BPA Response to:

Questions for BPA Regarding BPA's TBL Programs in Review for Program levels FY 2008 and 2009

June 30, 2006

NOTE: BPA responses are bulleted and italicized below each item.

Process Suggestions

- We would like to propose one or two more technical meetings on PIR and a deeper discussion of capital programs.
  - *There will be a technical capital meeting on July 11, 2006. The meeting time and location is posted on BPA's Web site calendar: http://www.bpa.gov/corporate/public_affairs/calendar/*
- We suggest ending both the PIR and capital program comment period mid-August.

Areas of Significant Program Growth

Areas of significant program growth are listed below (the percentages are the amount by which the average of these costs for 2008 and 2009 exceed the average of these costs for 2006 and 2007). At this point no judgments are being made on the value of these programs or the need for increased funding, but it would be useful to understand why these costs are going up significantly, compared to BPA's other costs.

Maintenance

1. Right-of-way maintenance (12%)
   - *Additional funds are needed to clear unoccupied ROWs; additional danger tree clearance; and noxious weed treatments to ensure reliability. Due to TBL's poor financial condition in the fiscal year 2006 rate case, TBL made decisions to defer ROW maintenance.*
2. Technical training (36%)
   - *Technical Training is going up to include additional five apprentices per year. The driving force for this increase is the aging workforce and the number of staff in these fields that are eligible for retirement.*
3. Non-Electric plant maintenance (19%)
   - *To be in full compliance with BPA capitalization policies, some replacements that have been capitalized in the past will be expensed. These include: Roofs, HVAC, marker balls, and airway lighting. Due to TBL's poor financial condition in fiscal years 2004 and 2005, there was a significant deferral in non-electric maintenance.*

Acquisition and Ancillary Services

4. Corps and Bureau (45%)
   - *Corps and Bureau cost levels were flat for the last five years. Their expenses were updated in the most recent Power Business Line rate case. This is TBL's share of the Corps and Bureau's costs, which includes operations and maintenance expense, interest and depreciation.*

Business support

5. Executive Management (20%)

   Here is a breakdown of the Executive and Administrative Costs by resource.

Dollars are in millions

Ongoing	
4.70	Salary
0.17	Travel
0.12	Cell Phone
0.13	Supp Labor
0.14	Contracts
0.13	Tuition
0.09	Office Moves & Relocations
0.68	Supply Chain
0.03	Equip & Comp
New	
1.00	COOP
1.00	Travel & Training for Engineering
Total 8.19M	

The work that is done covers a variety of topics, such as:

- Salaries of TBL VP's
- Salaries of some managers (not all)
- Salaries of admin. staff for each VP or manager charging to this program
- Executive career development
- Training of employees who work exclusively on capital projects (training cannot be capitalized)
- RTO/Grid West/Columbia Grid participation activities
- Emergency preparedness
- Common Information Model participation
- Pluralism Council participation
- Records management
- Safety training (capital employees)
- TBL-initiated facility improvements/Ross optimization/ergonomic assessment and training
- Inroads administration
- Labor relations/union representation
- Standards of conduct training
- Math, science, and engineering education
- TBL Ombuds program
- Many others

6. Pay for performance (37%)
   - *BPA put its pay for performance on hold during the financial crisis. As we become financially more secure, pay for performance are being restored.*
7. Expenses related to inventory management (350%)
   - *One of the EPIP recommendations was to decrease transmission inventory by $21 million. TBL will take strides to use the inventory. However, in the event that inventory cannot be used, the assumption for PIR included writing off up to one-third of the recommended inventory reduction.*
8. Regulatory and regional association fees (50%)
   - *Increased funds for the WECC dues, we are already seeing increased annual dues that exceed funding levels. This increase also includes funding for the WECC implementation of the ERO.*

Questions on other areas

Q It would be good to be able to incorporate the savings from the Enterprise Process Improvement Program (EPIP) into transmission rates as soon as possible. (Pages 25 to 29 of the presentation). What is BPA's plan for incorporating these savings into TBL's program costs?

A *The EPIP savings are included in the proposed FY2008-2009 program levels. Most of the EPIP savings would be included in the Corporate G&A program. There are also savings included in the Marketing program of $1.4 million. In addition, Plan, Design, Build savings include the deferral of projects and the gated approach. Using the gated approach, TBL changed its plan of service on the Libby-Troy from a double circuit 230-kilovolt transmission line to a single circuit 115-kV line. In addition, TBL was able to* *defer two projects of $25 million, which included the Olympic Peninsula and the I-5 corridor for one year. The capital savings are included in the rate base and the customers will see the savings in future rates.*

Q Why is depreciation going down as plant investment going up (page 34)?

