in the Northwest have subsided because industries shut down due to last year's power crisis. Recession has further curbed demand. Economic recovery will require the additional generation and transmission; lack of new generation and transmission could stymie economic recovery.

Haven't a lot of power plants been cancelled lately? Doesn't that reduce the need for at least transmission investments?

Yes, a number of projects have been cancelled. However, in most cases, parties are exploring transferring ownership; some of those projects will still be built. But most of the projects BPA has identified serve multiple purposes of easing existing congestion points and serving load centers, as well as providing additional transmission capacity to serve various new power resources.

Power Business Line Investment Plan

BPA Talking Points

August 22, 2001

For more information on the Federal Columbia River Power System investment plan, see Roy Fox or Phil Thor. For more information on the Energy Efficiency plan, see John Pynch or Gene Ferguson.

Background

The West Coast energy crisis, even taking into account California's attempt at energy deregulation, is basically an imbalance between supply and demand. The supply problem has three parts that BPA is aggressively addressing — transmission, generation and conservation. The effort has resulted in BPA requesting a \$2 billion increase in its borrowing authority. The transmission issues, which focus on the necessity for fully functioning paths to move energy from new generation to end users, have been laid out elsewhere. See, for example, the May Keeping Current: "Bringing power to the people; BPA's plan to assure reliable electric transmission in the Northwest."

The PBL role in addressing the supply problem centers on improving the reliability and productivity of the Federal Columbia River Power System and on acquiring cost-effective conservation that can serve the role of new generation and mitigate the need to purchase power in a high-priced and volatile market.

Even without the West Coast energy crisis, BPA needed to invest in the hydrosystem. System reliability has generally declined over the past 10 years. The system is large and aging. Significant investment is needed just to maintain the current levels of generation.

Messages

- Increased generation is part of the long-term solution to the West Coast energy crisis.
- PBL's investment strategy now includes an incremental \$496 million in capital expenditures over 10 years that are part of the requested \$2 billion increase in BPA's borrowing authority. These funds would be used for further improvements on the hydro system. The Asset Management Program already includes \$776 million in proposed capital expenditures for generation efficiencies, hydro optimization and reliability improvements over the next 10 years.

- The incremental investment could realize 117 average megawatts of power in addition to the 221 aMW acquired through the Asset Management Program (also called the base program).
- These proposed capital investments are the basis for BPA's request for an increase in its borrowing authority. If that borrowing authority is increased, it does not mean that these projects will automatically be funded. BPA will continue to review its capital program to ensure that it meets appropriate standards.
- BPA is required by the 1980 Northwest Power Act to acquire all cost-effective conservation possible when developing energy resources.
- BPA expects its \$500 million capital investment in conservation over 10 years to result in savings of about 225 average megawatts.

Questions and answers

1. What is the current status of BPA's request for an increase in its borrowing authority?

Congress is in recess from Aug. 4 through Sept. 4. Prior to this recess, the FY2002 Energy and Water Development Appropriations Bill passed the Senate on July 19 and the House on June 25. The House version of the bill does not provide an increase in borrowing authority. The Senate version provides an increase of \$2 billion in BPA's borrowing authority, but the increase is subject to annual appropriations, which in effect makes the increase worthless. When Congress returns from recess, the differences between the House and Senate versions of the bill will need to be resolved in conference committee, which will include select House and Senate members of the full appropriations committees. Specifically, the language requiring annual appropriations will need to be removed from the bill. The conference will take place some time during the month of September.

In addition, the Bush administration through the Office of Management and Budget (OMB), issued a Statement of Administration Policy (SAP) on July 17 that objects to the increase in borrowing authority for BPA "because it is not needed at this time to fund BPA's planned expenditures."

2. Does the PNW congressional delegation support the request for increased borrowing authority?

In general, yes. The eight Northwest Senators wrote to OMB Director Mitch Daniels on July 12 regarding BPA's need for an increase in its borrowing authority. "To assure that BPA continues to have sufficient financial resources necessary to make needed electric infrastructure investments in a timely manner, BPA will need up to \$2 billion in additional borrowing authority," the Senators wrote. The entire Northwest

congressional delegation is beginning to understand the need for investment in both the transmission and generation systems as well as the importance of funding conservation, and it supports an increase in borrowing authority.

3. If BPA receives the full \$2 billion increase in borrowing authority, will all the projects in the capital program automatically go forward?

No. BPA will continue to review proposed projects and pursue only those that make good business sense.

4. What happens if Congress approves less than the \$2 billion requested?

It's a bit too soon to tell, but it is likely that BPA will reallocate the borrowing authority it has in order to complete the projects with the highest priority.

5. Why is BPA out telling customers about this plan now when its been in the works for so long?

The West Coast energy crisis has accelerated BPA's need to limit its exposure to the volatile energy market through additional investments in generation and conservation. TBL has been informing the region of its plans to spend \$1.3 billion over the next 10 years on transmission infrastructure since March. TBL has received much support for its plans. Customers and other key stakeholders do not understand PBL's investment needs, so we are informing them.

6. Why should customers support the request for additional borrowing authority to pay for conservation activities?

Basically, capitalizing BPA's conservation investments reduces the rate increase BPA may experience as compared to expensing those conservation costs, and helps us avoid making power purchases in a volatile market. More fundamentally, BPA is interested in establishing a stable level of funding for conservation so that we avoid the ebb and flow that has occurred over the last several years. Maintaining a viable conservation infrastructure under this cyclic type of funding regime is very difficult and makes it hard to respond to the type of energy situation we faced this past year and could face again this winter.

7. Why is BPA concerned with additional generation when something like 29,000 average megawatts of new generation is on the drawing board in the region?

Not all that generation will be built and all that is built will be "merchant" generation that will be sold where profits are the highest. This means the new generation may not be available to the Northwest. BPA is concerned about meeting regional needs for additional energy.

8. What is BPA's responsibility for generation?

BPA has a responsibility to manage the FCRPS assets responsibly. Under congressional direction, BPA worked with the U.S. Army Corps of Engineers and the Bureau of Reclamation to create an Asset Management Strategy for the FCRPS projects to assure that they are reliable and productive. The baseline asset management program appears in the FY 2002-2006 rate case as a \$362.6 million capital expense for generation efficiency, hydro optimization and reliability improvements over five years and \$776 billion over 10 years. The increased borrowing authority would allow PBL to consider additional investments over this base program.

9. Does this investment program goes beyond the rate case?

Yes. The energy crisis arose after the rate case was put together and spurred another look at what BPA could do to boost regional power supplies. The additional \$496 million over 10 years includes \$20 million more for generation efficiency, \$25 million for hydro optimization, \$291 for generation expansion and \$160 million for reliability improvements.

10. What are these categories?

Generation efficiency includes such efforts as installing new turbine runners to produce more power from the same amount of water. Hydro optimization is similar but includes ways of getting efficiency, such as operating the most efficient generation units within a project and the most efficient projects more often, that don't require new equipment. Generation expansion includes developing new capacity at the existing projects. This category is not in the base asset management program. Reliability improvements cover such things as rewinding generators and replacing governor control systems to have the generation units available and system performance high.

11. Why are these investments needed?

Some of the FCRPS projects are 60 years old and the projects average about 45 years old. In the days when maintenance was financed through appropriations, the projects fell into disrepair. Even though maintenance has improved under the direct funding arrangement BPA has with the Corps of Engineers and the Bureau of Reclamation, project availability remains under the industry average of 90 percent. The goal is to raise availability to 95 percent. Generation enhancement is emphasized in the investment program because it adds additional generation at existing projects. Having generation available more often and adding generation can have a significant impact on the power available to the region.

12. How do these levels of investment compare to those of other utilities?

The FCRPS has one of the lowest investment rates, as measured in dollars per installed kilowatt of capacity, of any hydro system. The total FCRPS capital investment program (minus the expansion, which represents new resources) would

average about \$4.20 per kilowatt, which is well below the historical rate for other hydro utilities of more than \$7 per kilowatt.

13. Why is conservation considered generation?

Conservation that reduces the amount of generation that must be built is equivalent to new generation. BPA's Conservation Augmentation program is designed specifically to augment BPA's supply of energy through the acquisition of conservation. This is consistent with BPA's responsibilities under the 1980 Power Act. In addition, since BPA will be augmenting its resource base in order to meet its subscription obligations, conservation reduces BPA's exposure to volatile market prices.

14. What is the conservation goal?

Bonneville's share of the conservation goal set by the Northwest Power Planning Council is 470 average megawatts through 2011. The portion of that that would come from the additional capital investment is 225 aMW.

15. Does this mean BPA will go back to the "old ways" of conservation with a big staff at headquarters and lots of centrally-designed and centrally-funded programs?

No. BPA is focusing on customer-driven proposals and cost-effective conservation acquisitions. Since 1993, BPA has reduced its conservation staff from over 230 employees and 100 contractors to about 60 BPA employees and a dozen or so contractors. BPA has no plans to go back to these historical levels of staffing. There may be a slight increase of 5 to 15 BPA employees as BPA diversifies its resource portfolio to include more conservation and distributed generation options. With respect to centralized funding, BPA's conservation capital budget is needed to support the full range of ConAug proposals being submitted by customers. BPA will continue to work with utilities to offer a broad range of ConAug program options that are easy to administer and don't require a large numbers of staff to implement (two recent examples are the regional VendingMi\$er program and the Energy Star CFL rebate coupon program).

16. What acquisitions would the \$500 million in capital for conservation pay for?

The conservation capital would cover mostly the conservation augmentation activities such as the Invitation to Reduce Load through Conservation, Vending Mi\$er and the compact fluorescent light bulb program. In addition, the Energy Web project would get additional support.

