BONNEVILLE
POWER ADMINISTRATION

Power Rate Case

Risk Workshop #3

May 18, 2005

BPA, Power Business Line

Risk Workshop Agenda

- Monday's PFR Discussion with Steve Wright
- What We've Heard
  - Staff's Interpretation of Your Comments and Where We Might Go Next…
- Customer Proposals
- Next Steps
- Rate Case Schedule

Confirming What We've Heard So Far…

Individual Components of Risk

Staff continues to work on developing the methodologies for calculating the degree of uncertainty around a host of risk issues. We continue to explore the individual risk components but are not yet prepared to go into greater depth on specific numbers but rather the likely impact these risks have on PNRR.

Secondary Revenue Risk (Hydro and Price Risk):

What We've Heard

- Some customers have indicated they want to continue to credit 100% of forecasted secondary revenues into base rates.
- Some customers have indicated a surcharge mechanism is the best way to handle variability in forecasted or actual secondary revenues.

Response

- There are many possibilities for incorporating secondary revenue variability into rates.
  1. Amount of secondary revenues credited to rates (Zero – 100%)
  2. Various mechanisms for dealing with uncertainty, i.e. surcharges, rebates, etc…
- Our goal is to achieve the lowest possible rate consistent with BPA's financial standards.

Confirming What We've Heard So Far…

Individual Components of Risk

IOU Benefits:

What We've Heard

– Customers doubt that the variability in IOU benefits produces a "risk" to BPA.

Response

– Staff uses the term "risk" to mean uncertainty," not that this issue is bad or costly.
– Including the variability may actually have a mitigating effect on risk depending on the starting point.

– Here are three examples of how we might approach this risk. Other may exist.
  1. Incorporate IOU Benefits into the Risk Analysis and account for the variability. (current approach)
  2. IOU Benefit CRAC. Rates are adjusted annually to account for the actual cost of the benefit.
  3. Set IOU Benefits at the maximum level in rates to guarantee BPA will not under-recover this cost.

Confirming What We've Heard So Far…

Individual Components of Risk Continued

Transmission Risk:

What We've Heard

– Some customers are interested in exploring transmission expense and its variability.

Response

– Preliminary analysis is showing that the current approach of assuming the expected value for transmission risk actually reduces PBL's risk exposure. As an example, if transmission variability is removed, PNRR increases.

– There are at least four alternatives for incorporating Transmission Risk.
  1. Set the transmission benefits at the expected value and model the uncertainty in the transmission expenses (current approach).
  2. Limit the transmission expense to critical hydro or some amount less than the expected value and incorporate the potential increase in expenses into risk.
  3. Do not model the transmission risk. Set the cost at the expected value.

Confirming What We've Heard So Far…

Individual Components of Risk Continued

Wind Risk:

What We've Heard

– Some customers are interested in exploring the assumptions regarding what is assumed about wind risk.

Response

– Staff is reassessing the issues associated with wind project output and the exposure to the market due to the fixed cost BPA pays in the contracts.

– We will assess the uncertainty and make a decision how to incorporate the results into risk when more information is available.

Additional Topics

Individual Components of Risk Continued

2004 Bi-Op Hydro Uncertainty:

- We plan to only have one hydro-regulation for the Initial Proposal.
- There is uncertainty around how we will implement the 2004 Bi-Op. We will assess the uncertainty and make a decision whether or not to incorporate the results into risk when more information is available.

Bi-Op Litigation Risk:

- Current analysis indicates the costs of litigation may be as high as $150M per year.
- As decision are made we will assess the impacts and decide how to incorporate the results into the analysis.

NORM:

- Staff is completing the process of calculating the NORM risk. These results will be incorporated into the initial proposal.

Additional Topics

Individual Components of Risk Continued

DSI Risk:

- The PFR assumption is that the DSI benefits will be capped at $40M per year.
- Depending on the final decision on how to serve the DSI's, BPA may be exposed to some expense uncertainty.
- We will assess the uncertainty and make a decision whether or not to incorporate the results into risk when more information is available.

Confirming What We've Heard So Far…

Specific Risk Mitigation Comments

Variable Rates

What We've Heard:

– Some customer have indicated that variable rates are acceptable when compared to a high, fixed rates relying solely on PNRR.

Staff Response:

– Achieving this goal is of course the challenge we all face. The question is how much variability is acceptable? What if the variability was greater than what was experienced in the current rate period?

– Staff will continue to explore the different approaches discussed so far, these include PNRR, surcharge and rebate mechanisms.

Formula-Based Mechanism

What We've Heard:

– Some customers have indicated that a formula-based mechanism with defined cost/revenue categories is preferable to a more general cost-based mechanism.

Staff Response:

– Staff supports the idea of a formula-based mechanism. Theoretically, a formula-based mechanism reduces with-in rate period issues associated with rate increases or decreases.

– NORM risk will likely by used to reflect the uncertainty in the budgets that will be set at the conclusion of the PFR.

Confirming What We've Heard So Far…

Specific Risk Mitigation Comments

Rebate Mechanism

What We've Heard:

- A rebate mechanism whereby secondary revenues are credited back to customers after the fact is not a popular way of dealing with secondary revenue risk.
- Customers would interested in a DDC to limit a build up of excess reserves.
- There is a concern that BPA will somehow not return the revenues to customers.
- There are concerns around how a rebate would impact individual utility finances.

Staff Response:

- We understand the concerns and challenges, yet depending on how risks are packaged, a reduced secondary revenue credit may be more effective than other approaches.
- Staff will likely explore this alternative as other risk mechanisms are being developed.

Confirming What We've Heard So Far…

Policy Issues on Risk Tolerance

What We've Heard

- Customers are concerned that BPA's Current Risk Tolerance policies results in rates that are too high.

Response

- As stated in previous discussions, staff is willing to discuss these issues but will not make alternative assumptions about agency risk tolerance in the Initial Proposal.

  Initial Proposal Assumptions

  - 3-year PBL TPP target of 92.6%
  - PBL minimum liquidity reserves of $100M. Working capital assumptions currently assume use of some portion of the Treasury note though the availability for uses other than capital remain questionable.
  - TBL cash of $36M in FY 2007 is available as an internal line of credit in FY 2007. If accessed, the line of credit would be paid back with interest in FY 2008. There is not enough knowledge about TBL FY 2008 and FY 2009 finances to assume the availability of cash in those years. TBL rates for that time period remain unknown.

- Risk tolerance is a rate case issue and can be changed between the Initial and Final Proposals.

Customer Ideas

With-In Year Adjustment to Rates:

- A surcharge mechanism that triggers at mid-year for a potential below average water
- $200M in additional cash from an unspecified location is available.
- Assume that Treasury will accept a possible "late" payment because the money is "on-the-way."

Modified Transmission Proposal

- Modify transmission expense assumptions that are used in the rate case.
- Look for ways to reduce the transmission expenses and incorporate variability into risk.

What's Next?

- This concludes the scheduled risk workshops that began on April 6th.
- Staff remains willing to engage on risk issues through the end of this month. At this time no additional meetings are scheduled.

Tentative Rate Case Schedule:

April – June	Informal "input soliciting" workshops
April – Early September	Run Initial Proposal Studies / Draft testimony
August – September	"No Surprises" formal rate workshop
Late October / Early November	Publish FRN / Ex Parte Begins
Early November	Pre-Hearing Conference
November – June 2006	Formal 7(i) process
June – July 2006	Draft and Final ROD; Final Studies
August 1, 2006	File Rates with FERC for interim approval