



Department of Energy

Bonneville Power Administration
P.O. Box 491
Vancouver, Washington 98666-0491

TRANSMISSION BUSINESS LINE

August 10, 2004

In reply refer to: TMF/Ditt2

Public Power Council
1500 NW Irving, Suite 200
Portland, OR 97232

Dear Ms. Leone:

Thank you for your letter of July 14, 2004 regarding your request for additional details and information of proposed program levels for fiscal years 2006 and 2007. We appreciate the need to supply further details to enable substantive feedback on our proposals. Through the three scheduled technical workshops and the attached information, I hope this need is satisfied. While we agree with the need for additional information pertaining to proposed program levels, several of your requests pertain to information outside of the scope of the Programs In Review (PIR) public process. To the extent we can, we will identify those items and the appropriate parties or forums where they may be fully discussed to your satisfaction.

Our continued goal is to be responsive to your requests and to deliver the necessary information. Please find following this letter our detailed responses in the areas of financing issues, program levels, PIR workshops and Rate Case workshops.

Once again, I thank you for your letter. I ask that you forward this response to your respective group of joint customers. Should you have any further questions on the enclosed information, please do not hesitate to contact our PIR staff, Madonna Radcliff, Rebecca Fredrickson and Sean Egusa, or you may contact me directly.

/s/ Vickie VanZandt, Aug. 10, 2004

Vickie VanZandt
Senior Vice President
Transmission Business Line

Financing Issues

Financing Sources of Funds:

Regarding your request for more information on financing sources to be used during Fiscal Year (FY) 2006 – 2010, the general construct for these sources of funds -- 3rd party financing, revenue financing, ENW re-financing, and Treasury borrowing -- was explained at the August 5th PIR workshop from 9 a.m. to 11:30 a.m. PIR staff relayed this information in advance to both Annick Chalier and Kevin O'Meara; PPC and the joint customers were represented at the workshop. We also briefly covered the assumptions currently used for FY2005 and FY2006-2007 rate case revenue requirements. However, since the sustainable capital strategy is still under development for the agency, there is no further information available at this time. Currently the revenue requirement assumes Treasury borrowing with the exception of third party financing for the Schultz-Wautoma project and revenue financing. More detail of capital projects planned in this time period is found in Appendix 1.

Capital Projects:

At the end of this document, we have attached Appendix 1 which is a list of capital projects that we plan to start in FY2006 and FY2007, along with the projected in-service dates. This project list includes current preliminary projections. It is subject to change, based on BPA policy decisions and/or operational assessments at the time. Thus, it should be used by others for general information purposes only, not for planning efforts external to BPA. Before the start of each fiscal year, the capital plan is reviewed to determine highest priority needs with each project being rated and ranked by the Transmission Capital Matrix Team. For FY2008 through FY2010, which are beyond the rate case period, the project estimates are less definitive than for FY2006 and FY2007 and therefore, are not included here. Beyond FY2007, the transmission system's needs are still being evaluated, thus investment estimates and projects are still under development. Shown below is an abbreviated summary of projects that we plan to energize in this rate period. These project estimates are direct cost only and do not include overheads.

Transmission Business Line Proposed Plant in Service		Energization Date	Proposed Project Amount (in 000's)
2006	Project Name		
MAIN GRID:	Puget Sound Area Additions, Phase 2	2006	2,141
	Schultz-Wautoma 500 kV line*	2006	42,467
AREA & CUSTOMER SERVICE:	Driscoll/Clatsop 230/115KV Tx	2006	4,721
	Re-conductor Chehalis-Centralia 69kV #1	2006	1,616
<i>* BPA funded portion</i>			
2007	Project Name		
MAIN GRID:	I-5 Corridor 230kV upgrades	2007	25,979

