NRU talking points on ways to reduce the 2010 to 2011 BPA Power Rate Increase

Background:

BPA's Initial Proposal showed a rate increase for FY 2010 and 2011 of 10% compared to 2009 rates. The rate increase in the Initial Proposal was largely due to increased costs (Columbia Generating Station, Augmentation costs, Fish and Wildlife, and an increase in Minimum Required Net Revenues).

Since the Initial Proposal, BPA's financial condition has deteriorated significantly due to poor snowpack, and declining market prices for power, largely indicated by falling natural gas prices. For example, BPA's financial reserves are projected to drop another $250 million by the end of FY 2009 assuming that natural gas prices stay at the $4 per MmBtu level.

Since the Initial Proposal BPA and its customers have worked together to identify cost reductions and risk mitigation tools to lower the size of the rate increase and reduce the probability of a CRAC triggering in 2010 based on 2009 results. The key variable is whether BPA will be able to get an increased ability to borrow from the U.S. Treasury to cover short term liquidity needs. At present this seems quite probable. BPA should know whether this will be available by the end of April. If BPA cannot get this increased borrowing ability it should turn to turn to the Flexible PF program (essentially borrowing short term from the customers) or relying on transmission reserves on a short term basis.

Putting it all together, rates for FY 2010 and 2011 could be 4 to 8% higher than FY 2009. This assumes $5.00 natural gas, a total of $50 million in cost cuts, the ability to borrow short term from the Treasury is increased by $350 million and the financial reserves are down $250 million going into FY 2010 compared to the shortfall of $91 million in the Initial Proposal.

Continued action needs to be taken by BPA and the customers to mitigate any rate increase especially given the economic malaise. BPA will be holding a meeting at the Rates Hearing Room on April 29th from 1 to 5 p.m. to address this topic (*to participate by phone, call Suzanne Lawrence at (503) 230-3320*). You are urged to participate since BPA really needs to hear from managers and board members.

The actions being taken:

To address this problem the customers and BPA have worked together collaboratively with the goal of bringing the rate increase back down to single digits.

First step: Cost reductions

BPA and the entities that are funded through BPA's rates are towards the end point of their review of FY 2010 and 2011 costs. So far they have found about $37 million in cost cuts per year on controllable costs of $1.1 billion per year or about 4% of controllables. Controllable costs are total costs less debt service, transmission, power purchases and augmentation.

- Savings from Energy Northwest are expected to be $25 million per year.
- BPA has identified $10 million per year in internal cost reductions
- The Corps and Bureau were unable to identify significant further cost reductions.
- BPA also needs to reassess the rate of spending implied in its revenue requirement for FY 2009, 2010 and 2011. BPA's actual spending in areas like fish and wildlife are below budgeted levels. Given the state of the level of spending in the rates should be adjusted to reflect actuals. We should not base rates on spending levels that are not going to be achieved. BPA and the fish and wildlife agencies are looking at this right now.
- Augmentation costs are clearly overstated and need to be reduced. This is not included in the overall agency cost reduction discussed above. Loads are down and the CGS outage has been reduced by 10 days in 2011 and market prices are lower. BPA has said it will correct for this.

The Second Step: Addressing risk

- BPA has a new $300M short term line of credit from the U.S. Treasury. This should be modeled as available to make Treasury payments and should be increased to $750 million instead of forcing BPA to borrow from its customers to meet short falls.

- If this is not successful for FY 2010 and 2011, BPA should resume the Flexible PF program. The flexible PF Program allows BPA to turn to its larger customers in a cash crunch situation and request pre-payment of power bills. The availability of this program reduced missed Treasury payment risk in the last rate period and should be assumed for the upcoming rate period, if a sufficient number of utilities sign up for this program. A number of utilities have already expressed interest if the costs of participating in the program are reasonable.

- If this does not provide sufficient liquidity BPA should assume use of Transmission reserves.

The Third Step: Stepped rates

- If BPA is able to keep the rate increase down the low single digits then Stepped Rates may not be necessary. If this is not the case then stepped rates should be explored.

Bottom line

If all of the above actions are taken we expect that BPA can bring down the rate increase to the low single digit level for FY 2010 and 2011.