17. What is the total cost to the PBL of all this new conservation and generation?

Roughly, \$1 billion. The FCRPS component is estimated at \$496 million and the conservation at \$500 million. When combined with the Transmission Business Line's needed investments, the total comes to \$2.3 billion:

- \$1.3 billion for transmission
- \$0.5 billion for the FCRPS
- \$0.5 billion for conservation.

18. How will BPA pay for this?

The most desirable source is extended borrowing authority. The addition to the current borrowing authority needed is \$2 billion after \$0.3 billion is subtracted for bond repayment during the 10-year period during which the new capital projects would be constructed.

19. Why can't the projects be paid for under BPA's current borrowing authority?

BPA has been very careful to stretch out its current borrowing authority, which was set at \$3.75 billion in 1984. It was expected to cover BPA's capital projects for about 10 years. The agency has stretched it far longer than expected, but the magnitude of the infrastructure improvements needed to assure a reliable Northwest energy supply require an increase in that borrowing limit. Without an increase, BPA will hit its borrowing limit in 2004 and will be unable to meet the region's needs.

20. How will BPA repay the funds borrowed for capital programs?

Through its rates. The capital expenditures will bring in additional revenue from the increased amount of power being generated at the hydro projects and through the increased transmission needed for all the new generation projects being added to the system.

21. When will the new investments be repaid?

The new investments will be repaid within the expected service lives of the facilities or 50 years, whichever is less.



TBL Contract Strategy and Estimated Inventory Investments

BPA Talking Points

7/20/01

(BPA talking points are for internal use only)

These talking points explain the contract strategy and proposed inventory investments surrounding the upcoming improvements and additions to the transmission grid over the next five years. For additional information contact Ann Scholl at (360) 418-2714 or Mike Johns at (503) 230-4602.

Background

BPA plans to make significant improvements and additions to the region's transmission grid over the next five years to assure reliable transmission throughout its service area. Until this year, transmission lines have been reinforced, the capacity of existing lines has been extended and various control systems have been installed to compensate for the lack of new lines. BPA must now construct new lines to minimize the impact of work on existing lines, integrate new generation sources, and ensure reliable transmission.

An infrastructure strategic response team has been formed under the leadership of Vickie VanZandt, Fred Johnson, and Alan Courts. Specific response sub-teams, like the contract strategy team and the materials team, have also been formed. These sub-teams have suggested a contract strategy to accomplish the increased workload, including identifying and providing the necessary major materials, given current limited market conditions.

Messages

- TBL expects to spend \$775 million on infrastructure enhancements over the next five years, increasing the existing capital budget to \$2.2 billion. As an example, BPA will need to purchase 45 thousand tons of steel, 30 million feet of conductor, and 8 million bolts. Major material estimates alone total almost \$248 million.
- The projected infrastructure workload can only be completed with additional FTE and by finding better ways to conduct business. This will require establishing contracting relationships outside of traditional methods that are currently being used.
- In addition to new hires, TBL is pursuing bringing back retirees.
- TBL will be expanding contractor support of engineering and design activities to assist BPA

engineering resources in completing project designs, inspections, etc.

- TBL is considering creating long-term partnering arrangements with two furnish-and-install (F&I) prime contractors who will coordinate all of the subcontracts for equipment and installation. One contractor will be responsible for new line projects, and the other for new substations. These relationships need to be created as soon as possible, allowing BPA and the contractors to effectively acquire and train the necessary workforce, and to get materials ordered in time to meet aggressive energization schedules.
- A prime F&I contractor relationship will benefit both BPA and the contractor by allowing BPA to manage a major peak workload while at the same time continuing to accomplish the aggressive ongoing capital workload. The contractor will realize economic benefits by being part of a substantial effort to reinforce the transmission capacity of the Pacific Northwest.
- BPA will have the lead on oversight and inspection of infrastructure construction projects and will provide quality assurance support on strategic materials.

Questions and answers

1. What actions does the Infrastructure Contract Strategy Sub-team recommend?

The team recommends that:

- TBL award a "furnish and install" (F&I) contract to one supplier for all line projects, estimated at a total of 700 miles of transmission line.
- TBL award an F&I contract to one supplier for new substations.
- F&I contractors be required to order high-risk (strategic) items from BPA alliance partners at BPA's specification, price and quality. The F&I contractor will order against these alliance contracts as an agent of BPA. An alliance partner is a material supplier with whom BPA has established a mutual commitment for an extended period of time, including the sharing of information as well as the risks and rewards of the relationship.
- Material production capacity be reserved as soon as possible, specifying staggered deliveries to minimize inventory for work performed by BPA crews and turning reserved production capacity over to F&I contractors for line projects and new substations.
- Contractors use Pantellos, an e-marketplace platform for electronic transactions, to order materials. Products provided by alliance partners will be cataloged and made available for electronic ordering by F&I contractors. This will allow BPA to oversee the process, making sure that orders are accurate and progressing as expected, thus minimizing the agency's risk.
- BPA staff should keep inspections of infrastructure construction in-house.
- BPA should provide quality assurance and control on alliance partner products.
- BPA staff should do the design, furnish the materials and complete the installation work required in existing substations.

2. How does TBL propose to accomplish the additional workload?

There are four basic paths that TBL will pursue to complete the infrastructure improvements and continue to accomplish its ongoing workload.

1. Staffing plans call for increased FTE throughout the business line between now and 2006.

2. The direction that provides the greatest increase in flexibility and capability in the near term calls for increased on-site contracting with existing contractors such as NSRI.
3. Increase off-site contracting.
4. TBL is pursuing bringing back retirees in a contract capacity.

3. What are the contracting options that TBL has considered?

TBL has considered long-term agreements (partnership/alliance), master agreements, master contracts, quick response (letter) contracts, and systems contracts. Each of these options may have merit in specific situations.

4. What is a contract partnership?

A contract partnership (also called an alliance) is a mutual commitment over an extended period of time which includes sharing of information and sharing of the risks and rewards of the relationship. This could be the best option for an F&I contractor relationship.

5. What are the advantages of a contract partnership/alliance?

A contract partnership works under the principle of economies of scale, providing:

- Lower administrative costs for both BPA and the contractor,
- Higher quality; lower contract prices and procurement costs,
- More of the risk is shifted from BPA to the contractor,
- Flexibility in scheduling to accommodate both the infrastructure work as well as the current and ongoing TBL workload,
- Added incentive to track performance, improve quality and conduct joint planning,
- Increased ability to focus on safety,
- A less adversarial relationship, presumably leading to fewer claims.

6. Are there any disadvantages to a contract partnership/alliance?

Yes. If the market is volatile, BPA may run the risk of excluding a new source with exceptional capability. It is very important that adequate pre-award evaluation of alliance partner capability and capacity is conducted to ensure confidence in the alliance partners' ability to be BPA's long term primary supplier.

7. With what contractors does BPA currently have a relationship?

BPA currently has ongoing engineering, design or labor contracts in place with:

- NSRI,
- RMA (inspectors),
- Cameron and Associates,
- David Evans & Associates,
- Designtech Associates,
- PEC, CH2M Hill,
- Elcon,
- R & W Engineering,

- Power Engineers,
- Christenson Electric,
- Shannon & Wilson,
- Soderstrom, Mackenzie, and
- Gazley Plowman.

Additionally, BPA plans to reestablish relationships with several contractors, possibly including Black & Veatch, Burns & McDonnell, Sargent & Lundy, and others.

8. Approximately what portion of the current TBL workload is being contracted out?

The answer to this question varies by organization throughout the business line. Some organizations use no contractors, while others contract out upwards of 40 percent of their workload.

9. What external factors will influence the infrastructure project?

Several issues will have a bearing on the infrastructure project, including market conditions, vendor capacity and inventories, lead times for materials, competition for available capacity and products from other utilities and independent power producers, and the rising sense of urgency surrounding the energy crisis.

Talking points written by Hugh Moore, (503) 230-5811.

other talking points

The Need for \$2 Billion in New Borrowing Authority

BPA Talking Points

May 18, 2001

Background

BPA and the Pacific Northwest are facing a combination of power supply and economic challenges that are unprecedented in its history. The power supply is extremely tight in the West Coast Market signaled by soaring market prices. The supply has been further reduced due to poor hydro conditions in 2001 and the dysfunction of the California market system. The unprecedented conditions have contributed to emergency power shortages in California and extremely high power purchase costs throughout the interconnected West. BPA has been engaged in capacity-energy exchanges with the California grid to help avert blackouts but its own power situation is precarious. BPA's large purchases of power in 2001 have drawn heavily on its financial reserves and this situation is also contributing to rate pressure.

The Secretary of Energy has determined that the U.S. energy infrastructure – that network of the electric generators, transmission lines, refineries and pipelines that convert raw resources into usable fuel – is woefully antiquated and inadequate to meet our future needs. The Secretary has stated that unless these and other U.S. energy challenges are addressed, America's energy supply will be continually at risk. BPA has identified a number of actions that it is taking or could take over the next five years to provide additional electrical infrastructure relief. These actions could 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. BPA's remaining borrowing authority is not sufficient to fund all projects that have been identified to help relieve the West Coast infrastructure problems. As a result, BPA will need approximately \$2 billion in additional borrowing authority. BPA assumes revenues through rates will recover expenses associated with these investments.

Messages

- The current energy crisis points to the need for large new infrastructure investments.
- BPA is seeking \$2 billion in additional borrowing authority to help fund these investments.
- Although most of the funds may be used to increase transmission capacity, they may also be used to increase hydro-electric efficiencies and fund conservation.
- This additional increment of borrowing authority should provide sufficient funding for projects through approximately 10 years.

Questions and Answers

Why is BPA asking for \$2 billion when the current transmission infrastructure plan totals closer to \$750 million?

While the identified transmission projects are a large part of the total request, they still constitute at most only 60 percent of the dollars. BPA's need for borrowing authority also covers additional investments in hydro-system maintenance and improvements and conservation.

