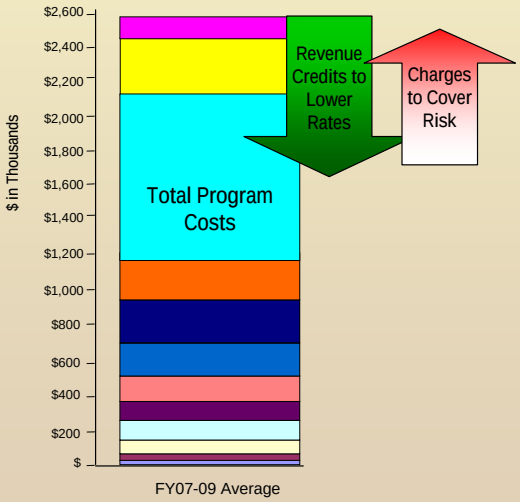
B O N N E V I L L E P O W E R A D M I N I S T R A T I O N

FY 2007-09 Power Rates Update October 13, 2005

Initial Proposal – The First Step

- November 2005– initial proposal for FY 2007-09 power rates released
- This is just the first step toward establishing new rates – over 8 months of public process will follow, with a final proposal filed with FERC by August 2006
- Proposed rates will change between the initial proposal and when rates go into effect on October 1, 2006
- Key factors that will affect final rates:
  - ↓? Top-to-bottom review of program costs
  - ↑ Financial effects of court-ordered fish mitigation measures
  - ↑↓ Actual FY 2006 financial results – will depend heavily on hydro conditions & market prices
  - ? Review of our market price forecasts and the associated effect on revenues from surplus energy
  - ↓ Success in securing additional liquidity tools

Power Rates = (Program Costs) – (Revenue Credits) + (Charges to Cover Risk)
(Public Customers' Loads Placed on BPA)



Overview of Past & Future Power Rates

- FY 2002-2006 average $31.4/MWh(1)
- FY 2006 actual $29.6/MWh(1)

- Base Case FY 2007-2009 average ~$30/MWh(2)
- Base Case FY 2007 ~$32/MWh(2)

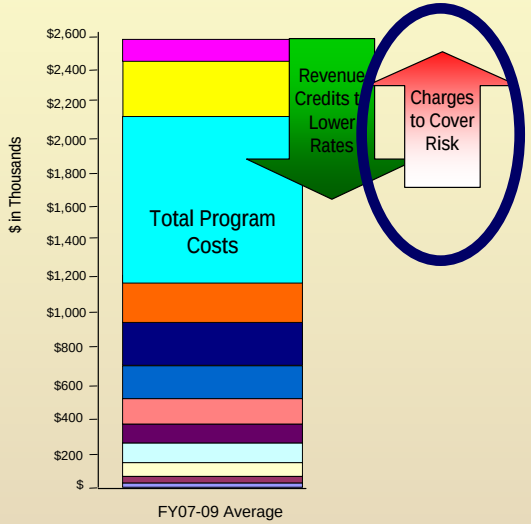
Achieving our goal of securing $300M in flexible liquidity tools will significantly lower FY 2007-09 rates

(1)There may be slight changes to this rate level due to true-up requirements under the FB and LB CRACs

