

Bonneville Power Administration
Agreed-Upon Procedures for the
Financial Based Cost Recovery Adjustment Clause
Fiscal Year 2002

**Independent Accountants' Report
on Applying Agreed-Upon Procedures**

January 20, 2003

The Administrator of
Bonneville Power Administration
United States Department of Energy

We have performed the procedures enumerated below, which were agreed to by the Bonneville Power Administration (BPA), solely to assist you in evaluating the audited actual accumulated net revenues (AANR) of the BPA generation function used in determination of the Financial Based (FB) Cost Recovery Adjustment Clause (CRAC) and Dividend Distribution Clause (DDC) revenue requirement or dividend distribution, respectively. The above mechanisms are defined in the 2002 Final Supplemental General Rate Schedule Provisions (GRSP's) Section II (F)(2) and Section II (H) respectively. The June 2001, 2002 Supplemental Power Rate Proposal Appendix to Administrator's Final Record of Decision (WP-02-A-09), which includes the GRSP's, is attached in Appendix A. BPA is responsible for the calculation of accumulated net revenues. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The FB CRAC is a temporary, upward adjustment to posted power rates for certain Subscription sales which occurs if end-of-year Accumulated Net Revenues (ANR) in the generation function are forecasted to fall below a threshold level (\$408 million deficit at the end of fiscal year 2002). ANR is adjusted generation function net revenues, as accumulated subsequent to the fiscal year 1999. The forecasted ANR posted on the BPA web site in August of 2002 was a \$637 million deficit, which resulted in a triggering of the FB CRAC. The revenue amount to be recovered in fiscal 2003 by the FB CRAC rate increase will be \$135 million. The revenue recovery amount defined in the GRSP's Section II (F)(2)(a) Table B is the lower of the FB CRAC Threshold less the forecasted ANR or the annual Maximum Planned Recovery Amount which is \$135 million in fiscal 2002.

There is an opportunity for true-up the FB CRAC Revenue Amount based on updated data when audited actuals are available in January of the year subsequent to the FB CRAC being implemented. The Audited Actual Accumulated Net Revenue (AANR) will be compared to the ANR forecast used to implement the FB CRAC. If the forecasted amount is within \$5 million of the AANR (the tolerance), no true up will be made.

The DDC is a clause establishing criteria that the Administrator will use to decide whether funds are to be distributed to customers, and the amount that is to be distributed. The DDC threshold is \$993 million surplus for the end of fiscal year 2002. The DDC did not trigger at the end of fiscal 2002 because of the deficit position of the ANR.

The following procedures were performed to confirm the accuracy of the \$638 million deficit audited actual accumulated net revenues during the true-up period:

1. Obtained the Audited Actual Accumulated Net Revenue Calculation (AANR Calculation) as seen in Appendix B.
2. Tested the mathematical accuracy of the AANR Calculation without exception.
3. Examined the methodology of the AANR calculation and confirmed that it was consistent with the methodology delineated in the GRSP's.
4. Ran a PeopleSoft Query for all Power Business Line and Associated Project revenues and expenses for the fiscal year 2000, 2001 and 2002.
5. Agreed Total Revenues of \$2,720,940 thousand and \$3,047,803 thousand from the PeopleSoft query to the total revenue amounts on the AANR Calculation without exception for the fiscal years 2000 and 2002, respectively. For fiscal 2001 the Total Revenues were \$3,719,561 thousand on the PeopleSoft Query, as compared to \$3,888,052 thousand on the AANR Calculation. Confirmed the difference was attributable to the FAS 133 transition adjustment of a \$168,491 thousand loss. The adjustment was not included in the Total Revenues on the AANR calculation as non-recurring revenues are excluded.
6. Agreed the Total Expenses of \$2,468,811 thousand and \$3,135,224 thousand from the PeopleSoft query to the total expense amounts on the AANR Calculation without exception for the fiscal years 2000 and 2002, respectively. For fiscal 2001 the total expenses were \$4,100,095 thousand on the AANR Calculation, as compared to \$4,100,100 thousand on the PeopleSoft query. The difference of \$5 thousand is considered immaterial and will have no effect on the outcome of the FB CRAC revenue requirement.
7. Agreed the \$47,877 thousand and \$38,354 thousand mark to market gain for FAS 133: Accounting for Derivative Instruments and Hedging Activities amounts from the AANR Calculation to the PeopleSoft general ledger account 400006 for the fiscal years 2001 and 2002. The impact of adopting Financial Accounting Standard 133, Accounting for Derivative Instruments and Hedging Activities, is excluded from AANR, as consistent with the GRSP's.
8. Agreed the Debt Service Energy Northwest per Accounting Records amounts of \$525,441 thousand, \$445,148 thousand and \$246,168 thousand for the fiscal years 2000, 2001 and 2002, respectively from the PeopleSoft query to the AANR Calculation without exception.
9. Agreed the 'Debt Service Energy Northwest per Rate Case' amounts of \$607,118 thousand, \$603,001 thousand and \$528,865 thousand for the fiscal years 2000, 2001 and 2002, respectively, from WP-02-FS-BPA-02A, 2002 Final Power Rate Proposal Revenue

Requirement Study Documentation, Volume 1, to the AANR Calculation without exception.

10. Confirmed that as of January 2003, during the FB CRAC true-up period, the resulting AANR of \$637,793 thousand deficit was only one million greater than forecasted. Therefore, no true-up is warranted as the AANR was within \$5 million of the August forecasted ANR and furthermore, the revenue amount dictated by the GRSP's Section II (F)(2)(a) Table B was the maximum of \$135 million.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on verification of the audited actual accumulated net revenues in the BPA generation function. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Customers of the Bonneville Power Administration, and is not intended to be and should not be used by anyone other than these specified parties.

PriceWaterhouseCoopers LLP

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Accumulated Net Revenue - FBCRAC & DDC

Preliminary Unaudited/For Internal Use Only

\$ in thousands

% of Year Lapsed = 100%

	<u>Actuals Two</u>		<u>Actuals Prior</u>		<u>Actuals</u>	<u>Accumulated</u>	<u>FY 2002</u>
	<u>Fiscal Years</u>	<u>Prior</u>	<u>Fiscal Year</u>	<u>Current Year</u>	<u>Current Year</u>	<u>Results</u>	<u>Trigger</u>
Total Revenues	2,720,940	2,468,811	3,888,052	3,047,803	3,047,803	9,656,795	
Total Expenses			4,100,095	3,135,224	3,135,224	9,704,130	
Net Revenue (Expense) from Continuing Operations	252,130	(212,043)	(212,043)	(87,421)	(87,421)	(47,335)	
FAS 133: Accounting for Derivative Instruments and Hedging Activities			47,877	38,354	38,354	86,231	
Debt Service Energy Northwest per Accounting Record	525,441		445,148	264,168	264,168	1,234,757	
Debt Service Energy Northwest per Rate Case	607,118		603,001	528,865	528,865	1,738,984	
Adjusted Net Revenue	170,453	(417,773)	(417,773)	(390,472)	(390,472)	(637,793)	(407,500)