



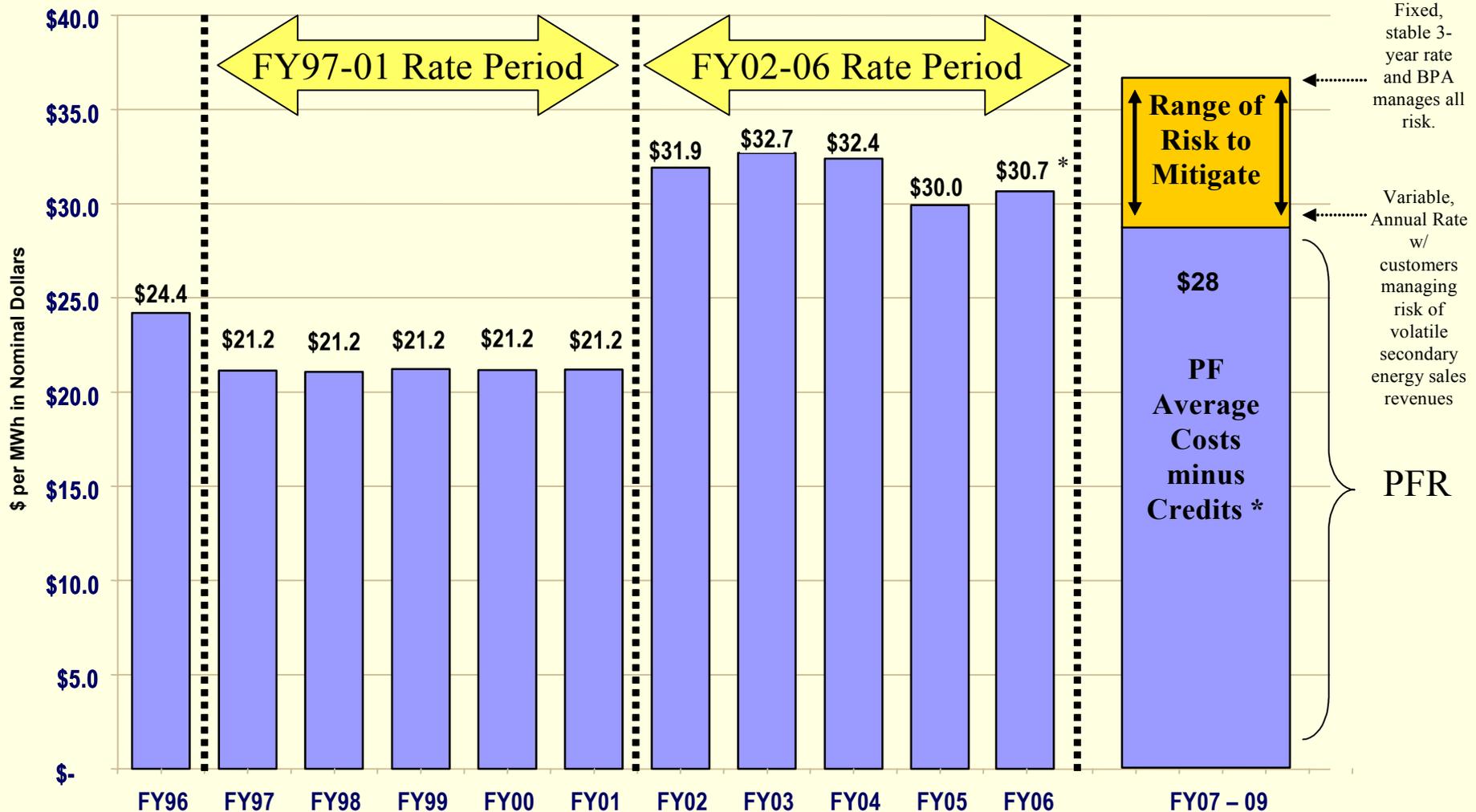
BPA Power Cost and Rate Update

July 6, 2005

This Agency financial information was generated for discussion purposes with BPA customers at a meeting called by Senator Maria Cantwell and Senator Gordon Smith and has been released externally by BPA on 07-14-2005