AREA & CUSTOMER SERVICE:	Longview 230/115-kV Bank #2	2007	4,286
	East Omak 230/115KV Bank	2007	4,286
	Madison Shunt Cap	2007	484
	Re-conductor Chehalis-Centralia 69kV #2	2007	1,775
	Flathead Valley Reinforcement (RAS)	2007	2,124

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Other Program Levels

Corporate G&A and Shared Services:

On August 25th from 9 a.m. to 1 p.m. at the PIR technical workshop we will be providing more detailed information on Corporate G&A as well as Shared Services costs. This will include a description of each corporate and shared services office or function, expenses (actual and projected) for each function for 2001 to 2007, and an explanation of cost allocation methodology for splitting costs between the power and transmission business lines as well as the further split in TBL between capital and expense.

Regulatory & Association Fees:

This area consists of three items: WECC dues, WECC Loop flow dues, and EPRI/CEIDS. Below are the details of the cost breakdown as budgeted.

	FY2004	FY2005	FY2006	FY2007
WECC Dues	250,000	250,500	258,015	258,015
WECC Loop flow	800,000	801,600	975,648	1,001,600
EPRI/CEIDS	419,108	476,000	650,000	669,500
	1,469,108	1,528,100	1,883,663	1,929,115

WECC dues are determined by a formula based on control area load. Loop flow expense is based on the payment for the measures taken by interconnection utilities with controllable equipment (such as phase shifters, the DC intertie, etc.) to control inadvertent or loop flow during the year. The measures needed are affected by generating sources and as such are affected by the water year in which the loop flow dues are calculated. In FY2004 we will be paying for FY2003. WECC loop flow is expected to increase in FY2005 and FY2006 by \$150K and \$200K, respectively. As we reviewed this line item in our PIR materials released earlier, we found an error. The original increases were listed as \$825,000 and \$907,500 respectively. The correction shown above will be carried through in the final PIR documentation for FY2006 and FY2007.

A modest level of research in transmission delivery is included. Although in FY2004 and FY2005 EPRI and CEIDS dues were cut from the budget as a line item, the fees continued to be paid as offsetting reductions in other projects within the R&D program were made to

compensate. FY2004 actuals are projected at \$419,108 and FY2005 at \$476,000. EPRI/CEIDS research support levels are decided by the numbers of targets in which TBL determines it needs to participate. The targets are chosen by managers in consultation with supervisors and staff to determine the appropriate benefits that will be derived from these targets. If a target is determined to have an acceptable level of benefits, it will then be added to the list of the targets that TBL chooses from EPRI. Targets are reviewed and determined every year.

Awards Program:

BPA's compensation package has three parts:

1. The first part is base pay. For our annual (salaried) workforce, salary ranges are set by Federal law. For our hourly (trades and crafts) workforce, wage rates for most workers are based on a survey of rates paid by other Northwest electric utilities, with the intent of neither leading nor lagging the market.
2. The second part is group cash awards, which serve to recognize and encourage employees to accomplish important organizational goals. One is tied to BPA-wide targets and is called BPA Success Share. BPA Success Share is not budgeted for in advance; instead it depends solely on cost savings and/or revenue increases. The second is tied to targets set at the business line level and is called Organizational Team Share. As with other companies, these tools are used to align employees' work towards BPA's most important goals, which include financial targets.
3. The third part is individual cash awards (and other related costs of the recognition program such as the modest amounts allocated for recognition celebration events, non-monetary awards that can consist of certificates and plaques, time-off awards, etc.). Again, as with other companies, such individual cash awards are an important tool to foster individual accountability for producing results that further BPA's mission.

