

Transmission Rate Case Workshop
Draft - For Discussion Purposes Only
August 5, 2004

TRANSMISSION REVENUE REQUIREMENT
INCOME STATEMENT
(\$thousands)

	A	B	C	D
	FY 2006		FY 2007	
	PIR	CURRENT	PIR	CURRENT
1 OPERATING EXPENSES				
2 OPERATION AND MAINTENANCE	267,342	267,342	266,743	266,743
3 INTER-BUSINESS LINE EXPENSES ^{2/}	74,148	74,148	74,148	74,148
4 FEDERAL PROJECTS DEPRECIATION	204,196	204,196	217,180	217,180
5 TOTAL OPERATING EXPENSES	545,686	545,686	558,071	558,071
6 INTEREST EXPENSE				
7 INTEREST ON LEASE	6,432	6,432	6,432	6,432
8 DEBT SERVICE REASSIGNMENT INTEREST	16,136	25,700	16,136	25,700
9 INTEREST ON FEDERAL INVESTMENT -				
10 ON APPROPRIATED FUNDS	57,710	44,062	53,691	40,755
11 ON LONG-TERM DEBT	159,442	132,307	169,952	151,312
12 INTEREST INCOME	(14,298)	(12,765)	(14,776)	(12,797)
13 AMORTIZATION OF CAPITALIZED BOND PREMIUMS	3,009	3,009	2,900	2,900
14 CAPITALIZATION ADJUSTMENT	(18,968)	(18,968)	(18,968)	(18,968)
15 AFUDC	(20,318)	(20,318)	(16,928)	(16,928)
NET INTEREST EXPENSE	189,145	159,459	198,439	178,406
16 TOTAL EXPENSES	734,831	705,145	756,510	736,477
17 MINIMUM REQUIRED NET REVENUES ^{1/}	0	15,928	0	1,287
18 PLANNED NET REVENUES FOR RISK	0	0	0	0
19 TOTAL PLANNED NET REVENUES	0	15,928	0	1,287
20 TOTAL REVENUE REQUIREMENT	734,831	721,073	756,510	737,764

1/ SEE NOTE ON CASH FLOW TABLE.

2/ 2007 IBL EXPENSE SET AT SAME LEVEL AS 2006 EXPENSE
FOR PRESENTATION PURPOSES.

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TRANSMISSION REVENUE REQUIREMENT
 STATEMENT OF CASH FLOWS
 (\$thousands)

	A FY 2006		C FY 2007	
	PIR	CURRENT	PIR	CURRENT
1 CASH FROM CURRENT OPERATIONS:				
2 MINIMUM REQUIRED NET REVENUES 1/	0	15,928	0	1,287
3 EXPENSES NOT REQUIRING CASH:				
4 FEDERAL PROJECTS DEPRECIATION	204,196	204,196	217,180	217,180
5 AMORTIZATION OF CAPITALIZED BOND PREMIUMS	3,009	3,009	2,900	2,900
6 CAPITALIZATION ADJUSTMENT	(18,968)	(18,968)	(18,968)	(18,968)
7 ACCRUAL REVENUES (AC INTERTIE/FIBER)	(8,042)	(8,042)	(8,042)	(8,042)
8 CASH PROVIDED BY CURRENT OPERATIONS	180,195	196,123	193,070	194,357
9 CASH USED FOR CAPITAL INVESTMENTS:				
10 INVESTMENT IN:				
11 UTILITY PLANT	(264,626)	(264,626)	(277,366)	(277,366)
12 CASH USED FOR CAPITAL INVESTMENTS	(264,626)	(264,626)	(277,366)	(277,366)
13 CASH FROM TREASURY BORROWING AND APPROPRIATIONS:				
14 INCREASE IN LONG-TERM DEBT	249,626	249,626	262,366	262,366
15 DEBT SERVICE REASSIGNMENT PRINCIPAL				
16 REPAYMENT OF LONG-TERM DEBT	(110,000)	(134,938)	(111,254)	(111,254)
17 REPAYMENT OF CAPITAL APPROPRIATIONS	(49,221)	(46,185)	(55,703)	(68,103)
18 CASH FROM TREASURY BORROWING AND APPROPRIATIONS	90,405	68,503	95,409	83,009
19 ANNUAL INCREASE (DECREASE) IN CASH	5,974	0	11,113	0
20 PLANNED NET REVENUES FOR RISK	0	0	0	0
21 TOTAL ANNUAL INCREASE (DECREASE) IN CASH	5,974	0	11,113	0

1/ Line 18 must be greater than or equal to zero, otherwise net revenues will be added so that there are no negative cash flows for the year.