(2)This is the expected value, actual rates may vary due to the CRAC and DDC

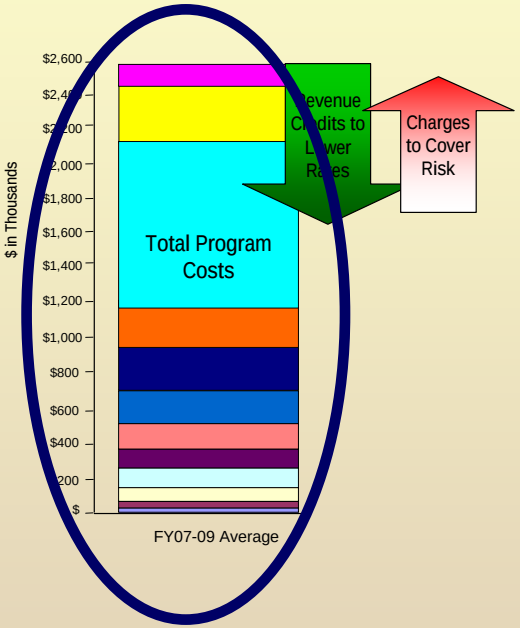
Basic Structure of Initial Proposal

- The initial proposal seeks to balance two key factors: the cost of risk and the overall rate level
  - ✓ Money collected up front (planned net revenue for risk)
  - ✓ Money when we need it:
    - ➢ Cost recovery adjustment clause (CRAC) that can adjust rates annually to account for unfavorable changes in BPA's financial condition
    - ➢ Dividend distribution clause (DDC) that can return money to ratepayers when accumulated net revenue reaches a certain level
- Customers have told us that they prefer lower adjustable power rates over higher but stable rates
- We have heard this preference and intend to propose a CRAC and a DDC
- With a CRAC and DDC, the rate customers will pay on October 1 will be determined, in part, by the previous year's financial results



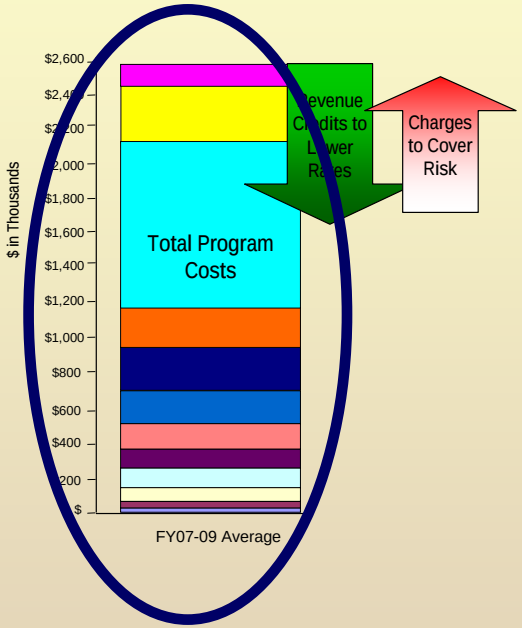
Program Costs

- Power Function Review
  - ✓ From January through May 2005, we conducted an extensive and in-depth public process on BPA's 2007-2009 cost decisions
  - ✓ Displayed line-item expenses and policy choices
  - ✓ BPA held 1 all-day kick-off meeting, 7 technical workshops, 5 management-level discussions, 5 public meetings
  - ✓ Approximately 30 managers (customer/constituents) and 40 technical staff participated
  - ✓ Submitted Draft Report to the region and took comments
  - ✓ Draft PFR report laid out specific options for cost reductions with estimates of annual savings for each and pros and cons for each, and whether and why BPA proposed to adopt each cost-reduction option
  - ✓ Published the Final Report in June 2005



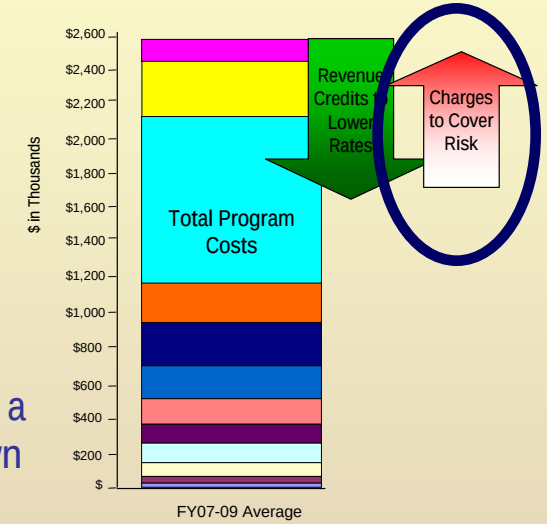
Program Costs

- Power Function Review – Follow-up
  - ✓ Early next year, BPA will conduct a top-to-bottom review of program costs with public review and input
  - ✓ We also committed to exploring a specific set of additional cost control measures before submitting our final power rate proposal in mid-2006:
    - Regional hydro benchmarking
    - Possibly remove geothermal costs in FY 2009
    - Explore extension of Columbia Generating Station debt through 2024
    - Continue internal cost EPIP (Enterprise Process Improvement Project) process, grade reduction, FTE reduction
    - Re-examine recovery period for conservation capital
  - ✓ Even though this public process will occur outside of the rate case, the results will be reflected in final rates