Collectively, all three parts reflect a desire to produce a competitive compensation package that ensures that BPA is able to compete in the labor market for the talent and expertise needed to carry out its mission as well as provide our customers and the region with the necessary level of service and leadership. Still, the package is subject to adjustment when BPA finds it financially necessary to reduce its expenses. Such was the case beginning in January 2003 when BPA decided to suspend any use of either BPA Success Share or Organizational Team Share group cash awards. This suspension will remain in place through FY2005, after which the potential for these awards will be reintroduced at modest levels in FY2006-2007 that will be well below those used for several years preceding 2003 (see chart following). Similarly, funds for individual cash awards (and other related recognition program costs) were all but eliminated in January 2003, and instead such expenses were funded in FY2003 at a rate equal to \$100 per FTE (except that safety-related cash awards continued to be paid in modest amounts). In FY2004, funds for individual cash awards and other expenses in the third category were increased to the equivalent of \$200 per FTE. This funding level will continue through FY2005, after which it will be funded at higher levels in FY2006-2007 but still well below those prior to FY2003 (based on Bonneville

FTE forecast for monetary awards, on average employees could potentially receive \$223 in FY2005, \$1,529 in FY2006 and \$2,522 in FY2007).

TBL Employee Awards Programs	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Individual/Group Awards Pool	-	-	450,000	450,000	1,780,225	2,667,041
Agency Success Share	-	-	-	-	401,400	702,450
Team Share	-	-	-	-	802,800	1,404,900
Length of Service/Safe Flyer/Safe Driver/People to People/ Safety Awards Program	-	-	150,000	150,000	150,000	150,000
Total Awards	8,632,133	5,181,955	600,000	600,000	3,134,425	4,924,391

Cost Cuts:

The table below details the annual reductions taken in FY2003 and FY2004 on TBL programs. FY2003 reductions are calculated as the difference between FY2002 spending and FY2003 spending; these are reductions that were realized by the TBL.

FY2004 reductions are calculated as the difference between the originally requested budgets and the finalized targets (Start Of Year Budget) for FY2004. These are savings expected by the end of the fiscal year.

Sustainability will be based on system conditions and strategic direction of the agency. The reductions reflected above are expected to be sustainable except in the following areas: security enhancements, right-of-way maintenance, non-electric plant maintenance, restoration of employee awards, implementation of Grid West, and research & development.

TRANSMISSION PROGRAM	REDUCTIONS		BRIEF DESCRIPTION ON COST CUTTING MEASURE
	FY03 (\$MM)	FY04 (\$MM)	
Operations	(0.3)	(1.4)	Control Center Support
Marketing	0.9	(2.4)	Marketing IT Support
Maintenance	(4.8)	(13.0)	Non-Electric Plant, Transmission Line, Right Of Way, and System Protection
Environment	(0.9)	0.0	
System Development	(11.1)	(3.4)	Research and Development, Transmission System Development Planning, Settlements
Support Services	(3.1)	(4.6)	Logistics, Information Technology and Heavy Equipment Maintenance
Scheduling	(0.6)	(0.4)	Technical Support

General & Administrative (less CSRS)	(10.2)	(5.9)	Awards and General Administrative costs
Corporate Costs	0.4	0.0	
Between Business Line Costs	4.7	(3.5)	Ancillary Services
Transmission Services	(0.9)	0.0	
Undistributed Cost Reductions		(7.0)	Cuts taken through efficiencies during the year
TOTAL	(26.0)	(41.7)	

Expense Budgeting Approach:

Using FY2004 as the base level of effort, TBL held FY2005 at the same level (no inflation adjustment and no increase to program costs). For FY2006, FY2005 program levels were increased by 3 percent for inflation and for:

- Security enhancements for transmission infrastructure,
- Right-of-way maintenance to reduce critical backlog,
- Non-electric plant maintenance to reduce critical backlog,
- Restoration of employee awards at a reduced level,
- Costs associated with Grid West to decision point 4, and
- Research & development to restore funding for EPRI dues and projects.