**BONNEVILLE POWER ADMINISTRATION
 PROJECTED TRANSMISSION PLANT INVESTMENT
 (\$ IN THOUSANDS)**

	A	B	C	D	E	F	G	H	I
	TOTAL		TOTAL		TOTAL		TOTAL		TOTAL
	2003	2004	2004	2005	2005	2006	2006	2007	2007
	INVEST	ADDITIONS	INVEST	ADDITIONS	INVEST	ADDITIONS	INVEST	ADDITIONS	INVEST
1 GENER-INTEGRATION	61,373	1,127	62,500	678	63,178	539	63,717	572	64,289
2 NETWORK	3,217,885	150,908	3,368,793	182,661	3,551,454	337,934	3,889,388	318,370	4,207,758
3 SOUTHERN INTERTIE	702,715	6,185	708,900	4,945	713,845	63,157	777,002	6,204	783,206
4 EASTERN INTERTIE	122,723	979	123,702	790	124,492	646	125,138	648	125,786
5 UTILITY DELIVERY	36,842	(2,145)	34,697	(6,413)	28,284	654	28,938	692	29,630
6 DSI DELIVERY	74,408	0	74,408	0	74,408	0	74,408	0	74,408
7 PLANT HELD	3,245	0	3,245	0	3,245	0	3,245	0	3,245
8 PLANT LEASED	189	0	189	0	189	0	189	0	189
9 GENERAL PLANT	884,081	64,964	949,045	68,455	1,017,500	66,283	1,083,783	68,971	1,152,754
10 TOTAL BPA	5,103,461	222,018	5,325,479	251,116	5,576,595	469,213	6,045,808	395,457	6,441,265

Transmission Depreciation Expense

	2003	2004	2005	2006	2007
TR-04					
TRANSMISSION PLANT	114,042	130,504	140,660		
GENERAL PLANT	56,312	48,309	50,086		
TOTAL DEPRECIATION	170,354	178,813	190,746		
TR-06					
TRANSMISSION PLANT	119,958	124,175	130,433	140,087	151,352
GENERAL PLANT	50,734	56,173	59,989	64,109	65,828
TOTAL DEPRECIATION	170,692	180,348	190,422	204,196	217,180
	actuals				

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**Interest Income from Projected Cash Balances
BPA Transmission Business Line
(\$ thousands)**

	2004	2005	2006	2007
1 Annual Cash Surplus/(Deficit)			0	0
2 Adjustments to Cash				
3 SOY Cash Balance	116,800	213,554	226,558	226,558
4 EOY Cash Balance	213,554	226,558	226,558	226,558
5 Average Cash Balance			226,558	226,558
6 Interest Income Rate			0	0
7 Annual Interest Income *			12,765	12,797
* includes from repayment study (takes only 1/3 of above)			6,829	6,938
FY 2003 EOY Deferred Borrowing (Included in EOY 2004 Cash Balance)	71,800			

Repayment Model Bond Rollover Feature

This handout explains the Repayment Model Bond Feature, how it came about, and how it works. For further explanation of the Repayment Model, refer to Appendix A of the 2004 Revenue Requirements Study posted on the TBL web site Rates and Tariff page.

Background:

BPA's repayment model determines the minimum revenue levels, consistent with sound business principles, required to repay the Federal investment in full and on time. To accomplish this, the model must ensure that repayment of all Federal investments occurs in full within their average service lives or 50 years, whichever is less. In recent years, BPA has issued many short-term federal bonds in anticipation of future opportunities to use prudent financial management to relieve Treasury borrowing limitations. The terms of these bonds are considerably shorter than the average service lives of the associated assets. The repayment model recognizes only that these obligations must be paid in full by their due dates and, as a result, could establish repayment schedules that are artificially higher than what is allowable by the associated service lives. The bond rollover feature is a new capability within the repayment model that mirrors BPA's actual practice of rolling over (refinancing) short-term bonds if funds are insufficient to pay them when due or if market conditions make it prudent to rollover the bonds.