In addition, BPA typically requests sufficient borrowing authority to cover our Treasury financing needs for the next 5 to 10 years. The identified projects currently under discussion of the infrastructure plan roughly represent funding needs for the next 5 years only. It is important that BPA build flexibility into its funding request to cover infrastructure needs after the current plan. BPA believes that \$2 billion should provide that flexibility and should eliminate the need to ask for additional borrowing authority before the end of the 2011 rate period.

What is BPA's current total borrowing authority and how did we get to this total?

In total, BPA has access to \$3.75 billion in borrowing authority. In 1974, The Transmission Act provided the initial \$1.25 billion. In 1980, the Regional Act amended the Transmission Act and authorized an additional \$1.25 billion, which was included in the Appropriation Act of 1983. The Appropriation Act of 1984 provided an additional \$1.25 billion.

How has BPA managed its existing borrowing authority?

BPA has generally expected each increment of new borrowing authority to last about 10 years. This proved to be the case with the initial \$1.25 billion which was sufficient through the early 1980s. Since then, however, BPA has instituted many innovative practices that have enabled the borrowing authority to last much longer than anticipated.



BPA addresses transmission infrastructure inadequacies

BPA Talking Points

March 23, 2001

(BPA talking points are for internal use only)

Recent declarations of power emergencies and calls for conservation by the governors of Oregon and Washington have made it clear that the Northwest is short on power. At the completion of the Subscription process, BPA was looking at a deficit of about 3,000 average megawatts for the fiscal year 2002-2006 power rate period. The region as a whole could be shorter yet.

Generation is only half the equation. The region is also operating at or near its full transmission capacity. Building new generation will not solve the region's power shortage unless the power can be transmitted from where it is generated to where it is needed. This means eliminating or reducing the transmission bottlenecks in the Pacific Northwest. With this understanding and considering proposals to site up to 15,000 megawatts of new generation in the Northwest, BPA's Transmission Business Line has been assessing the transmission infrastructure problem and is developing recommendations on what needs to be done to solve it.

Messages

- The transmission system is being pushed to its technical limits.
- The region has transmission inadequacies because of
 - Substantially increased transmission system use because of such factors as deregulation and load growth;
 - Little investment in transmission system upgrades or expansion over the last 10 years; and
 - New generation being planned or under development.
- BPA plans to make significant improvements and additions over the next five years to assure reliable transmission.
- The region cannot wait for RTO West to solve the transmissions system's problems.

Questions and answers

Why is there a transmission shortage?

Since 1987 few major transmission lines have been built while system use increased 1.7 percent a year. BPA made incremental additions to reliably use the margin built into its transmission system, but that margin is now gone. Further, the Northwest Power Pool projects that winter peak loads will grow by 12 percent between 1998 and 2008 while transmission circuit miles will increase by 2 percent.

Why weren't transmission lines built?

Wholesale power deregulation in 1992 eliminated regional planning and replaced it with market forces. In effect, private utilities have not invested in transmission since then because they could not be assured they would get an acceptable return on any transmission infrastructure investment. Utilities are still waiting to see how deregulation will play out. During the same period, BPA was under pressure to keep its costs down to be competitive in the power market so it focused on maintaining what it had in place rather than on new construction.

But transmission use has gone up since 1992?

Yes. Deregulation itself increased the number of transmission transactions as many marketers entered the wholesale power arena. Instead of having a stable number of transactions of large size as happened before deregulation, the market became unstable and the number of transactions exploded while the size of each transaction was radically reduced.

And demand for power has grown during the same period?

Yes. During the same time, demand, or load, on the system also increased because the region's population has grown as have energy-intensive high-tech industries.

Why has load grown so much?

Population has grown in the Northwest and the region's economy has been robust for the last decade. Some of the greatest growth has been in the energy-hungry Internet server and telecommunication sectors. Seattle-area utilities have received requests for service to "server farms" that are in the 500 megawatt neighborhood.

Where is the load growth?

Generally, it is along the I-5 corridor on the west side of the Cascades in Oregon and Washington. Seattle has seen particularly spectacular growth. BPA has made many system improvements (mainly within existing substations) to maintain adequate transmission to the area and is trying to site more transmission in the area now.

Where is the new generation going to be built?

This is a large part of the transmission problem. Much of the new generation is being planned for areas east of the Cascades — east of Spokane, Wash., and near Hermiston, Ore., for example — because of the availability of natural gas pipelines to supply gas for the proposed combustion turbines. Each new generation site will require transmission to integrate the generation into the system and assure that its power can be transported to load centers.

Where are the most significant problems?

A number of locations are especially critical because they are "constrained," which means the transmission lines cannot carry additional power from generation sites to load centers. Montana is critical because there is a significant center of coal-fired generation on the east side of the state with limited transmission lines to carry it to load centers on the coast. Other areas with serious constraints include the transmission west of the Spokane/Lewiston area, the Puget Sound area in getting power on the Northern Intertie, the transmission that crosses the Columbia River between Washington and Oregon and the transmission west of McNary Dam.

Can't we do something other than add transmission lines?

BPA has exhausted other approaches to maintaining system reliability. Transmission lines have been reinforced, shunt capacitors installed where appropriate to extend the capacity of existing lines and various control systems have been installed to compensate for the lack of new lines. It is approaches and work such as this that has assured Seattle of cross-Cascades power the last few years. BPA has now reached a stage at which the high use of the transmission system has made it very difficult to take lines out of service for maintenance and construction. BPA is at the point that it needs new lines to allow it to minimize the impact of work on existing lines.

What is needed to assure transmission reliability?

The work falls into three broad categories. One is conducting studies to see how or whether new generation can be integrated into the existing system. Dozens of new generation projects have been proposed and each one must be studied to determine how this generation will affect the system and how this power will get to the appropriate load center. A second is building new lines in areas such as Seattle that have seen extraordinary load growth and require new lines to accommodate that growth or for reliability purposes. A third is reinforcing or adding lines to those constrained paths mentioned above that limit the grid's ability to move power from generation sites to load centers.

Is BPA prepared to accomplish all this new work?

Yes and no. BPA's capital budget for fiscal years 2002-2006 was developed before the current energy crisis occurred. It now needs to include the basics of replacing some aging lines (the grid is over 35 years old), reinforcing connections to existing customers and interconnecting with some new loads. BPA needs about \$775 million more over the 2002-2006 fiscal year period to remove constrained transmission paths, cope with the new demands for load and integrate the new generation that will come on line over the next few years. BPA recognizes this will require significant resources in capital and staff as well as new systems and processes.

Why isn't RTO West the answer?

The main issue is timing. The regional transmission organization is not likely to be functioning before 2004. It takes two to five years for lines to be designed, approved and built. The RTO will take some time to fully establish its planning function. The alignment of these activities pushes the completion of major new construction out eight to ten years. The region cannot wait that long because the situation is critical now.

Will transmission rates go up the same way power rates are?

No. The Transmission and Power business lines are separate with their own rate cases and their own cost drivers. The Power Business Line's rates look as though they will go up significantly and be adjusted every six months or so. The Transmission Business Line's rates have been set in its own rate case and are fixed over the next two fiscal years. The power rates are going up because of a shortage of power and high demand that is driving up costs for power on the market. The transmission rates are not directly affected by those market rates. Beyond that, the Transmission Business Line anticipates that users of the proposed transmission lines will generate sufficient revenue to recover the proposed investments and should not affect rates.

Have California's troubles added to the Northwest difficulties?

Yes. California's energy crisis has spread to the Northwest in several ways. One way is by increasing system instability generally through increased transmission transactions and uncertainty. Another way is through increased use of BPA's transmission system because system constraints in California have prevented power from southern California being sent directly to northern California. The power has been sent up the direct-current intertie from Los Angeles to BPA's converter station in The Dalles, Ore., converted to alternating-current power and shipped to Northern California (the Sacramento and San Francisco areas) on the alternating-current intertie that runs down the I-5 corridor. BPA is learning from California's situation and is trying to remedy such system constraints in the Northwest so it won't get into a similar bind.

What are the next steps?

BPA thinks it has a good understanding of the transmission issues facing the region and of the solutions to those problems. But, the issues are regional so the agency will be undertaking a regional dialogue over the next [time period?] to test how its assumptions, analyses and proposals match the region's understanding of the issues. That is on the general approach to addressing transmission infrastructure issues. Each project that BPA plans will also, as a matter of course, be presented to the affected communities for their input. It is important that the agency act quickly, but it must also act responsively.

Talking points written by Ian Templeton, (503) 230-3927.

other talking points

BPA assesses transmission infrastructure

BPA talking points

March 23, 2001

Background

Recent declarations of power emergencies and calls for conservation by the governors of Oregon and Washington have made it clear that the Northwest is short on power. At the completion of the Subscription process, BPA was looking at a deficit of about 3,000 average megawatts for the fiscal year 2002-2006 power rate period. The region as a whole could be shorter yet.

Generation is only half the equation. The region is also operating at or near its full transmission capacity. Building new generation will not solve the region's power shortage unless the power can be transmitted from where it is generated to where it is needed. This means eliminating or reducing the transmission bottlenecks in the Pacific Northwest. With this understanding and considering proposals to site up to 15,000 megawatts of new generation in the Northwest, BPA's Transmission Business Line has been assessing the transmission infrastructure problem and is developing recommendations on what needs to be done to solve it.

Messages

- The transmission system is being pushed to its technical limits.
- The region has transmission inadequacies because of
 - Substantially increased transmission system use because of such factors as deregulation and load growth;
 - Little investment in transmission system upgrades or expansion over the last 10 years; and
 - New generation being planned or under development.
- BPA plans to make significant improvements and additions over the next five years to assure reliable transmission.
- The region cannot wait for RTO West to solve the transmissions system's problems.