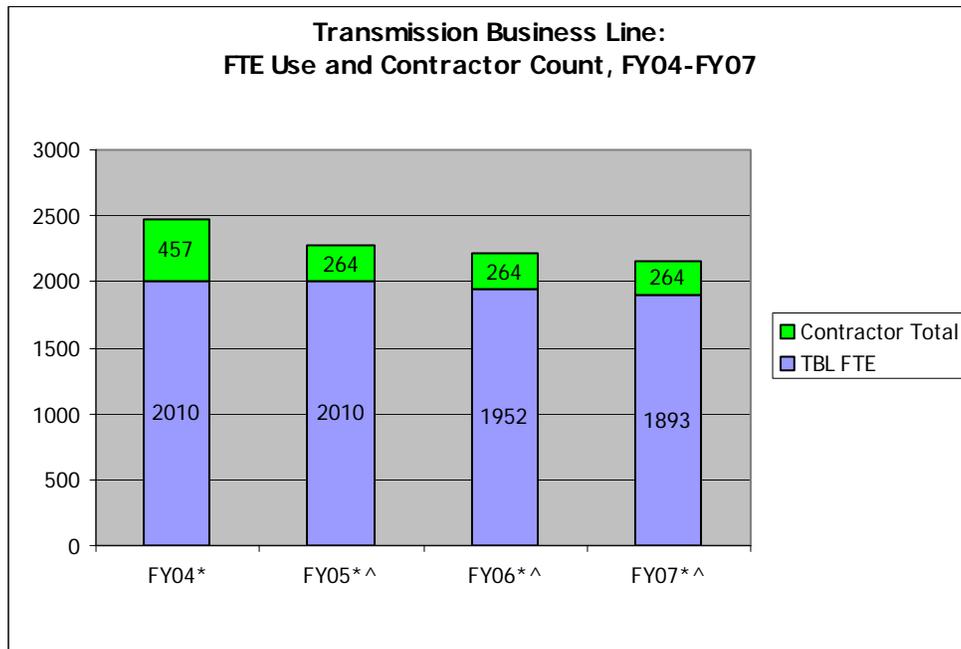
For FY2007 budget planning, TBL held to the FY2006 levels with no increase for inflation and conducted a review of the proposed increases from FY2006 budget levels. As a result of that review, TBL made the following determinations for FY2007: right-of-way, non-electric plant, and Grid West program levels were reduced; awards and research & development were increased; security was held constant for FY2007.

Capital Reductions:

TBL's capital program and budget is developed by network planners and is a current assessment of our system needs. Projects are reviewed from a technical and business perspective by an internal board consisting of network planners, operations and maintenance experts, customer service engineers and other specialists internally, then shared with other utilities in the NWPP's transmission planning committee and more recently the NTAC (NW Transmission Assessment Committee) with broader membership for review. Non-wires alternatives are considered. As part of the budget development process, the least cost alternative is sought.

FTE:

Primarily through attrition, the total level of TBL FTE is projected to decrease by 368 through the beginning of FY2008. We will continue to see reductions in contractor numbers as several departments reorganize and as infrastructure projects are completed. Through the implementation of asset management, one-BPA efforts and implementation of additional strategic measures, we hope to gain even more control and efficiency out of our FTE levels.



TBL FTE					
Org	FY04*	FY05*^	FY06*^	FY07*^	FY08*^
T	287	287	278	270	262
TF	926	926	899	872	845
TM	75	75	73	71	69
TN	333	333	324	314	304
TO	389	389	378	366	355
TBL	2010	2010	1952	1893	1835
Total Contractors					
Org	FY04*	FY05	FY06	FY07	FY08
TBL	457	264	264	264	264

*- End Of Year Actuals/Projections
^FTE level in outyears based on projected workload.

Additional information on Corporate BFTE and CFTE will be provided at the August 25th PIR workshop.

PIR Workshops

On August 5th revenue financing, Energy Northwest refinancing and debt reassignment, 3rd party financing, Treasury borrowing, and the long term effects of debt optimization were covered. Corporate overhead levels will be discussed on the morning of August 25th; the afternoon will cover expense program levels, capital projects, and FTE levels. We welcome your input on shaping the agenda for the afternoon workshop.

