Question and Answers
Topic: Risk Mitigation
WP-07 Rate Case Workshops

May 25, 2005

Q: What's up with the short-term Treasury note? What was its stated purpose; what is its accessibility?

A: Please refer to the following link on the BPA website: http://www.bpa.gov/Power/PL/financialchoices/attachment2_memo_of_understanding.pdf. This provides the MOU with Treasury and a related note, which describe the expected purpose of the note. In BPA's rate-setting processes, since 1993, BPA has assumed that the Treasury note could be used to temporarily fund capital program outlay requirements during the fiscal year, making additional funds available to make prior year-end Treasury payments. Thus, for purposes of determining planned net revenues for risk, the working cash reserve assumption has been reduced by $50 million, based on the assumption that if financial reserves were to fall below the working capital need, BPA would rely on its note with the Treasury to temporarily fund its projected capital program outlays for up to a projected two-month period. This is still the working assumption in the ToolKit modeling.

Q: The study supporting the BPA decision to increase working capital from $50 million to $100 million.

A: The support for increased needs for liquidity reserves and working capital for the PBL will be provided in the rate case initial proposal. The change reflects an increase in the total working capital need from $100 million to $150 million, with the assumption that BPA would rely on the Treasury note for $50 million of the need, resulting in $100 million liquidity reserves.

Q: What are BPA's available cash tools? We had a really useful, interesting workshop during the SN CRAC proceeding on this issue, and we would like to have an updated version.

A: The documents provided in the SN CRAC proceedings can still be accessed on the BPA website at the following address: http://www.bpa.gov/corporate/docs/2003/liquidity/handouts.cfm.

The set of cash tools explored at that time are still the type of cash tools BPA might be able to access in a time of need. The bond reserve fund free-ups and the $170 M bond rollover options are no longer available. For certain others tools, BPA is still exploring the extent of their accessibility (e.g. the Treasury Note). At this time, there are no updates available.

Q: Please describe how the benefits are being modeled.

A: The current methodology accounts for the uncertainty associated with forecasting in the rate case the IOU benefits that will be paid in FY 2008 and FY 2009. The risk exposure to BPA is that base rates for all three years of the rate period will be set using forecasted forward market prices at the time of the Final Rate Proposal, while the actual IOU Benefits for FY 2008 and FY 2009 will be calculated in subsequent years based on annual broker estimates of forward market prices. The difference between what was assumed in the rate case and these annual broker estimates in subsequent years causes uncertainty in the amount of the IOU Benefits in FY 2008 and FY 2009.

Forward market price curves are estimates at a point in time of what market prices will be over a period of time in the future. These estimates will change as we move through time, often in response to whether or not actual spot market prices are higher or lower than the previous forecasted forward market prices for the spot month. The interrelationship between spot and forward market price movements was derived from historical spot market and forward market price data and was modeled in a risk simulation model in which a forward market price curve estimated at a point in time is adjusted through time as spot market prices from AURORA change through time.

Q: The breakout of TBL vs. PBL reserves over the last 4 years and then the forecasts for this and next year.

A: The table below breaks out historical and prospective reserve forecasts for PBL and TBL for the current rate period using the same methodology, BPA does not account for individual business line reserves in our financial systems.

Table 1: BPA Financial Reserves by Business Unit [1/] ($ millions)

	PBL	TBL	Total Agency	
FY 2002				
Cash	(15.9)	164.5	148.6	
Deferred Borrowing	6.6	32.6	39.2	
Total Reserves	(9.3)	197.1	187.8	
FY 2003				
Cash	328.6	79.6	408.2	
Deferred Borrowing	21.0	81.6	102.6	
Total Reserves	349.6	161.2	510.8	
FY 2004				
Cash	389.7	197.2	586.9	
Deferred Borrowing	12.8	38.1	50.9	
Total Reserves	402.5	235.3	637.8	
FY 2005				
Cash	219.8	179.2	399.0	Initial Transmission Rate Proposal, Feb. 2005;
Deferred Borrowing	0.0	0.0	0.0	PBL reserve forecast based on 2005 2nd
Total Reserves	223.4	179.2	402.6	Quarter Review
FY 2006				
				Initial Transmission Rate Proposal, Feb 2005;
				PBL reserve forecast based on 2005 2nd
Cash	273.2	176.3	449.5	Quarter Review
Deferred Borrowing	0.0	0.0	0.0	
Total Reserves	273.2	176.3	449.5	

1/ The FY 2002-2004 information is being released externally by BPA on May 25, 2005 as an ad hoc report or analysis generated for a specific purpose. The information provided is based upon data found in Agency Financial Information but may not be found verbatim in an External Standard Financial Report or other Agency Financial Information release. The FY 2005-2006 information is provided for discussion or exploratory purposes only. The data included may be hypothetical in nature, does not represent in any manner the official position of BPA, and will not necessarily agree with externally released Agency Financial Information. Such information should be used only for the purpose for which it was provided and should not be re-communicated by the recipient without the foregoing qualification.