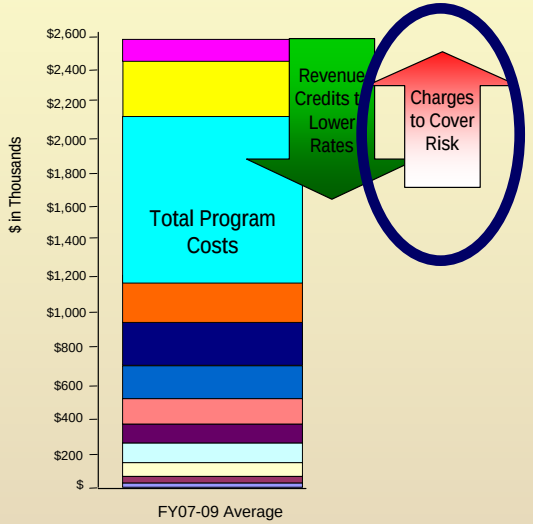
Fish Costs

- Additional fish costs are a major concern for BPA's power rates
- The financial effect of future court orders and/or a new Biological Opinion are unpredictable
  - ✓ June 10th ruling added $57 million to $81 million of costs to Slice and Non-Slice customers in FY 2005 (included only increased summer spill)
  - ✓ Impacts on FY 2006 could be more because it could include both spring and summer spill and as well as flow requirements
  - ✓ Under the "rule of thumb" for changes in revenue from BPA's net secondary sales, the rate increases $1/MWh for approximately every additional $50M in costs
- In lieu of setting rates to collect up-front for unknown costs, BPA will propose a rate adjustment mechanism to capture these added costs when they are known
- The following actions related to the ongoing litigation over the NMFS FCRPS 2004 BiOp will trigger an opportunity to adjust rates to cover additional costs
  - ✓ A court ordered injunction
  - ✓ New NMFS FCRPS BiOp due to remand
  - ✓ An agreement related to FCRPS BiOp litigation
  - ✓ Recovery Plans under the Endangered Species Act
- These potential future costs are not factored into our rate projections for FY 2007-09