Rate Case Workshops

Regarding topics of interest—On August 5th we covered the following topics you listed – interest and depreciation, revenue financing, revenue requirement, risk management (PNRR), and cash reserves. Other issues covered were segmentation and ancillary services issues and FERC Order 2003 compliance as it relates to the rate case. On August 26th the following topics will be covered – revenue forecast and re-dispatch. Lastly, for the topic ancillary services/payments to PBL: the August 26th workshop will cover payment for generator-supplied reactive and aspects of ancillary services rate development will be covered on September 16th.

Appendix 1	Energization Date	FY2005 Plan	FY2006 Plan	FY2007 Plan
MAIN GRID				
Project Name				
Puget Sound Area Additions, Phase 2	2006	2,140.8	0.0	0.0
Schultz-Wautoma 500 kV line	2006	21,407.9	1,258.9	0.0
Coulee-Bell 500 kV (WOH Ph 1)	2005	12,869.3	0.0	0.0
Line Relocation (Nisqually Reservation)	2005	2,309.8	1,678.5	0.0
Line Relocations on Tribal Lands	On Going	3,072.9	3,495.0	3,653.9
Olympia-Shelton 500KV	2007	1,024.3	10,490.9	15,045.6
I-5 Corridor 230kV upgrades	2007	10,243.0	15,736.3	0.0
Other Associated Gen Integration	On Going	4,000.0	5,000.0	5,000.0
NERC Criteria Compliance	On Going	10,000.0	15,000.0	15,000.0
System Reactive Facilities	On Going	5,000.0	5,000.0	5,000.0
Various Additions	On Going	0.0	5,000.0	5,000.0
Total Main Grid		72,068.0	62,659.7	48,699.5
AREA & CUSTOMER SERVICE				
Project Name				
SW Ore Coast (Bandon-Rogue)	2010	0.0	0.0	322.4
Trentwood 230/115kv bk/line	2008	0.0	0.0	537.3
Driscoll/Clatsop 230/115KV Tx	2006	0.0	4,720.9	0.0
Longview 230/115-kV Bank #2	2007	0.0	524.5	3,761.4
Lower Valley Reinforcement	2008	0.0	524.5	2,149.4
East Omak 230/115KV Bank	2007	0.0	524.5	3,761.4
McNary Sub - 115 KV Term. (Benton PUD)	2005	409.7	0.0	0.0
Olympia - 115kV Switches	2005	153.6	0.0	0.0
Madison Shunt Cap	2007	0.0	0.0	483.6
Reconductor Chehalis-Centralia 69kV #1	2006	0.0	1,615.6	0.0
Reconductor Chehalis-Centralia 69kV #2	2007	0.0	0.0	1,775.4
Split Bridge Shunt Cap to Two Groups	2008	0.0	0.0	376.1
Misc. Line Upgrade/Cap Additions for Wind Projects	On Going	2,868.0	2,308.0	3,224.1
Customer Service Items	On Going	3,000.0	3,000.0	3,000.0
Total Area & Customer Srvc		6,431.4	13,218.1	19,391.1
UPGRADES & ADDITIONS				
Project Name				
System Controls	On Going	11,267.3	12,589.1	12,896.2
CC Systems	On Going	5,121.5	8,791.4	6,265.4
Fathead Valley Reinf (RAS)	2007	0.0	1,049.1	1,074.7
Fiber Optics (Incls Terminations)	On Going	12,291.6	12,589.1	16,120.3
Misc Line Upgrades	On Going	2,519.8	5,245.4	5,373.4
Misc Sub Additions	On Going	2,048.6	2,098.2	3,224.1
Total Upgrades & Additions		33,248.8	42,362.2	44,954.1