Actual and Forecasted Nominal Power Rates: 1996 - 2006



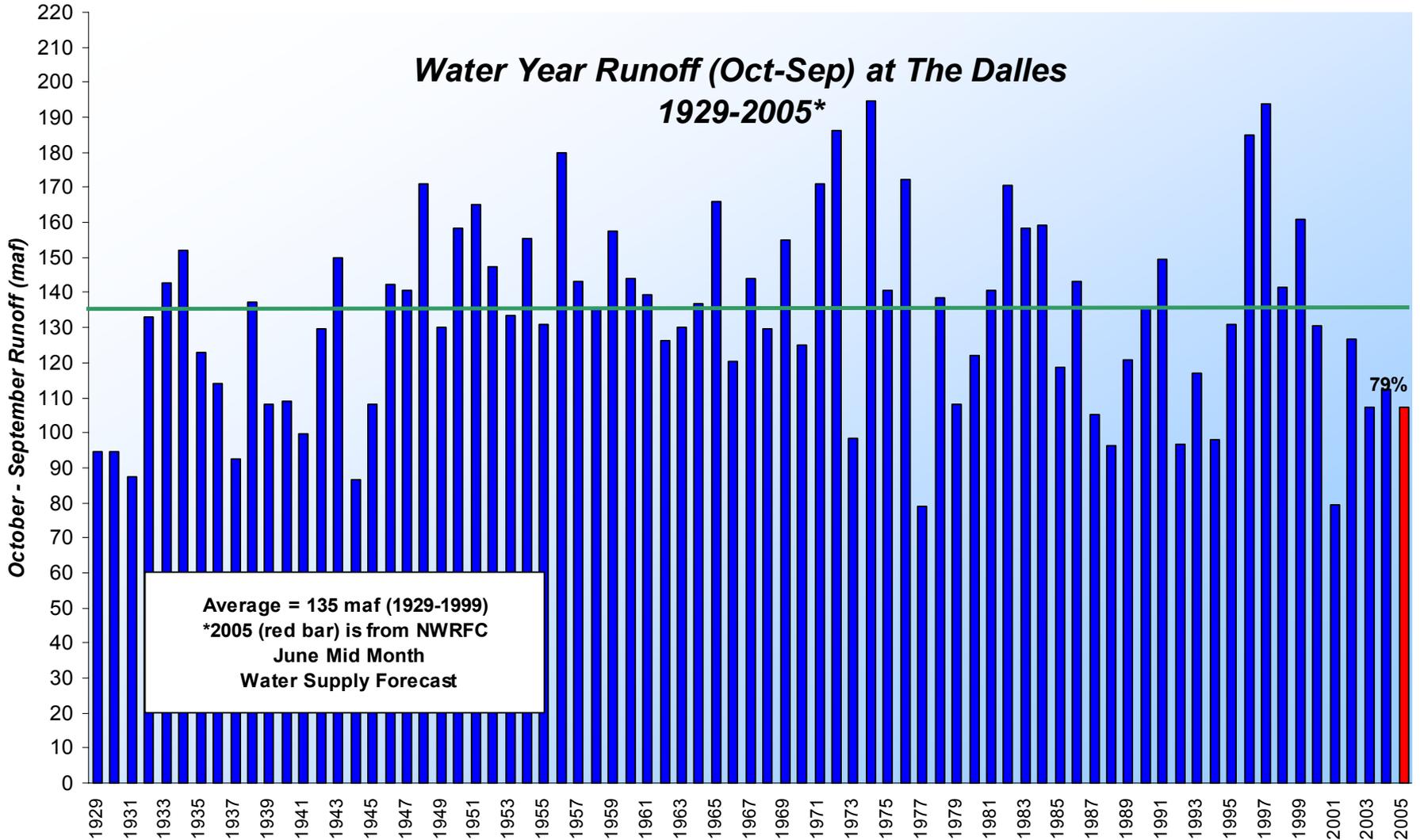
*Forecasted FY06 rate from August 18, 2004 SN CRAC workshop