Q: How easy is it to define or identify "secondary sales and purchases"? Can we back-cast our definition?

A: BPA is in the process of formulating a definition that might be suitable for use in possible rate designs.

Q: Why is it not possible to update the hydro data past 1978? Customers indicated Slice customers are receiving 60-year data and PNCA is using 70-year data?

A: Staff is working on a response to this issue. We will post a response as soon as it is completed.

Q: Are we properly 'crediting' Transmission savings in dry years?

A: We feel we are properly crediting transmission savings in dry years. The transmission expense value used in the rate case forecast is based on the average of expenses across 3000 secondary sales games - dry water years, as well as wet water years are included in the range of secondary sales. The Risk model runs a Monte Carlo simulation on all 3000 secondary sales games. As a result the transmission expenses associated with dry water years, as well as wet water years are properly accounted for.

Q: How can we get a game where balancing purchases = $1 billion?

A: Balancing purchase expense > $1 Billion is a rare event but can happen.

The basic ingredients are purchases in excess of 8,000 MW-Mo. at prices approaching $200/MWh.
(8,000 MW-Mo.) x (730 Hrs./Mo.) x ($175/MWh) = $1,022,000,000.

Our current study contains 3,000 balancing purchase values for each FY, i.e., FY07, FY08, and FY09.
The counts of occurrences of balancing purchases greater than $1 Billion are:

- 0 occurrences in FY07,
- 2 occurrences in FY08,
- 3 occurrences in FY09.

The first requirement is the need to purchase which is associated with low stream flows. The two occurrences in FY08 are associated with WY's 1930 and 1945. The three occurrences in FY09 are associated with WY's 1930 (one) and 1931 (two). It is important to note that certain months drive the power purchase expense to this extremely high value, typically January, February and March so when considering stream flows it is necessary to look at monthly values rather than annual or January-July runoff. It is also necessary to consider the hydro operation used in the study, i.e., non-power operating requirements may result in lower generation than would be expected by simply looking at stream flows.

In addition to low stream flows the need to purchase can be driven by CGS outage or over-runs in PF loads. Of the five iterations reviewed here three showed some CGS downtime and three showed PF loads at about 110% of expected in the January-March timeframe.

However, the major driver is price. The need to purchase more than 8,000 MW-Mo. in a year occurs 9 times in FY07, 32 times in FY08 and 57 times in FY09. The $1 Billion purchases expense results in those few cases where these purchase amounts are matched up with Mid-C prices at or near the price cap of $250/MWh. These high price levels are generally driven by natural gas prices greater than $10/MMBtu.

Q: Summary of NORM impacts – Std deviation? Is it symmetrical?

A: Staff is completing the NORM analysis at this time. We will provide a response when it is available.

Q: Can we rely on a line of credit from customers? If not, why not? Can ENW extend a line of credit to us?

A: BPA has extremely broad contract authority that enables BPA to enter into long-term contracts for the purchase of capital assets under lease arrangements and long-term resource acquisition contracts. These commitments have many hallmarks of debt and are booked as capitalized contracts on BPA financial reports, but fundamentally they are long-term asset acquisition agreements.

BPA does not view its authorities as enabling it to enter into "lines of credit," other than with the U.S. Treasury. Therefore, BPA would not be willing to enter into a "line of credit" with customers, or with Energy Northwest.

Q: What about Treasury saying it's not really a miss if we're a few months late but have a surcharge in place generating extra revenue?

A: At this time there is no indication that the Treasury, OMB and others in the Administration are amenable to giving BPA a grace period from the end of the year in which to make up its end-of-year Treasury payment without the delay being considered a missed payment. BPA believes there would be political and potentially financial consequences to such action.

Q: We would like to understand BPA's monthly cash flow. Associated with this is how net billing affects BPA's cash. In addition, when is the net billing obligation satisfied?