BPA implemented its Debt Optimization (DO) program to relieve Treasury borrowing authority constraints, among other things. The DO program uses funds made available by the extension of Energy Northwest (ENW) debt to make payments of Treasury bond principal that are in addition to rate filing amortization plans. These payments, for which the short-term bonds were issued, minimize interest expense and capture further savings for ratepayers in the near-term due to lower interest rates for the shorter maturity bonds. The alternative to issuing short-term bonds would have been to issue 15- to 35-year bonds with call provisions. BPA pays a spread of about 50 basis points for the privilege of having a callable bond and then pays a call premium when bonds are called. The short-term bond strategy not only avoids the call interest-rate spread and the premium, it takes advantage of the current yield curve shape, in which interest rates are lower on the short end of the yield curve.

However, committing to higher future Treasury amortization payments in rate filings would obscure the minimum repayment level incorporated in revenue requirements; neither is it prudent financial planning to reflect uncertain events. The bond rollover feature was created to allow the repayment study to solve for the lowest level of debt service in the rate test year(s) and repayment period, thereby not artificially increasing Federal debt service in the revenue requirement. It does this by allowing the model to reflect the original interest rate and associated interest expense for a bond and then, at maturity, reflect a new interest rate and associated interest expense based on a new maturity date determined by the model operator. The expectation is that BPA will amortize the bonds when due if funds are available, or rollover the bonds if funds are not available. In the case of the transmission repayment study, since the funds for the

additional amortization would not come from transmission revenues, the debt service reassignment is also reflected in the rollover feature.

Rollover Principles:

Principles of the repayment model bond rollover features are: (1) to not add to existing critical years (e.g. make them worse); (2) to not add any new critical year peaks (critical years that would be higher than those already existing); and (3) to reflect current and projected interest rates consistent with existing and projected bond maturity dates.

Procedures and methodology:

The method for choosing which bonds to roll out is to (1) review existing critical years in the near term; (2) determine whether any of the critical years could be caused by a short-term bond(s); and (3) identify approximate amounts of “overcapacity” in the critical year(s). After the rollover bonds are identified, new maturity dates are selected using the following guidelines: (1) the new maturity date must not exceed the maximum allowable maturity for the specific asset (determined by average service life) and (2) identify a year in which discretionary principal scheduled to be amortized (i.e., is not due in that year) exceeds the amount of the bond, thus having room available to not create a new critical year in the study. That then becomes the new maturity date. The model selects from the current BPA interest rate yield curve file and automatically assigns the new interest rate based on the future issue and maturity dates.

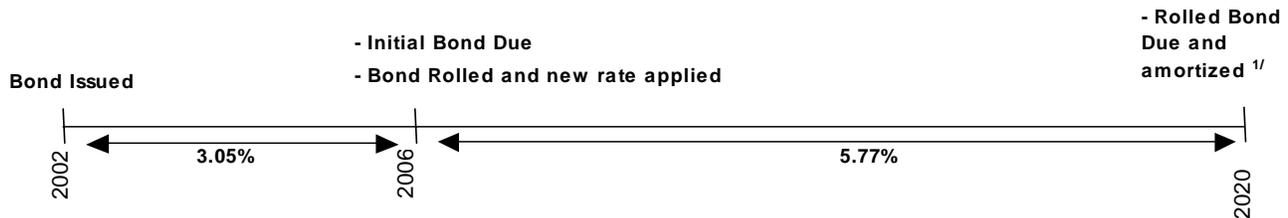
Repayment Model Bond Rollover Feature Illustration

Traditional bond treatment

Issue Date	Par	Maturity Date	Rate	Annual Interest
2002	\$100,000,000	2006	3.05%	\$3,050,000

Treatment using rollover feature

Issue Date	Par	Maturity Date	Rate	Annual Interest	Rolled Maturity Date	New Rate	New Annual Interest
2002	\$100,000,000	2006	3.05%	\$3,050,000	2020	5.77%	\$5,770,000



1/ Repayment study could amortize bond between 2006 and 2020 if call terms were applied.

The rolled bond has the actual annual interest expense until the initial due date. At that time, rather than amortizing the bond, the repayment study recognizes a new maturity date and associated annual interest rate and expense until the new maturity date. This simulates that the bond will be replaced either by a new Treasury bond or with ENW debt.