Questions and answers

Why is there a transmission shortage?

Since 1987 few major transmission lines have been built while system use increased 1.7 percent a year. BPA made incremental additions to reliably use the margin built into its transmission system, but that margin is now gone. Further, the Northwest Power Pool projects that winter peak loads will grow by 12 percent between 1998 and 2008 while transmission circuit miles will increase by 2 percent.

Why weren't transmission lines built?

Wholesale power deregulation in 1992 eliminated regional planning and replaced it with market forces. In effect, private utilities have not invested in transmission since then because they could not be assured they would get an acceptable return on any transmission infrastructure investment. Utilities are still waiting to see how deregulation will play out. During the same period, BPA was under pressure to keep its costs down to be competitive in the power market so it focused on maintaining what it had in place rather than on new construction.

But transmission use has gone up since 1992?

Yes. Deregulation itself increased the number of transmission transactions as many marketers entered the wholesale power arena. Instead of having a stable number of transactions of large size as happened before deregulation, the market became unstable and the number of transactions exploded while the size of each transaction was radically reduced.

And demand for power has grown during the same period?

Yes. During the same time, demand, or load, on the system also increased because the region's population has grown as have energy-intensive high-tech industries.

Why has load grown so much?

Population has grown in the Northwest and the region's economy has been robust for the last decade. Some of the greatest growth has been in the energy-hungry Internet server and telecommunication sectors. Seattle-area utilities have received requests for service to "server farms" that are in the 500 megawatt neighborhood.

Where is the load growth?

Generally, it is along the I-5 corridor on the west side of the Cascades in Oregon and Washington. Seattle has seen particularly spectacular growth. BPA has made many system improvements (mainly within existing substations) to maintain adequate transmission to the area and is trying to site more transmission in the area now.

Where is the new generation going to be built?

This is a large part of the transmission problem. Much of the new generation is being planned for areas east of the Cascades — east of Spokane, Wash., and near Hermiston, Ore., for example — because of the availability of natural gas pipelines to supply gas for the proposed combustion turbines. Each new generation site will require transmission to integrate the generation into the system and assure that its power can be transported to load centers.

Where are the most significant problems?

A number of locations are especially critical because they are "constrained," which means the transmission lines cannot carry additional power from generation sites to load centers. Montana is

critical because there is a significant center of coal-fired generation on the east side of the state with limited transmission lines to carry it to load centers on the coast. Other areas with serious constraints include the transmission west of the Spokane/Lewiston area, the Puget Sound area in getting power on the Northern Intertie, the transmission that crosses the Columbia River between Washington and Oregon and the transmission west of McNary Dam.

Can't we do something other than add transmission lines?

BPA has exhausted other approaches to maintaining system reliability. Transmission lines have been reinforced, shunt capacitors installed where appropriate to extend the capacity of existing lines and various control systems have been installed to compensate for the lack of new lines. It is approaches and work such as this that has assured Seattle of cross-Cascades power the last few years. BPA has now reached a stage at which the high use of the transmission system has made it very difficult to take lines out of service for maintenance and construction. BPA is at the point that it needs new lines to allow it to minimize the impact of work on existing lines.

What is needed to assure transmission reliability?

The work falls into three broad categories. One is conducting studies to see how or whether new generation can be integrated into the existing system. Dozens of new generation projects have been proposed and each one must be studied to determine how this generation will affect the system and how this power will get to the appropriate load center. A second is building new lines in areas such as Seattle that have seen extraordinary load growth and require new lines to accommodate that growth or for reliability purposes. A third is reinforcing or adding lines to those constrained paths mentioned above that limit the grid's ability to move power from generation sites to load centers.

Is BPA prepared to accomplish all this new work?

Yes and no. BPA's capital budget for fiscal years 2002-2006 was developed before the current energy crisis occurred. It now needs to include the basics of replacing some aging lines (the grid is over 35 years old), reinforcing connections to existing customers and interconnecting with some new loads. BPA needs about \$775 million more over the 2002-2006 fiscal year period to remove constrained transmission paths, cope with the new demands for load and integrate the new generation that will come on line over the next few years. BPA recognizes this will require significant resources in capital and staff as well as new systems and processes.

Why isn't RTO West the answer?

The main issue is timing. The regional transmission organization is not likely to be functioning before 2004. It takes two to five years for lines to be designed, approved and built. The RTO will take some time to fully establish its planning function. The alignment of these activities pushes the completion of major new construction out eight to ten years. The region cannot wait that long because the situation is critical now.

Will transmission rates go up the same way power rates are?

No. The Transmission and Power business lines are separate with their own rate cases and their own cost drivers. The Power Business Line's rates look as though they will go up significantly and be adjusted every six months or so. The Transmission Business Line's rates have been set in its own rate case and are fixed over the next two fiscal years. The power rates are going up because of a shortage of power and high demand that is driving up costs for power on the market. The transmission rates are not directly affected by those market rates. Beyond that, the Transmission Business Line

anticipates that users of the proposed transmission lines will generate sufficient revenue to recover the proposed investments and should not affect rates.

Have California's troubles added to the Northwest difficulties?

Yes. California's energy crisis has spread to the Northwest in several ways. One way is by increasing system instability generally through increased transmission transactions and uncertainty. Another way is through increased use of BPA's transmission system because system constraints in California have prevented power from southern California being sent directly to northern California. The power has been sent up the direct-current intertie from Los Angeles to BPA's converter station in The Dalles, Ore., converted to alternating-current power and shipped to Northern California (the Sacramento and San Francisco areas) on the alternating-current intertie that runs down the I-5 corridor. BPA is learning from California's situation and is trying to remedy such system constraints in the Northwest so it won't get into a similar bind.

What are the next steps?

BPA thinks it has a good understanding of the transmission issues facing the region and of the solutions to those problems. But, the issues are regional so the agency will be undertaking a regional dialogue over the next [time period?] to test how its assumptions, analyses and proposals match the region's understanding of the issues. That is on the general approach to addressing transmission infrastructure issues. Each project that BPA plans will also, as a matter of course, be presented to the affected communities for their input. It is important that the agency act quickly, but it must also act responsively.



Power Business Line Investment Plan

BPA Talking Points

August 22, 2001

(BPA talking points are for internal use only)

For more information on the Federal Columbia River Power System investment plan, see Roy Fox or Phil Thor. For more information on the Energy Efficiency plan, see John Pynch or Gene Ferguson.

Background

The West Coast energy crisis, even taking into account California's attempt at energy deregulation, is basically an imbalance between supply and demand. The supply problem has three parts that BPA is aggressively addressing — transmission, generation and conservation. The effort has resulted in BPA requesting a \$2 billion increase in its borrowing authority. The transmission issues, which focus on the necessity for fully functioning paths to move energy from new generation to end users, have been laid out elsewhere. See, for example, the May Keeping Current: "Bringing power to the people; BPA's plan to assure reliable electric transmission in the Northwest."

The PBL role in addressing the supply problem centers on improving the reliability and productivity of the Federal Columbia River Power System and on acquiring cost-effective conservation that can serve the role of new generation and mitigate the need to purchase power in a high-priced and volatile market.

Even without the West Coast energy crisis, BPA needed to invest in the hydrosystem. System reliability has generally declined over the past 10 years. The system is large and aging. Significant investment is needed just to maintain the current levels of generation.

Messages

- Increased generation is part of the long-term solution to the West Coast energy crisis.
- PBL's investment strategy now includes an incremental \$496 million in capital expenditures over 10 years that are part of the requested \$2 billion increase in BPA's borrowing authority. These funds would be used for further improvements on the hydro system. The Asset Management Program already includes \$776 million in proposed capital expenditures for generation efficiencies, hydro optimization and reliability improvements over the next 10 years.
- The incremental investment could realize 117 average megawatts of power in addition to the 221 aMW acquired through the Asset Management Program (also called the base program).
- These proposed capital investments are the basis for BPA's request for an increase in its borrowing authority. If that borrowing authority is increased, it does not mean that these projects will automatically be funded. BPA will continue to review its capital program to ensure that it meets appropriate standards.
- BPA is required by the 1980 Northwest Power Act to acquire all cost-effective conservation possible when developing energy resources.
- BPA expects its \$500 million capital investment in conservation over 10 years to result in savings of about 225 average megawatts.

Questions and answers

1. What is the current status of BPA's request for an increase in its borrowing authority?

Congress is in recess from Aug. 4 through Sept. 4. Prior to this recess, the FY2002 Energy and Water Development Appropriations Bill passed the Senate on July 19 and the House on June 25. The House version of the bill does not provide an increase in borrowing authority. The Senate version provides an increase of \$2 billion in BPA's borrowing authority, but the increase is subject to annual appropriations, which in effect makes the increase worthless. When Congress returns from recess, the differences between the House and Senate versions of the bill will need to be resolved in conference committee, which will include select House and Senate members of the full appropriations committees. Specifically, the language requiring annual appropriations will need to be removed from the bill. The conference will take place some time during the month of September.

In addition, the Bush administration through the Office of Management and Budget (OMB), issued a Statement of Administration Policy (SAP) on July 17 that objects to the increase in borrowing authority for BPA "because it is not needed at this time to fund BPA's planned expenditures."

9. Does the PNW congressional delegation support the request for increased borrowing authority?

In general, yes. The eight Northwest Senators wrote to OMB Director Mitch Daniels on July 12 regarding BPA's need for an increase in its borrowing authority. "To assure that BPA continues to have sufficient financial resources necessary to make needed electric infrastructure investments in a timely manner, BPA will need up to \$2 billion in additional borrowing authority," the Senators wrote. The entire Northwest congressional delegation is beginning to understand the need for investment in both the transmission and generation systems as well as the importance of funding conservation, and it supports an increase in borrowing authority.