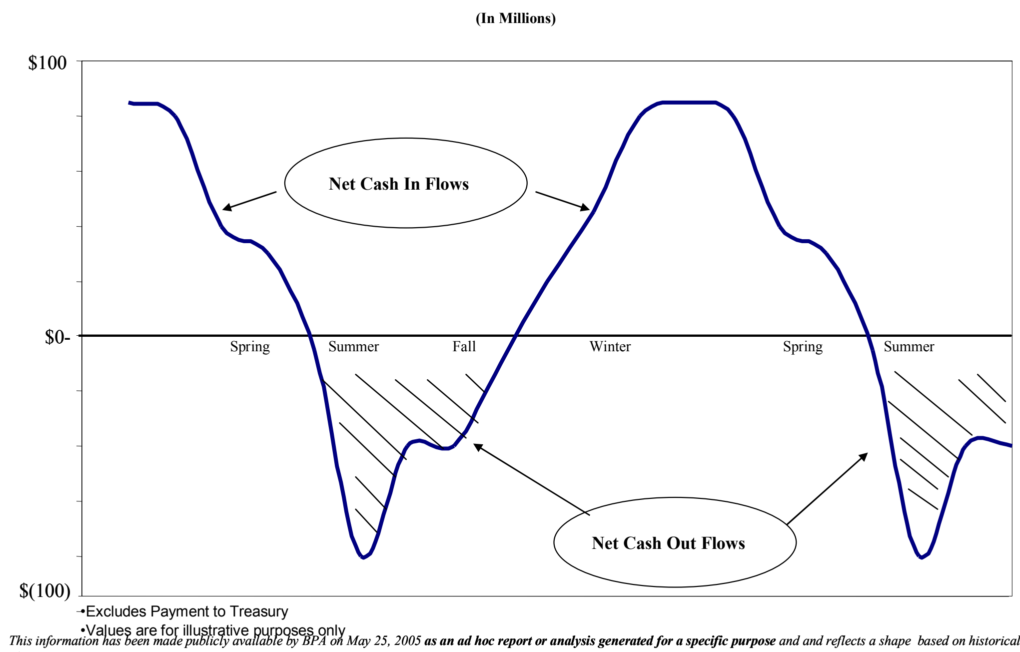
A: The "Snohomish Cash Comparison Question" document provides some information about BPA cash flows and the factors that impact them. The "Range of Monthly Cash

Flow to Energy Northwest.ppt" document provides some information about the net billing impacts to BPA's cash.

Q: What can we tell them about the seasonality, or shape, of cash flow? And how would it be different with Rebate based on net secondary sales?

A: The chart below describes the general shape of BPA's cash flows. If a rebate mechanism was developed for the FY 2007-2009 rate period, the impact on BPA's cash flow would depend greatly on the type of rebate mechanism developed and the actual hydro and market prices experienced in the year.

Typical Seasonal Net Cash Flow Profile



This information has been made publicly available by BPA on May 25, 2005 ***as an ad hoc report or analysis generated for a specific purpose*** *and and reflects a shape based on historical observations.* ***The information provided is based upon data found in Agency Financial Information but may not be found verbatim in an External Standard Financial Report or other Agency Financial Information release.***

Q: Can we correlate secondary revenues with hydro data and mid-C or other price index to provide a 3rd party data source rather than rely on BPA accounting of secondary revenues?

A: We cannot answer this question without further investigation at this time.

Q: Can we model river operations at different points on the system (rather than just The Dalles) and correlate those flows with market prices?

A: We cannot answer this question without further investigation at this time.

Q: Are IOU benefits being modeled correctly and is the accounting for the IOU benefits in FY 08-09 for the Slice portion captured in the slice true-up?

A: Staff has reviewed the IOU benefit portion of the risk models and is confident that the correct proportions of IOU benefits expenses are being captured for Slice and non-Slice customers. The Slice portion of the IOU benefits in FY 08-09 will be accounted for either in the annual Slice True-Up for those years, or through a different collection mechanism, such as a monthly adder to the Slice Expedited Bills. The monthly adder could be something that is in the initial proposal for the WP-07 rate case.

Q: When do the first warning signs of a possible US Treasury miss begin to show up within the year?

A: This depends greatly on the year and the situation that is causing the possible miss. If the problem is low water or low prices, there's a chance that by the middle of the fiscal year (April time-frame) there would be warning signs that there is risk of missing a payment to the US Treasury or other creditor. That said, there remains an immense amount of uncertainty regarding the second half of the year. The SN CRAC process was a good example of the complexity around making a decision whether or not there is a high enough likelihood that BPA's obligations will not be paid in full.