BP-20 Rate Previews

July 25, 2018

The BP-20 rate previews are power and transmission rate estimates that include various expert-informed placeholders and draft modeled information. These results for Power Services assume the initial Integrated Program Review (IPR) numbers with an additional $30 million in cost reductions. The results also assume that the undecided Financial Reserves Policy (FRP) will include rate action of $40 million in power rates, which is the equivalent of a $20 million increase in the upcoming rate period. These results **will** change with the final IPR and FRP decisions as well as with the modeling updates and refinements that will be made between now and the release of the initial proposal in November.

This rate preview places the BP-18 to BP-20 power rate increase at roughly 5 percent. While BPA will meet its goal of keeping program costs at or below the rate of inflation, a power rate increase that is 5 percent misses an internal goal set for this rate period to keep the power rate impact at or below the rate of inflation as well. Forecasted inflation is near 2.5 percent annually, which means BPA's two-year power rate increase would need to be at least below 5 percent to meet the goal. Bonneville wants to indisputably meet or beat inflation and is working aggressively to get the power rate increase closer to 4 percent.

Key drivers of power rates (excluding IPR) in average annual values	
Upward rate pressure:	
Reduced net secondary revenue	$89 million
End of the rate-impact mitigation to transition Energy Efficiency from capital to expense[1]	$61 million
Financial Reserves Policy	$20 million
Expiring WNP-3 settlement contract	$16 million
Residential Exchange Program	$7 million
Downward rate pressure:	
Lower capital-related (depreciation, principal and interest) costs	$54 million
Increased generation inputs revenue largely due to proposed treatment of all load balancing capacity costs being recovered through transmission rates instead of partially in power rates and partially in transmission rates.	$20 million
New contract revenue	$4 million

[1] As part of the transition of EE from capital to expense Bonneville used $260 million in refinancing-related funds to smooth the rate transition in fiscal years 2016-2019.

Transmission's rate increase is expected to be around 10 percent, or an average annual rate increase of 5 percent. The increase is due to the updated depreciation study and plant upgrades due to continued investment. Transmission Services was able to offset some of these costs by generating more revenues and will continue to look for program savings during the IPR process.

Key drivers of transmission rates (excluding IPR) in average annual values	
Upward rate pressure:	
Depreciation study update combined with plant update	$46 million
Net interest expense growth (continued investment)	$28 million
I 5 Corridor Reinforcement Project study cost write off	$26 million
Increased generation inputs cost largely due to proposed treatment of all load balancing capacity costs being recovered through transmission rates instead of partially in power rates and partially in transmission rates.	$20 million
Downward rate pressure:	
Increase in Point-to-Point sales for recent energized builds where customers no longer have the option to defer their service. In addition, there was conditional firm service that was assumed for the South of Allston solution.	$16 million
Reduced cash flow requirement for principal payments	$2 million