10. If BPA receives the full \$2 billion increase in borrowing authority, will all the projects in the capital program automatically go forward?

No. BPA will continue to review proposed projects and pursue only those that make good business sense.

11. What happens if Congress approves less than the \$2 billion requested?

It's a bit too soon to tell, but it is likely that BPA will reallocate the borrowing authority it has in order to complete the projects with the highest priority.

12. Why is BPA out telling customers about this plan now when it's been in the works for so long?

The West Coast energy crisis has accelerated BPA's need to limit its exposure to the volatile energy market through additional investments in generation and conservation. TBL has been informing the region of its plans to spend \$1.3 billion over the next 10 years on transmission infrastructure since March. TBL has received much support for its plans. Customers and other key stakeholders do not understand PBL's investment needs, so we are informing them.

13. Why should customers support the request for additional borrowing authority to pay for conservation activities?

Basically, capitalizing BPA's conservation investments reduces the rate increase BPA may experience as compared to expensing those conservation costs, and helps us avoid making power purchases in a volatile market. More fundamentally, BPA is interested in establishing a stable level of funding for conservation so that we avoid the ebb and flow that has occurred over the last several years. Maintaining a viable conservation infrastructure under this cyclic type of funding regime is very difficult and makes it hard to respond to the type of energy situation we faced this past year and could face again this winter.

7. Why is BPA concerned with additional generation when something like 29,000 average megawatts of new generation is on the drawing board in the region?

Not all that generation will be built and all that is built will be “merchant” generation that will be sold where profits are the highest. This means the new generation may not be available to the Northwest. BPA is concerned about meeting regional needs for additional energy.

8. What is BPA’s responsibility for generation?

BPA has a responsibility to manage the FCRPS assets responsibly. Under congressional direction, BPA worked with the U.S. Army Corps of Engineers and the Bureau of Reclamation to create an Asset Management Strategy for the FCRPS projects to assure that they are reliable and productive. The baseline asset management program appears in the FY 2002-2006 rate case as a \$362.6 million capital expense for generation efficiency, hydro optimization and reliability improvements over five years and \$776 billion over 10 years. The increased borrowing authority would allow PBI to consider additional investments over this base program.

9. Does this investment program goes beyond the rate case?

Yes. The energy crisis arose after the rate case was put together and spurred another look at what BPA could do to boost regional power supplies. The additional \$496 million over 10 years includes \$20 million more for generation efficiency, \$25 million for hydro optimization, \$291 for generation expansion and \$160 million for reliability improvements.

10. What are these categories?

Generation efficiency includes such efforts as installing new turbine runners to produce more power from the same amount of water. Hydro optimization is similar but includes ways of getting efficiency, such as operating the most efficient generation units within a project and the most efficient projects more often, that don’t require new equipment. Generation expansion includes developing new capacity at the existing projects. This category is not in the base asset management program. Reliability improvements cover such things as rewinding generators and replacing governor control systems to have the generation units available and system performance high.

11. Why are these investments needed?

Some of the FCRPS projects are 60 years old and the projects average about 45 years old. In the days when maintenance was financed through appropriations, the projects fell into disrepair. Even though maintenance has improved under the direct funding arrangement BPA has with the Corps of Engineers and the Bureau of Reclamation, project availability remains under the industry average of 90 percent. The goal is to raise availability to 95 percent. Generation enhancement is emphasized in the investment program because it adds additional generation at existing projects. Having generation available more often and adding generation can have a significant impact on the power available to the region.

12. How do these levels of investment compare to those of other utilities?

<http://webip1/Corporate/KC/tp/bpa/01tp/tp083001A.shtml>

The FCRPS has one of the lowest investment rates, as measured in dollars per installed kilowatt of capacity, of any hydro system. The total FCRPS capital investment program (minus the expansion, which represents new resources) would average about \$4.20 per kilowatt, which is well below the historical rate for other hydro utilities of more than \$7 per kilowatt.

3. Why is conservation considered generation?

Conservation that reduces the amount of generation that must be built is equivalent to new generation. BPA's Conservation Augmentation program is designed specifically to augment BPA's supply of energy through the acquisition of conservation. This is consistent with BPA's responsibilities under the 1980 Power Act. In addition, since BPA will be augmenting its resource base in order to meet its subscription obligations, conservation reduces BPA's exposure to volatile market prices.

4. What is the conservation goal?

Bonneville's share of the conservation goal set by the Northwest Power Planning Council is 470 average megawatts through 2011. The portion of that that would come from the additional capital investment is 225 aMW.

5. Does this mean BPA will go back to the "old ways" of conservation with a big staff at headquarters and lots of centrally-designed and centrally-funded programs?

No. BPA is focusing on customer-driven proposals and cost-effective conservation acquisitions. Since 1993, BPA has reduced its conservation staff from over 230 employees and 100 contractors to about 60 BPA employees and a dozen or so contractors. BPA has no plans to go back to these historical levels of staffing. There may be a slight increase of 5 to 15 BPA employees as BPA diversifies its resource portfolio to include more conservation and distributed generation options. With respect to centralized funding, BPA's conservation capital budget is needed to support the full range of Conservation Augmentation proposals being submitted by customers. BPA will continue to work with utilities to offer a broad range of Conservation Augmentation program options that are easy to administer and don't require a large numbers of staff to implement (two recent examples are the regional VendingMi\$er program and the Energy Star CFL rebate coupon program).

6. What acquisitions would the \$500 million in capital for conservation pay for?

The conservation capital would cover mostly the conservation augmentation activities such as the Invitation to Reduce Load through Conservation, Vending Mi\$er and the compact fluorescent light bulb program. In addition, the Energy Web project would get additional support.

7. What is the total cost to the PBL of all this new conservation and generation?

Roughly, \$1 billion. The FCRPS component is estimated at \$496 million and the conservation at \$500 million. When combined with the Transmission Business Line's needed investments, the total comes to \$2.3 billion:

\$1.3 billion for transmission

\$0.5 billion for the FCRPS

\$0.5 billion for conservation.

18. How will BPA pay for this?

The most desirable source is extended borrowing authority. The addition to the current borrowing authority needed is \$2 billion after \$0.3 billion is subtracted for bond repayment during the 10-year period during which the new capital projects would be constructed.

19. Why can't the projects be paid for under BPA's current borrowing authority?

BPA has been very careful to stretch out its current borrowing authority, which was set at \$3.75 billion in 1984. It was expected to cover BPA's capital projects for about 10 years. The agency has stretched it far longer than expected, but the magnitude of the infrastructure improvements needed to assure a reliable Northwest energy supply require an increase in that borrowing limit. Without an increase, BPA will hit its borrowing limit in 2004 and will be unable to meet the region's needs.

20. How will BPA repay the funds borrowed for capital programs?

Through its rates. The capital expenditures will bring in additional revenue from the increased amount of power being generated at the hydro projects and through the increased transmission needed for all the new generation projects being added to the system.

21. When will the new investments be repaid?

The new investments will be repaid within the expected service lives of the facilities or 50 years, whichever is less.

Talking points written by Hugh Moore, (503) 230-5811.

other talking points



Initial Rate Proposal Transmission Business Line

BPA Talking Points

March 15, 2000

(BPA talking points are for internal use only)

Background

Notice of the Transmission Business Line's Initial Rate Proposal for transmission and ancillary service rates and the proposed Open Access Transmission Tariff appeared in the Federal Register on March 15. The rate setting process begins in earnest with prehearing conferences on March 29. A draft record of decision is expected in September with a final ROD due out in November.

Messages

- The Transmission Business Line is having its own rate-setting process as part of the administrative separation of the TBL from the power marketing function at BPA.
- Transmission rates will be going up because of the cost of separating the power and transmission business lines and the need to increase spending to bolster reliability in a deregulated wholesale power environment.
- Transmission rates make up a relatively small portion of total retail cost of electricity.
- The Transmission rate-setting process is to cover two fiscal years (2002-2003) to act as a bridge between the end of the current rates period and the formation of a regional transmission organization.

Questions and Answers

1. Why is the TBL conducting a rate proceeding?

It is the outcome of the functional separation of transmission from the power marketing function. The separation is based on the Federal Energy Regulatory Commission orders 888 and 889 that BPA voluntarily adopted in 1996. Before separation, transmission rates were folded into a combined delivered power rate.

2. What is the Power Business Line's role in the TBL rate proceeding?

BPA's PBL will be a party to the rate case with the same standing as any other party. The standards of conduct BPA has filed with the Federal Energy Regulatory Commission in 1997

prohibit any preferential access of the PBL to information about the TBL's transmission or ancillary service pricing.

3.What is covered in the rate proceeding?

The rate proceeding actually has two aspects — a process for setting rates for transmission and ancillary services (services such as system control, scheduling and dispatch that are required to maintain the system's stability and reliability) and a process to set the terms and conditions of transmission service. The terms and conditions portion is primarily concerned with closely matching FERC's order 888 setting the standards for open access to transmission systems.

4.Why are transmission rates going up?

A host of factors is forcing transmission rates up. One is the cost of separating the power and transmission business lines, which required separate systems for scheduling, billing, contracting and marketing. Increased activity on the system created by deregulation requires increased capital investment for load growth, reactive needs, new generation reinforcements, constrained paths, changes in reliability criteria and system replacements. The TBL must also fully fund the Civil Service Retirement System and negotiated wage and benefits increases and begin hiring and training new people to replace an aging TBL workforce. And, several services that were once covered by the power portion of the combined rates are now the responsibility of the TBL.

5.How much are transmission rates going up and what is the impact on the cost of delivered power from BPA?

The overall impact ranges from as little as 0.4 mills/kilowatt-hour up to as much as 2.1 mills/kilowatt-hour depending on individual customer circumstances. Transmission rates make up a small portion of the delivered cost of power. It is expected that the overall cost of delivered power will increase between 3 and 8 percent for most customers.