A *Depreciation is decreasing for several reasons:*

- *The new depreciation study decreased depreciation, resulting in a $10 million per year decrease.*
- *Information Technology projects are becoming fully depreciated from the FY2006 rate case.*
- *Capital spending was down.*

Q What is the cost of, and the details related to the additional pressures related to "Accounting determination of cost previously capitalized transferred to expense." (Page 40).

A *The cost of capitalized costs previously capitalized will now be expensed (i.e. HVAC, roofs, etc.)*

Q What are "Post Retirement Benefits" and why are they going up so much FY 2008 to 2009?

A *On page 49 Bonneville and the U.S. Treasury worked out a payment schedule to ensure that BPA fully funds the retirement benefits of the FCRPS employees. The amounts in the PIR are for TBL employee retirement benefits. FY08 represents the agreed upon amount with Treasury, FY2009 represents the on-going amount calculated to continue full funding of the retirement benefits for the Transmission function.*

Q More detail on Corporate (pages 49 to 52) would be helpful.

A *Please see document posted on PIR Web site titled "2006 Transmission PIR Corporate Internal Support Costs."*

Q It would be good to know how much the Electric Reliability Organization impacts are going to cost and where this will show up in BPA's program costs, (page 57) Are there placeholder costs in the PIR program costs, if so where and how much?

A *In the PIR, there is roughly $15 million per year proposed in the capital program to meet the WECC and ERO reliability criteria. TBL will pay WECC for ERO costs (expenses). These are included in the Regulatory & Region Association Fees sub-program*

Q ColumbiaGrid is not mentioned in these documents. Where are the costs and savings assumptions related to this contained? How are they allocated to TBL?

A *ColumbiaGrid is included in the corporate allocation to Transmission, please see page 50 program labeled Industry Restructuring.*

Q On page 115 BPA lists a "non-Borrowing Authority item" revenue financed projects. Is BPA still planning to assume revenue financing in the rates in light of the fact that its transmission rates are generating significant revenues in excess of costs?
We are currently forecasting $15 million each year in revenue financing for the FY2008-2009 period.

Q How are BPA's TBL revenues looking as we go into the next rate period?
A *This will be discussed in the Technical Workshop on July 11.*

Q On the capital side, how much is third-party financing costing as opposed to relying on the US Treasury for borrowing?
A *All of the capital program with the exception of generation interconnection and California-Oregon Intertie addition project will use Treasury borrowing. The amount of Treasury financing needed for projects will be reduced by the $15 million in revenue financing for the FY2008-2009 period. The GI and COI addition will be repaid in the form of revenue credits plus interest, paid at the FERC rate. BPA will look for opportunities to seek other alternatives to Treasury financing as needed. BPA has completed one third-party financing transaction, for the Schultz-Wautoma line. The details of the financing of this project can be found on slide 19 of the 2004 PIR debt management presentation. The presentation is available at http://www.transmission.bpa.gov/Business/Customer_Forums_and_Feedback/Programs_in_Review/documents/080304_PIR_DebtOpt.pdf. We are continuing to look for non-federal financing opportunities but no additional projects have been currently approved.*

Q More detail on the I-5 corridor upgrades (page 109) would be useful.
A *This will be discussed at the July 11 workshop.*

Q What is the impact of DOP on all this?
A *The primary purpose of debt optimization is to restore borrowing authority for the Agency without negatively impacting rates. For the past six years BPA has managed the program adhering to these principles. When BPA makes its debt optimization advanced Treasury payment at the end of FY2006, it will bring the borrowing authority restored under the program up to $1.2 billion. Savings from the previous debt optimization is included in the base and customers are seeing the benefits.*

Q What is the effect on borrowing authority over time?
A *The effects of capital spending are shown in the agency overview of FY2007-2012 at the Capital Planning Review. In 1999, before debt optimization began, BPA forecasted that Federal borrowing authority would be depleted by about 2004. Because of the debt optimization transactions completed to date, the borrowing authority forecast has been extended to 2011. If the program continues as currently planned, we estimate Federal borrowing authority will be extended to approximately 2013.*