Note: Nominal Power Rates do not include Transmission Rate Component



2005 Runoff: About 75% of average:

6th Low Water Year in a row

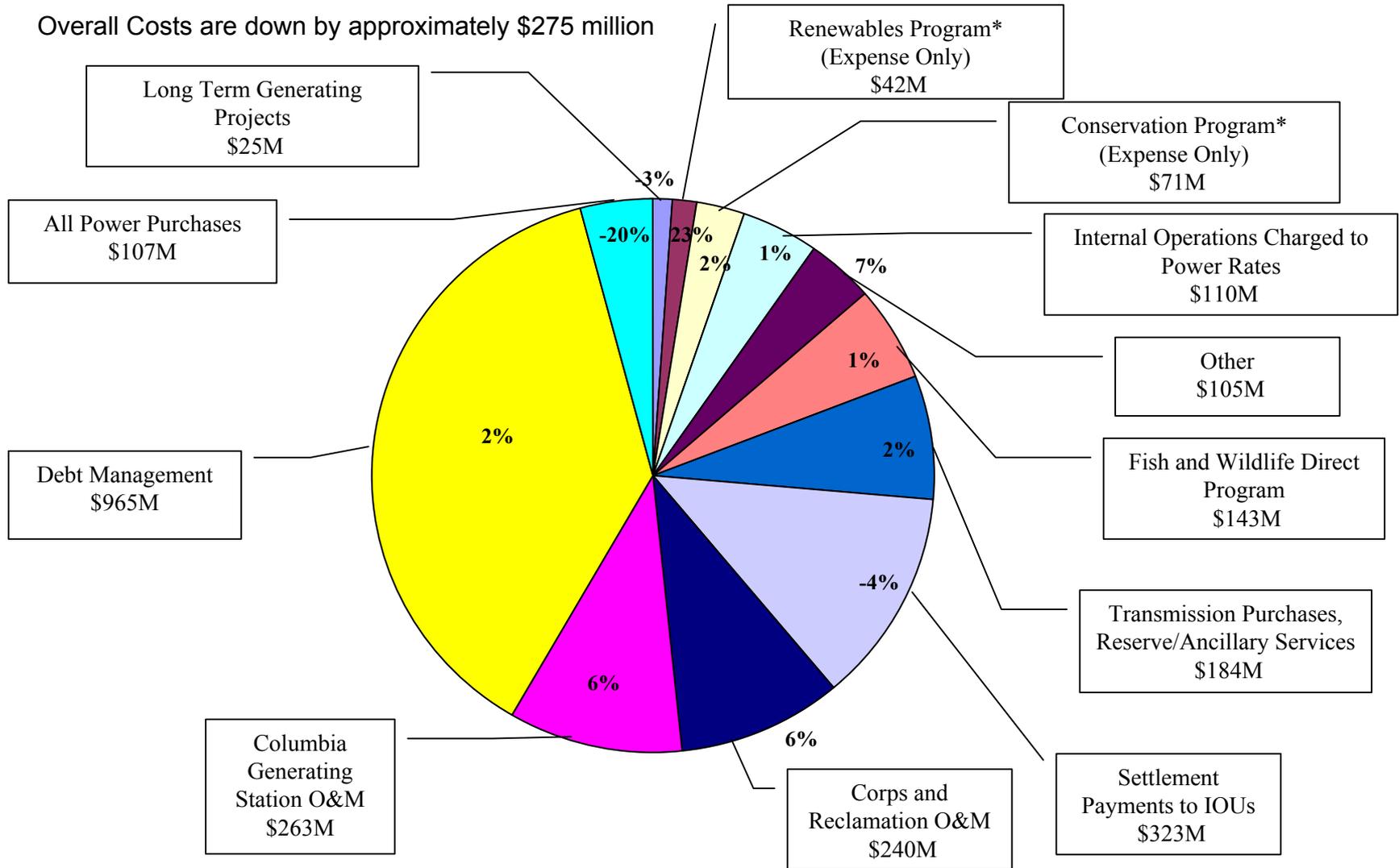




2007-09 Expenses in Power Rates

Average Annual Growth Rates from 2002-06 to 2007-09

Overall Costs are down by approximately \$275 million



*Does not include revenues from aMWs sold.