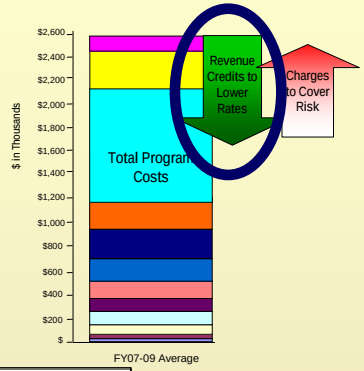
FY 2006 Financial Results

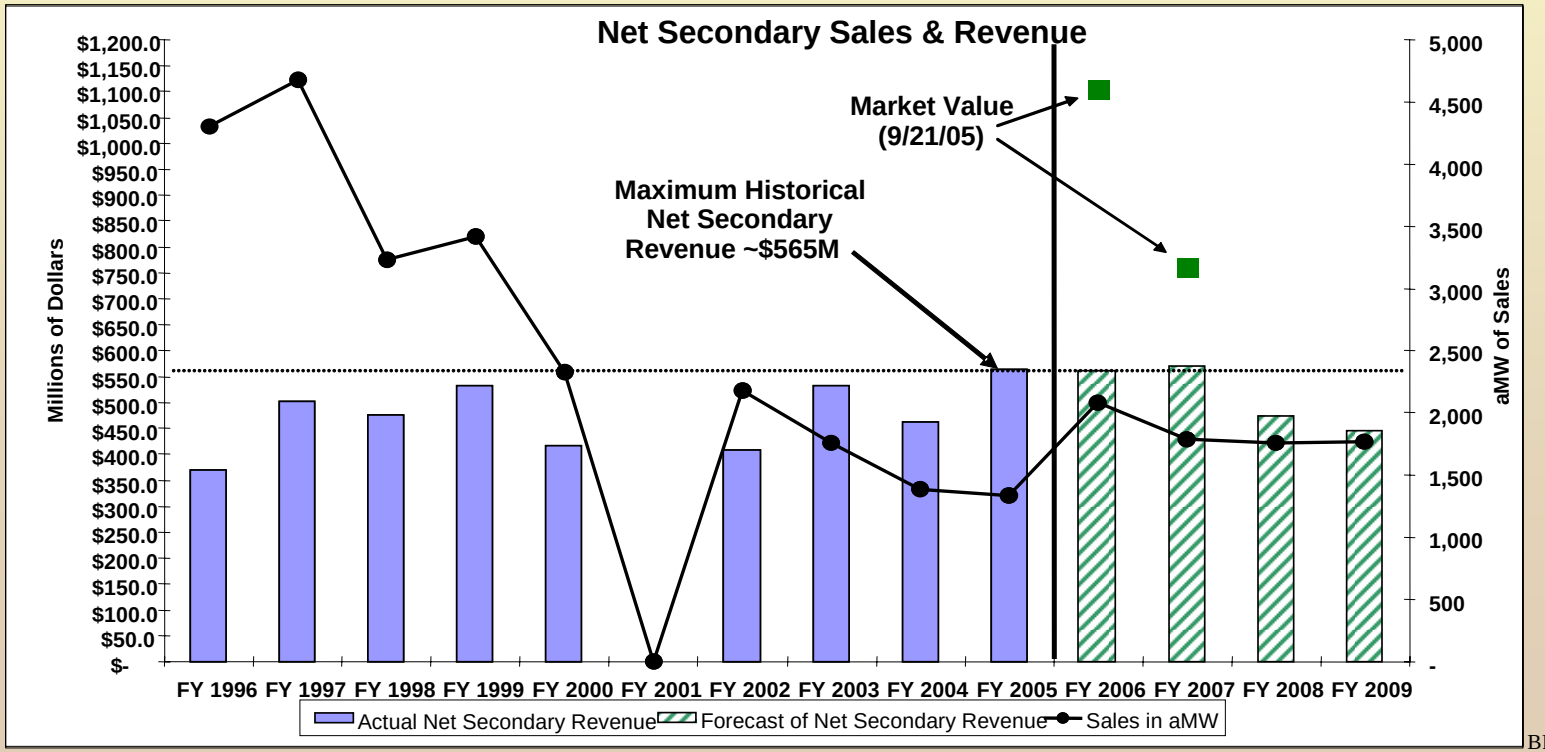
- Between high natural gas price volatility and unpredictable water conditions, the spectrum of possible outcomes for BPA's FY 2006 secondary revenues is wide
- Actual FY 2006 financial results will be much better known by the time of the final proposal
- FY 2007 rates can vary by +/- $2/MWh or more based on FY 2006 financial results



Secondary (Surplus) Sales

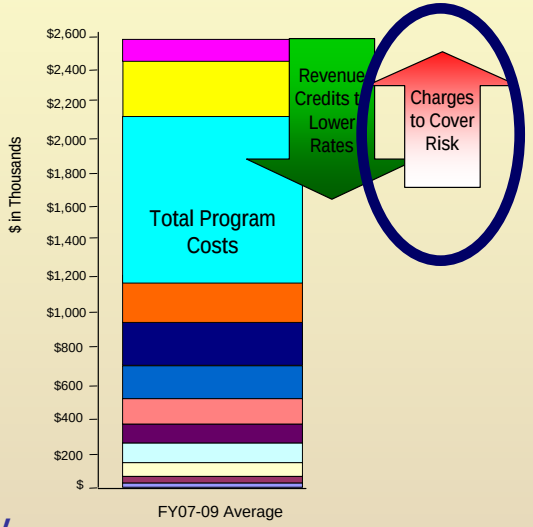
- BPA continues to maintain a conservative, yet prudent, approach to estimates of net secondary revenues
  - ✓ Capped in FY 2006
  - ✓ Gas price forecast significantly below current market
  - ✓ This approach offsets the use of average water as basis for net secondary revenues even though BPA has had 6 consecutive years of below-average water
  - ✓ Through the CRAC & DDC, we can reflect actual financial performance in rates