6.Where can I get more information about the TBL rate process?

The Initial Rate Proposal, as it appears in the Federal Register, is available on the TBL Web site at <http://www.transmission.bpa.gov/ratecase> The site contains all the most current information on all aspects of the TBL rate proceeding.

Talking points written by Linda Hunziker, 360-418-8232.

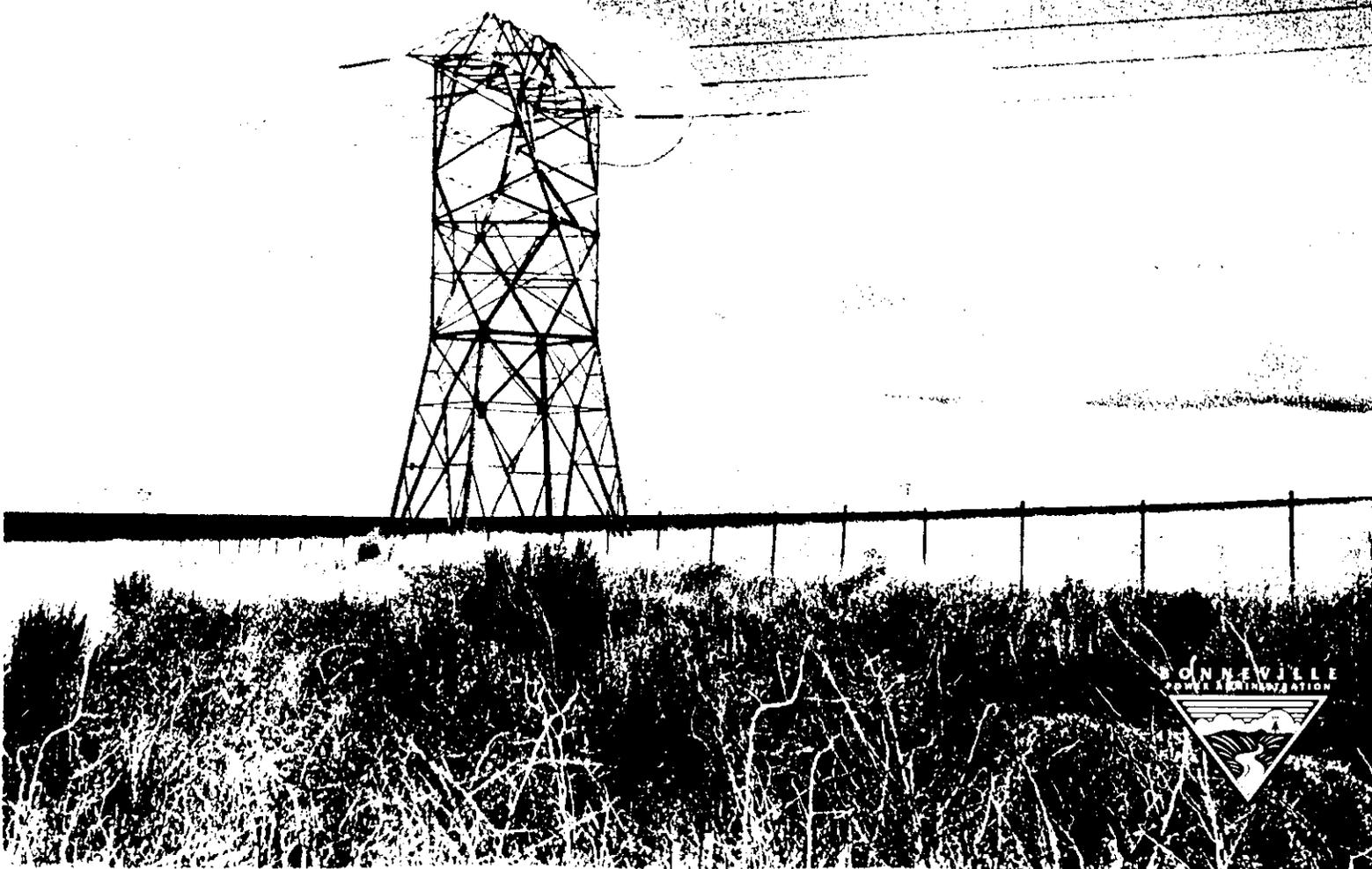
other talking points

March 2002

CURRENT

BPA infrastructure projects: ensuring reliable delivery of power

As a result of the 2000/2001
winter storms, the risks of reduced power
reliability and increased costs realized by
transmission system outages and station
trips are being addressed.



You don't hear or see much in the media these days about the Northwest energy crisis. Economic recession has temporarily reduced the demand for energy, but the Northwest is forecast to be 3,000 megawatts short of power to meet the loads of existing customers. In fact, emergency plans are in place to curtail loads in North Puget Sound and to curtail generation north and east of Spokane if the demand for power outstrips the capacity of the transmission system. New transmission must be built to deliver new generation now being planned and sited. When the economy recovers, demand could once again exceed supply driving prices up if new generation is not brought on line.

BPA has identified 20 projects needed to shore up the region's transmission system. An Infrastructure Technical Review Committee made up of transmission experts from Northwest utilities evaluated the projects on economic and technical grounds to assure that they are indeed necessary and are properly prioritized and designed to provide cost-effective reliable service to the region.

The committee recommended that nine infrastructure improvement projects be given top priority for near-term construction, as they are essential to keeping the Northwest transmission grid operating reliably and economically. The projects are underway or will be starting soon. The proposed completion dates for the projects may be revised as circumstances change. For example, a generation developer may delay or stop work on their plant, causing a transmission project to be put on hold.

The infrastructure projects could involve as many as 800 miles of new high-voltage transmission lines, three new 500-kilovolt substations and control and protection systems to support the safe, reliable operation of these new facilities and related generating facilities. Because of the large amount of work, construction will be spread over about five years.

Before a decision is made to build any of them, each will undergo its own environmental review under the National Environmental Policy Act of 1969. BPA will work with land owners, tribes and regional governments to ensure their input is considered in final decisions.

The problem with the present system

There has been no substantial transmission construction since 1987, despite the fact that during the 1990s the Northwest population and economy grew, with many electricity-intensive industries expanding in the region.

The 500-kilovolt grid is over 30 years old and can no longer carry the increased power capacity. Over the last 15 years, the Bonneville Power Administration has reinforced its 15,000-mile transmission system primarily with fixes such as voltage support devices and advanced controls to avoid the environmental and financial expense of constructing new power lines.

Deregulation of the wholesale power industry in 1992 changed the way utilities must do business. Utilities are now required to operate and manage their power and transmission systems as separate businesses, guaranteeing that all power generators have equal access to transmission. This has increased the amount of transmission system transactions nearly 5 percent annually while peak use of the electrical system increased almost 2 percent annually. The situation is similar to a highway system that, over time, becomes congested as the amount of traffic increases beyond what it was designed to handle.

A number of factors confirm that the transmission grid is stressed. Critical paths are congested, as described on page 3. As the grid is monitored and modeled with computers we find it is less robust and harder to control after an emergency, such as collapse of a transmission tower. By analogy, a car with worn out shock absorbers bounces up and down with each bump in the road. Similarly, we have seen power meters swing for extended periods following events that we thought were minor. When these swings go out of control blackouts can occur.

As demand for power increases, BPA's transmission system may no longer be able to meet reliability standards. National, regional and BPA standards prescribe how reliable the transmission grid must be. Organizations such as the North American Electric Reliability Council develop standards with input from utilities, regulators, consumers and other interested

parties. Standards tell us the events we need to plan for – and survive – such as collapse of a transmission line during a winter storm. Application of some standards were made more stringent after transmission outages in the summer of 1996 that began in the Northwest led to blackouts in nine Western states. Grid reinforcements are needed to meet the standards and ensure reliable service.

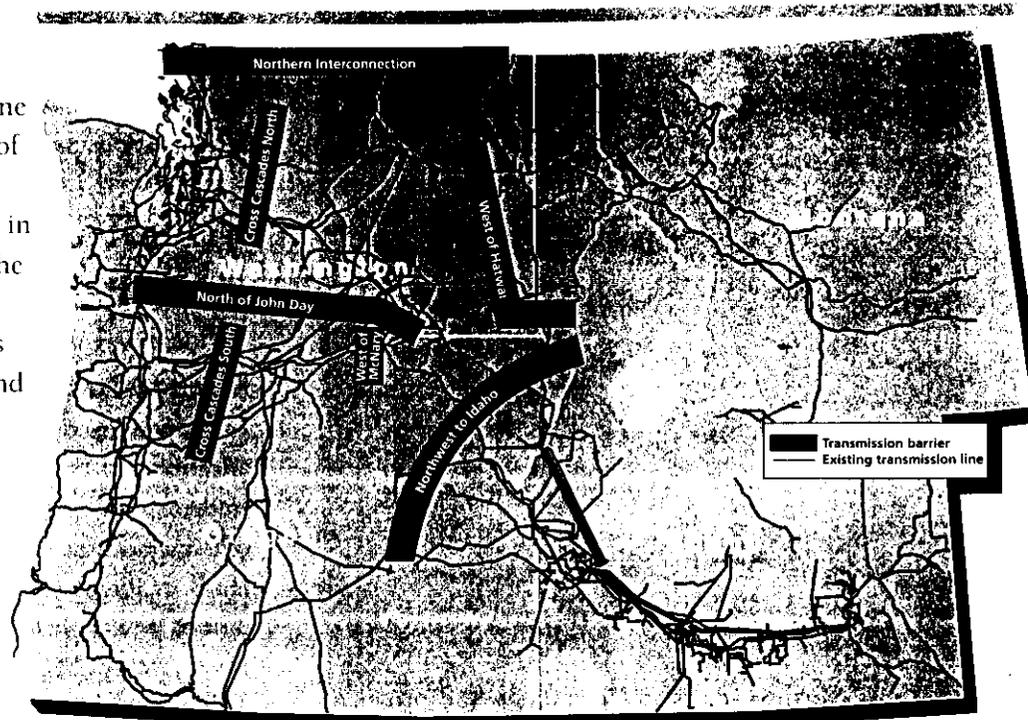
Congested paths

Congestion occurs when demand for power results in power flows beyond what the transmission system can safely handle. At times, some power can't be delivered; even worse, power overloads could lead to transmission system failure and power outages.