This information is a derived estimate for presentation purposes and cannot be found in BPA-approved Agency Financial Information but is provided for discussion or exploratory purposes only as projections of program activity levels, etc.



Can We Get Back to 1997-2001 Rates (\$22)?

No – Regional Demands on BPA are Much Greater in 2007-2009:

- Benefits to IOU residential customers increase from \$70 million per year to over \$323 million per year
- Fish program costs, not counting operations costs, up by \$120 million per year
- 3000 aMW more public utility load in 2007-09
- O&M and Debt Service costs on the generating system are up by \$225 million, not counting fish-related costs
- Conservation expenses up \$50 million per year
- 2002-06 rates under-recovered costs by \$50 million per year
- Other 2002-06 costs have been deferred into 2007-09



Cost Reduction Examples

- **Internal Costs**
 - No increase in Power internal costs from 2001-09
 - PBL FTE down 7% since 2002
 - Well on way to 25% reduction in agency-wide IT costs
 - EPIP projects, grade reduction, FTE reduction efforts in progress
- **Settlement of IOU Benefits:** \$200 million reduction in 2005-06
- **Corps/Reclamation:** \$9 million per year undistributed reduction in forecast
- **Columbia Generating Station:** Recent \$22 million per year budget reduction for 2007-09
- **2004 Sounding Board Process:** \$111 million reduction for 2005-06
- **Power Function Review:** \$96 million per year reduction for 2007-09
- **2007-09 total costs (without risk):** \$3/MWh below 2002-06



Customer Goal: \$27/MWh for 2007-09

- After Power Function Review, 2007-09 average costs, without risk, and pre-Redden decision, are about \$28/MWh (vs. 2002-06 average rate of \$31/MWh)
- Biggest Remaining Question: Risk Management
 - Risk Management is greater challenge than ever before
 - Low starting reserves
 - Greater revenue volatility due to higher market prices
 - No BPA proposal yet – active discussions with customers on best risk management approach are ongoing



What's Next for 2007-09 Costs and Rates

- **June 2005 – March 2006:**
 - Continued Cost Reduction Efforts
 - Regional hydro benchmarking
 - Possibly remove geothermal costs in FY 2009
 - Explore extension of Columbia Generating Station debt
 - Continue internal cost EPIP (Enterprise Process Improvement Project) process, grade reduction, FTE reduction
 - Re-examine recovery period for Conservation capital
 - Risks of Cost Increases
 - Spokane Tribe Settlement
 - CRFM plant-in-service forecast from Corps
- **Fall 2005:**
 - Initial Proposal for 2007-09 Power Rates
- **Fall/Winter 2005:**
 - Reassess all costs based on outcomes of BiOp rulings & appeals
- **Spring 2006:**
 - Final Rate Proposal for 2007-09 Rates, reflecting updated costs
- **June 23 and Early September 2005**
 - Additional policy-level regional discussion of risk management in rate case



Regional Public Involvement on Power Costs

- Financial Choices Public Process– 2003
- General Manager Work Groups – 2003
- Sounding Board – 2004
- PPC Monthly meetings – 2003 - 05
- Customer Collaborative – 2004 - 05
- Power Function Review – 2005



Customer Suggestions for 2007-09 Rate Reductions

- Control administrative costs
- Increase Customer involvement
- Control costs of other Federal agencies
- Increase the amortization period for BPA-funding fish and wildlife investments
- Minimize the impacts of BPA policy decisions
- Debt finance capital items at Columbia Generating Station and nuclear fuel to reduce costs and volatility
- Measure program success – whether for maintenance activities or fish programs – based on results achieved not dollars spent
- Explore alternatives to increasing “Treasury Payment Probability” in FY07
- Look at total reserves – for Power and Transmission Business Lines – and allow inter-function loans
- Respond aggressively during bad revenue years