The Power of Additional Liquidity

- Additional sources of liquidity will lower rates, all else being equal
- BPA and others have identified several sources of additional liquidity – none of which are available today*
  - ✓ BPA direct-payment of Energy Northwest expenses (~$40-200M)
  - ✓ Customer pre-payment of power bills (~$0-120M)
  - ✓ Shaping of IOU benefit payments (~$25-27M for three months)
  - ✓ Defer pre-payment of federal debt associated with debt optimization (up to ~$200M)
  - ✓ Treasury line of credit
- BPA is working with customers and others to evaluate the feasibility and magnitude of these possible sources
- Additional liquidity tools will not be reflected in the initial proposal, but BPA's goal is to include those that are firmly secured in the final proposal in order to lower rates



*Magnitudes of liquidity tools assume they are available for use. They are not additive.

Estimates of FY 2007-09 Power Rates

Objectives:

- ✓ Keep power rates low as possible while still meeting financial standards and delivering our mission
- ✓ Minimize the power rate increase from FY 2006 to FY 2007
- ✓ Avoid a large build-up in reserves
- ✓ Avoid excessive rate volatility between years
- ✓ Ensure that the initial proposal allows BPA to incorporate liquidity tools and other rate designs by the final record of decision

	Example Risk Package	Expected Value FY 2007 October 1st Rate	Expected Value FY 2007-2009 Average Rate	Annual Projected Net Revenues for Risk added to Base Costs	Average End-of-Year Reserve Level FY2006	Average End-of-Year Reserve Level FY2009	Treasury Payment Probability
2	**Base Case (cap of $300M on CRAC)**	**~$32/MWh**	~$30/MWh	$96M	$378M	$749M	92.6%
3	**Effect of different liquidity scenarios on FY 2007-2009 rates**						
4	**Base Case + $150M flexible liquidity (cap of $300M on CRAC)**	**~$30/MWh**	~$29/MWh	$8M	$367M	$592M	92.6%
5	**Base Case + goal of $300M flexible liquidity (cap of $200M on CRAC)**	**~$29.5/MWh**	~$28.5/MWh	$0M	$365M	$533M	92.6%
6	**Effect of FY 2006 performance on FY 2007-2009 rates**						
7	**+$200M: What if BPA had a good FY 2006?**						
8	**Base Case (cap of $300M on CRAC)**	**~$30/MWh**	~$28.5/MWh	$73M	$569M	$750M	N/A
9	**Base Case + goal of $300M flexible liquidity (cap of $150M on CRAC)**	**~$28.5/MWh**	~$28/MWh	$0M	$569M	$587M	N/A
10	**-$200M: What if BPA had a poor FY 2006?**						
11	**Base Case (cap of $300M on CRAC)**	**~$36.5/MWh**	~$32/MWh	$122M	$161M	$789M	N/A
12	**Base Case + goal of $300M flexible liquidity (cap of $250M on CRAC)**	**~$34/MWh**	~$30.5/MWh	$6M	$161M	$562M	N/A

Conclusion

- ✓ The initial proposal is simply the first step in a eight month public process
- ✓ We are seeking to meet all of the objectives on page 11
- ✓ Per customer-stated preference, we are relying more heavily on adjustable rates – under this rate structure, rates are more susceptible to change through the FY 2007-2009 rate period
- ✓ FY 2007 rates will depend heavily on FY 2006 performance, court-ordered decisions on fish mitigation, and hydro conditions
- ✓ There is substantial opportunity to lower the initial proposal rate level through securing additional liquidity

Tentative Schedule

November 7, 2005	Initial Power Rate Proposal Released & *Ex Parte* Begins
February-March 2006	Top-to-Bottom Public Review of Costs
May 25, 2006	Draft Record of Decision
July 7, 2006	Final Record of Decision & *Ex Parte* Ends
August 1, 2006	Rates Filed at FERC
August 2006	3rd Quarter Review of FY2006 Financial Performance
October 1, 2006	New Power Rates Take Effect