The Northwest has several paths facing severe congestion today. BPA and local utilities have plans in place to curtail generation in the Spokane-Northern Idaho and Puget Sound areas because of these constrained paths.

One of the most troublesome congested path is an area near Spokane, known to utilities as West of Hatwai. Utilities that operate generators ranging from the Colstrip coal plants in eastern Montana to hydro generation in western Montana and north of Spokane rely on BPA's system to deliver that power to consumers in the Interstate-5 corridor from Portland to Seattle. A number of factors, including shutdown of aluminum smelters beyond the West of Hatwai path and more stringent reliability standards, limit the amount of power that can be safely delivered. During the summer some low-cost generation must be shut down because it gets "bottlenecked." This problem is addressed by the Grand Coulee-Bell project, which would replace an existing 115-kV line with a 500-kV line.

Constraints in the heart of the Puget Sound area put consumers in that region at risk during the coldest months. In order to prevent a line outage from leading to widespread blackouts, utilities have implemented a



This map illustrates the congested transmission paths in the Northwest.

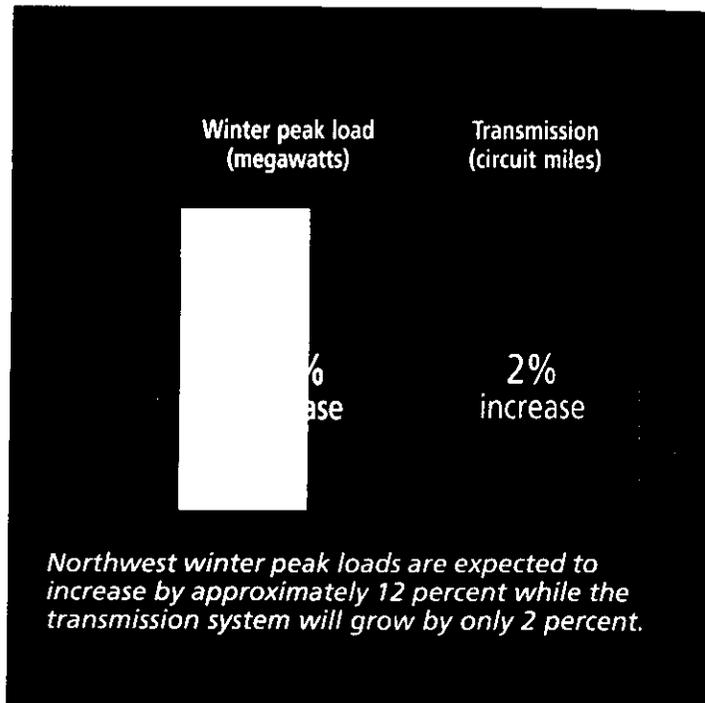
winter operating plan that disconnects some consumers if an emergency occurs. The Kangley-Echo Lake 500-kV line is designed to make curtailments unnecessary.

New generation means more transmission

According to a forecast by the Northwest Power Pool, the region's winter peak load will increase by 12 percent from nearly 60,000 megawatts in 1998 to almost 67,000 megawatts in 2008. At the same time, the total miles of Northwest transmission lines will increase by a mere 2 percent, not including the recommended infrastructure projects.

The existing transmission system cannot reliably deliver these additional resources unless essential improvements are made.

With the Northwest economy in recession, electrical demand is down and proposed generation projects may be deferred or cancelled. We don't want electrical supply and transmission limitations to become a "glass ceiling" to economic recovery. The existing transmission system cannot reliably deliver the additional resources that the region will need.



BPA has a plan

The BPA infrastructure improvement projects are needed to maintain reliable transmission service to population centers, to integrate much-needed new generation, and to restore or enhance transfer capability across key paths.

Transfer capability is the amount of power that can be transmitted between one system and another. The projects are listed on page 5, along with the estimated times by which BPA would conclude its environmental processes and make decisions on where to build the projects (start date) and, the expected dates that each improvement would be added to the system (energization date). All dates are subject to change.

Each project is designed to assure that the BPA transmission system complies with recently adopted national and regional reliability standards. Some projects connect new generation to the grid and others restore or improve transmission capacity on congested paths that seriously impede the movement of electricity from generation to load.

BPA will work with tribal, state and federal governments as well as local landowners to determine the location of transmission projects. Projects outside

BPA substations will have public meetings to allow interested parties to comment, to identify impacts of various alternatives, and to ensure that the best alternative is selected.

Infrastructure project descriptions

Kangley-Echo Lake 500-kV Transmission Line Project

A proposed nine miles of transmission line and additions to two existing substations would increase transmission capacity to Puget Sound by about 600 megawatts. The project would serve increasing loads in Puget Sound and help return Canadian Entitlement power to Canada as required by the Columbia River Treaty. The proposed route crosses Seattle's Cedar River watershed. BPA is working with local, state and tribal officials and interest groups to ensure that the watershed is protected. The Final EIS is expected in Spring 2002. *Energization date: Winter 2002.*

Schultz-Hanford Area 500-kV Transmission Line Project

This 500-kV line up the middle of the Columbia River Basin will ease electricity flows in the I-5 corridor and over the Intertie lines to California. That's because power flows over the path of least resistance, and the lines in the heart of the grid these days are often fully loaded. The Schultz-Hanford project will add 600 megawatts of transfer capacity to the heart of BPA's grid. The line would connect BPA's Schultz Substation near Ellensburg to a new or existing substation near the Department of Energy's Hanford Reservation and will cross the Hanford Reach National Monument and the U.S. Army's Yakima Firing Range. BPA is working with the public, state and federal agencies, and Indian tribes to reach agreement on the best specific location. The Draft EIS is available, and the public comment period closes on March 25, 2002. *Energization date: Fall 2004.*

McNary-John Day 500-kV Transmission Line Project

This 79-mile-long project would add about 1,200 MW of transfer capacity along the Columbia River from the Tri-Cities to The Dalles-John Day area. Existing lines are fully loaded, and many new power

plants are proposed or under construction in this area. The line is needed to provide capacity to help integrate new gas and wind generation in the area. The route, which starts and ends in Oregon, is mostly on the Washington side of the Columbia River on vacant BPA right-of-way. This project, like the following two, is contingent upon the generation developers signing a long-term transmission agreement. The power plant sponsors are paying for the environmental review of this transmission project. The Draft EIS is expected in Spring 2002. *Energization date: Fall 2004.*

Starbuck Power Project

This 15-mile, 500-kV line and substation would integrate 1,200 MW of new generation proposed at Starbuck, Wash., into the grid. The power plant sponsors are paying for environmental review of the transmission project. The Draft EIS is expected in Spring 2002. *Energization date: Fall 2004.*

Wallula-McNary 500-kV Transmission Line Project

This 33-mile, 500-kV line would integrate power from a 1,300 MW power plant at Wallula into the grid. The power plant sponsors are paying for environmental review of the transmission project. The Draft EIS is

available, and the public comment period closes on April 11, 2002. *Energization date: Fall 2004.*

Schultz Series Capacitors

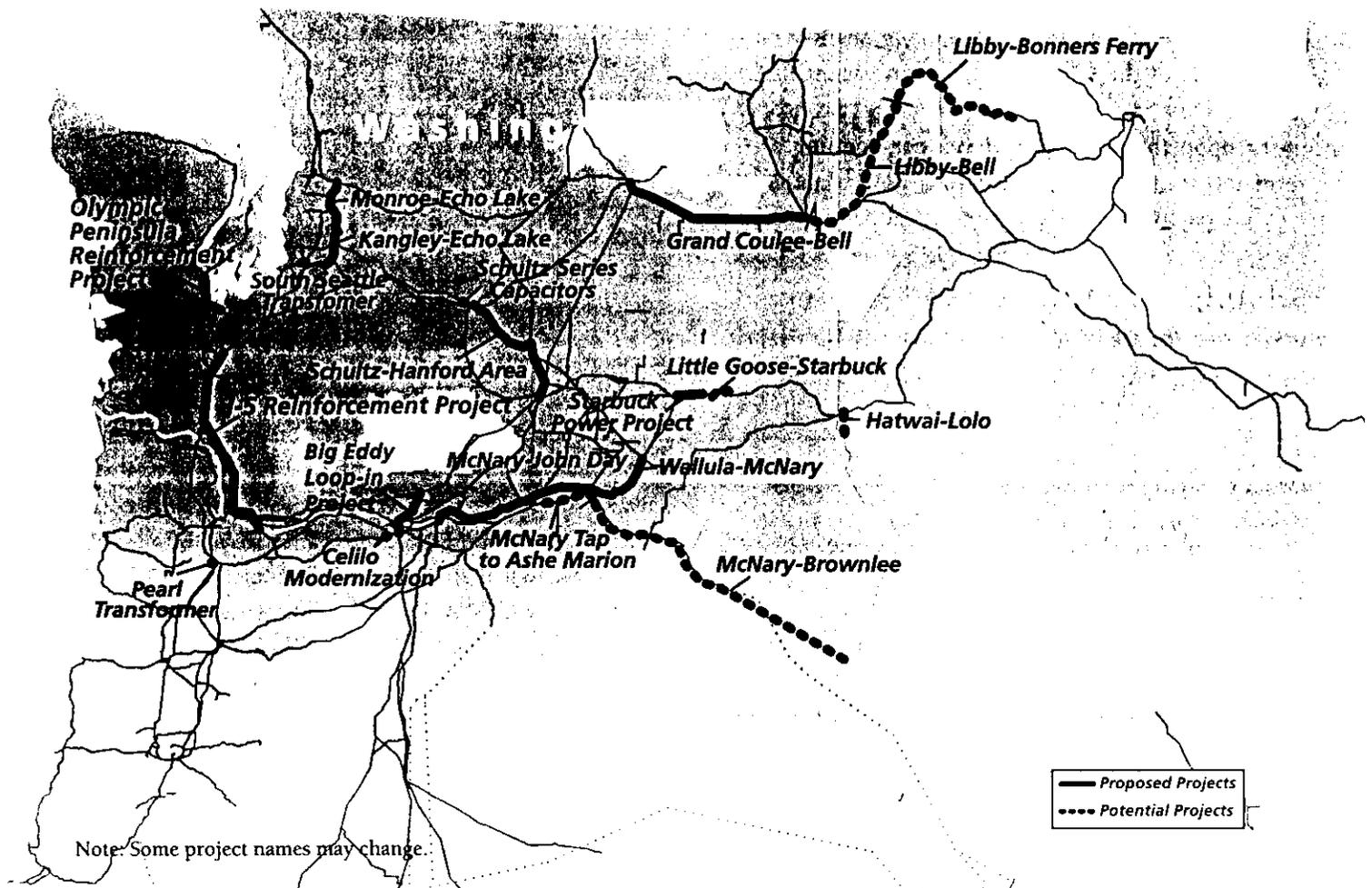
Series capacitors boost voltage when it sags over long transmission distances and are a major tool for reinforcing a transmission grid short of building new lines. BPA has added a lot of capacitor banks in the last decade. This project will help prevent voltage collapse in the Puget Sound area and further delay the need for a new cross-Cascades line. The environmental review is done. *Energization date: Winter 2003.*