SYSTEM REPLACEMENTS				
Project Name				
Nonelectric Plant Replcmts	On Going	6,145.8	4,196.4	4,298.7
Transmission Line Replcmts	On Going	0.0	2,098.2	2,149.4
Wood Pole Replacement	On Going	0.0	6,294.5	6,448.1
NCI Replacements	On Going	0.0	314.7	322.4
Spacer Dampner Replacements	On Going	0.0	2,727.6	2,794.2
Substation Replcmts	On Going	11,267.3	10,490.9	10,746.9
System Protection Replcmts	On Going	7,170.1	7,343.6	7,522.8
Pwr Sys Cntrl Replcmts	On Going	4,097.2	3,147.3	3,224.1
Dittmer Annex	2008	0.0	2,622.7	37,614.0
Tools and Equipment	On Going	5,000.0	5,000.0	5,000.0
Emergency Funds	On Going	10,000.0	10,000.0	10,000.0
Total System Replacements		43,680.4	54,235.9	90,120.5
ENVIRONMENT				
Project Name		FY05 Plan	FY06 Plan	FY07 Plan
Total Environment (PP&A)		5,121.5	5,245.4	5,373.4
Total Environment (PP&A)		5,121.5	5,245.4	5,373.4
IT DEVELOPMENT				
Project Name		FY05 Plan	FY06 Plan	FY07 Plan
Business System Develop.	<i>On Going</i>	6,453.1	5,245.4	5,373.4
Trans. System IT Develop.	<i>On Going</i>	5,121.5	5,245.4	5,373.4
Total IT Development		11,574.6	10,490.9	10,746.9
ALL OTHER DIRECT CAPITAL				
Project Name		FY05 Plan	FY06 Plan	FY07 Plan
Capital ADP Equipment		1,229.2	1,258.9	1,289.6
Completion of Prior Yr Items		102.4	104.9	107.5
Cap-to-Exp Adjustments		(3,169.4)	(3,000.0)	(3,000.0)
Retirements and Sale of Facilities		5,282.4	5,000.0	5,000.0
Total All Other Capital		3,444.5	3,363.8	3,397.1
SUB TOTAL TBL CAPITAL (DIRECT)		175,569.2	191,576.0	222,682.7
INDIRECTS		FY05 Plan	FY06 Plan	FY07 Plan
TSD Program Indirect		20,281.1	20,771.9	21,278.8
TSD MS&A		8,194.4	8,392.7	8,597.5
Support Services Cap Distribution		9,833.3	10,071.2	10,317.0
Total TBL Indirects		38,308.8	39,235.9	40,193.2

AFUDC				
AFUDC		26,799.0	20,375.0	16,435.0
Total AFUDC		26,799.0	20,375.0	16,435.0
CORPORATE OVERHEAD				
Corporate Distributions		7,664.2	7,946.6	8,384.7
Corporate Shared Services		12,897.3	13,209.5	13,937.7
Corporate Legal Support		134.9	142.4	150.2
Total Corporate Overhead		20,696.4	21,298.4	22,472.6
SUB TOTAL TBL CAPITAL (INDIRECT)				
		85,804.3	80,909.3	79,100.9
TOTAL TBL CAPITAL REQUIRING BORROWING AUTHORITY				
		261,373.4	272,485.3	301,783.6

Non-Borrowing Authority Items				
Plant Funded from Revenues		FY05 Plan	FY06 Plan	FY07 Plan
Paul-Troutdale 500 kV		0.00	51,405.31	54,346.86
McNary-John Day 500kv (including Wanapa Energy Integration at McNary)		57,360.80	71,337.99	4,298.74
Schultz-Wautoma - 500 KV		19,666.56	4,615.99	0.00
Total Plant Funded from Revenues		77,027.4	127,359.3	58,645.6
Projects Funded in Advance		20,000.0	20,000.0	20,000.0
Total Non-Borrowing Authority Items		97,027.4	147,359.3	78,645.6
TOTAL TBL CAPITAL				
		358,400.8	419,844.6	380,429.2

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