Celilo Modernization Project

This project will finally replace the last of the original mercury-arc converters at the Celilo Converter Station with solid-state silicon-based thyristors. It's like trading in a Roosevelt-era radio on a boom box. Celilo is the northern end of the DC Intertie to Los Angeles. The work will maintain the DC Intertie's transfer capacity at 3,100 MW instead of allowing it to degrade to 1,100 MW. The Los Angeles Department of Water and Power is also scheduled to rebuild its Sylmar Converter Station on the southern end of the line. The environmental review is done. *Energization date: Summer 2004.*

	Start Date	Energization Date
Kangley-Echo Lake 500-kV Transmission Line Project	Spring 2002	Winter 2002
Schultz-Hanford Area 500-kV Transmission Line Project	Spring 2003	Fall 2004
McNary-John Day 500-kV Transmission Line Project	Fall 2002	Fall 2004
Starbuck Power Project	Summer 2002	Fall 2004
Wallula-McNary 500-kV Transmission Line Project	Summer 2002	Fall 2004
Schultz Series Capacitors	Spring 2002	Winter 2003
Celilo Modernization Project	Spring 2002	Summer 2004
Monroe-Echo Lake 500-kV Transmission Line Project	Fall 2003	Fall 2005
Grand Coulee-Bell 500-kV Transmission Line (Eastern Washington Reinforcement) Project	Winter 2002	Fall 2004
Pearl 500/230-kV Transformer*	Spring 2002	Fall 2003
Olympic Peninsula Reinforcement Project*	Fall 2002	Fall 2005
I-5 Reinforcement Project*	Spring 2003	Spring 2006
Big Eddy Loop-in Project*	Spring 2004	Spring 2006

Infrastructure projects



Monroe-Echo Lake 500-kV Transmission Line Project

This 32-mile, 500-kV project would add another 600 MW south-to-north and 850 MW north-to-south to transmission capacity through and north of Puget Sound. It would ease loading on other lines and add a reliability margin. This is another in the suite of projects designed to keep the lights on in Puget Sound and to assure reliable return of entitlement power to Canada. Environmental review of this project has not yet begun. BPA is examining non-transmission solutions to delay or defer the project. It is contingent on generation developers and Canadian exporters signing long-term transmission agreements for part or all of the capacity. *Energization date: Fall 2005.*

Grand Coulee-Bell 500-kV Transmission Line (Eastern Washington Reinforcement) Project

This would replace about 84 miles of existing 115-kV line with 500-kV line from Grand Coulee Dam to Spokane. It would initially add about 700 MW of transmission capacity on a very constrained path across northeast Washington and, with other upgrades being considered, would add a total of 1,200 MW. It's needed to support existing power transfer agreements and maintain stability on the entire West Coast. The Draft EIS will be available in Summer 2002. *Energization date: Fall 2004.*

Pearl 500/230-kV Transformer*

Adds a second 500/230-kV transformer at Pearl Substation to provide reliable load service to the Portland area. Without this project, an outage of

the existing Pearl transformer would overload the McLoughlin 500/230-kV bank and/or the McLoughlin-Pearl 230-kV line by 2004. The environmental review has not started. *Energization date: Fall 2003.*

Olympic Peninsula Reinforcement Project*

Relocates the Satsop 500/230-kV transformer to Shelton Substation and constructs a new 20 mile, Olympia-Shelton 500-kV line. This project is needed to solve voltage stability problems on the Olympic Peninsula as well as to mitigate for circuit breaker failures and other contingencies in the Olympia/Shelton area. The environmental review has not started. *Energization date: Fall 2005.*

I-5 Reinforcement Project*

Constructs a new, 105-mile Paul-Longview-Troutdale 500-kV line. It also includes a new 500/230-kV substation in the Longview area. These additions are needed to reliably integrate several new generator additions along the I-5 corridor. This addition will increase the transfer capability on the I-5 corridor (South of Paul) by approximately 1100 MW. The environmental review has not started. *Energization date: Spring 2006.*

Big Eddy Loop-in Project*

Constructs 20 miles of double-circuit, 500-kV line to loop the existing Hanford-Ostrander 500-kV line into Big Eddy Substation. This project provides some reinforcement to the North of John Day constrained path as well as provides increased reliability of load service to the Portland Area during cold weather. The environmental review has not started. *Energization date: Spring 2006.*

An additional seven projects have been identified, but are not fully developed (see map on page 6). These include addressing load service problems and constraints in northwestern Montana, limitations on imports from Montana and exports to Idaho as well as integration of additional potential generation. Project locations on the map are preliminary.

*These are not the official project names and could change.

Non-transmission alternatives

Options to expanding the grid include further increasing energy conservation, pricing strategies, demand reduction and strategic placement of generators. BPA is encouraging all of these approaches. The agency is a major supporter of fuel cell development and is working with its utility customers to develop an approach to conservation that will assure that it receives attention when power is inexpensive as well as when it is expensive. While BPA can encourage and support distributed generation and conservation, it cannot compel any utility or group of people to adopt either. In its planning, BPA has estimated the level of distributed generation and conservation the region will adopt. These non-wire solutions were taken into account before the projects were designed.

Before proceeding with the construction of transmission projects, BPA wants to ensure it is providing the most cost-effective solution to the region's transmission problems from an engineering, economic and environmental standpoint. As part of its evaluation, BPA will consider whether non-transmission options can be employed as viable alternatives to transmission expansion.

To this end, BPA commissioned a group of consultants to recommend enhancements to the planning process and to suggest which of the projects might be candidates for non-transmission initiatives. The resulting report, "Expansion of BPA Transmission Planning Capabilities: A Report On Non-Transmission Alternatives" has been released for review and comment and is available on the Web at: http://www.transmission.bpa.gov/tblib/Publications/Infrastructure/default_files/slide0001.htm

Infrastructure financing

The estimated total cost of the first nine infrastructure projects is approximately \$680 million. Assuming that 5,000 to 5,500 megawatts of the potential 12,000 megawatts of new generation is brought on line over the next five years, the corresponding use of the transmission system would recover these costs. If more generation materializes,

the result will likely be lower transmission rates than would otherwise be the case.

The President's 2003 budget includes an additional \$700 million in borrowing authority for all BPA's infrastructure projects. When BPA borrows from the Treasury to construct transmission facilities, it recovers costs through sale of transmission services and repays its loans with interest, so there is no burden on the nation's taxpayers. The region's governors and the Northwest congressional delegation agree that an increase in BPA's borrowing authority is needed.

In addition, BPA is investigating (1) whether third parties are interested in financing of or other participation in infrastructure projects and (2) optimization of existing debt such that current borrowing authority could be extended to help finance the projects. No single approach is likely to prove adequate to meet the capital demands for the entire slate of infrastructure projects so BPA is exploring the creation of several financing options for individual projects.

Waiting for formation of the Northwest's regional transmission organization (RTO) before making major improvements to the existing system is not a good idea because of the timeline. The RTO won't become

operational until 2005, at the earliest, and it takes two to five years to design a project, complete the environmental reviews, build and energize it. That would push back completion of the infrastructure projects to the 2006-2009 timeframe. The region cannot afford to wait if it is to enjoy renewed economic growth. Reliable electricity is essential to expanding business, industry and jobs. BPA is coordinating its infrastructure planning with Northwest utilities.

For more information

If you'd like more information about BPA's infrastructure improvement projects, visit the Transmission Business Line Web site. A complete description of each project can be found at: http://www.transmission.bpa.gov/tbllib/Publications/Infrastructure/Final_With_Maps.pdf. See Appendix D and Appendix I.

To order additional copies of this publication, call BPA's Public Information Center at (503) 230-7334 in Portland, or outside Portland at 1-800-622-4520.

