



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

January 21, 2005

In reply refer to: TMF/MODD

Dear Programs in Review Participant:

This letter summarizes Bonneville Power Administration's (BPA) discussions with you, our customers, constituents, the tribes and other regional interests during the Transmission Business Line's (TBL) Programs in Review (PIR) public involvement process regarding proposed programs and program level expenditures for Fiscal Years (FY) 2006 and 2007, and includes my decisions regarding those program levels.

Seven regional workshops were held to discuss TBL's proposed capital and expense program levels for FY 2006 and FY 2007. In addition, three technical workshops were held at your request. During this time, TBL staff provided additional detail and clarifying information in response to your questions and requests. All correspondence, as well as presentation material, detailed meeting notes and questions and answers, are shared publicly on the TBL PIR website at http://www.transmission.bpa.gov/Business/Customer_Forums_and_Feedback/Programs_in_Review/pir2004.cfm.

During the PIR public process, TBL continued to evaluate both its capital and expense program levels and along with your comments, has made changes. Our goal remains to be as efficient and cost effective as possible, while still maintaining the program levels required to operate a reliable transmission system and to meet the challenges of a competitive marketplace. TBL initial PIR program levels were reduced to its current program levels for FY 2006 of \$337 million for expense programs and \$353 million for capital and for FY 2007 of \$347 million for expense programs and \$331 million for capital; these levels are necessary and appropriate. Program details are stated in the attached appendices one through seven.

FY 2004 and FY 2005 Accomplishments and Challenges Leading into this PIR

Over the last two years, TBL has undertaken one of the most extensive additions to a high-voltage grid that the nation has seen in over 20 years. With the recent completion of the 86-mile Grand Coulee-Bell 500 kilovolt line, TBL has continued to deliver reliability-driven additions to the system. The December 2003 energization of the Kangley-Echo Lake addition helps sustain reliable service in one of the densest commercial and residential centers in the Northwest. The capital improvements to our Celilo converter station help to ensure that we can operate the DC Intertie at its full capacity for decades. The November 2004 completion of the Raymond-Cosmopolis line demonstrates a commitment to local load service as well as main grid reinforcement.

Responding to your wish to work with us on emerging and complex transmission issues, BPA has helped create some innovative forums. One such forum is the Non-Wires Round Table, which has garnered national and regional recognition for its work in implementing cost-effective demand response and distributed generation solutions. Another public forum involved an extensive process to determine the available transfer capability (ATC) of our high-voltage system. Through this process, TBL delivered a methodology that allowed the region to better understand and utilize the congested transmission grid and its limited capacity.

BPA's TBL was able to achieve these accomplishments and many more in the midst of numerous market challenges, such as decreased sales, limited borrowing authority and significant cost cuts. In addition, the

recently completed infrastructure and other capital projects have increased costs for FY 2006-2007, driven primarily by interest and depreciation. Nevertheless, consistent with our statements in the PIR public process, the TBL is assuming future efficiencies will allow it to absorb approximately one half the rate of inflation for the rate period FY 2006 to FY 2007. These efficiencies are expected from the Enterprise Process Improvement Project and Asset Management initiatives.

Agency Vision and Principles for Determining Program Levels for FY 2006 and FY 2007

My decisions in this letter are consistent with the “four pillars” of the agency’s vision described in the PIR process. The four pillars are:

- High system reliability
- Low rates consistent with sound business principles
- Responsible environmental stewardship
- Accountability to the region

The agency vision applied to BPA’s transmission business means that TBL will:

- Maintain a safe and reliable transmission system at the lowest possible cost.
- Provide effective management and full recovery of BPA costs and seek increased efficiencies through efforts such as asset management and the Information Technology consolidation to maintain the agency as a high-performing organization.
- Meet our responsibility of environmental stewardship.
- Maintain and enhance regional relations through the appropriate levels of public involvement and increased dialogue with customers, constituents and tribes.

I believe that the program levels described in this letter are consistent with the agency vision as applied to TBL.

Finalizing TBL Programs

In response to public comments and concerns, the capital program has been reduced over \$122 million from the initial proposal for FY 2006-2007 over the two years. TBL has implemented a total of over \$81 million in reductions to its expense programs in FY 2003 through FY 2004, and we will remain vigilant in identifying new opportunities for cost and resource efficiencies and reductions as we move forward.

Managing a large high-voltage transmission system in today’s market environment to meet the diverse regional needs of TBL’s customers and constituents is a complex and multi-faceted challenge. BPA has learned a considerable amount through engaging our regional partners (i.e., the Non-Wires Round Table) as well as a number of internal reviews and external audits (such as those conducted by the Inspector General, the General Accounting Office and KEMA). We are actively implementing many of the resulting recommendations such as our recent IT consolidation. Asset Management will be an effective tool in better prioritizing how to deploy limited resources to most effectively meet our objectives. BPA has engaged the region in developing a transmission adequacy standard to better understand the cost and reliability tradeoffs for the region’s transmission infrastructure. We will continue to determine how the agency can work with the region in response to an evolving transmission marketplace, a more congested transmission system, and heightened national awareness of the importance of reliability.

The processes accompanying PIR have been long and at times arduous, but I believe, fruitful in achieving a new level of transparency between the agency and its customers and constituents. The public process resulted in many suggestions that we weighed in determining our current program levels. I would like to express my sincere appreciation for the participation and thoughtful comments of our customers, constituents, the tribes and other regional interests. BPA remains committed to an open and collaborative public processes where ideas can flow freely. Thank you again for your participation in the PIR process.

Sincerely,



Stephen J. Wright,
Administrator and Chief Executive Officer

7 Enclosures

Appendix 1: PIR Issues, Details and Explanation

Appendix 2: Expense Program: Comparison of Initial and Current PIR Average FY06-07

Appendix 3: Expense Program Levels FY06-07

Appendix 4: Expense Program: Comparison of FY04-05 to FY04 Rate Case Program Levels

Appendix 5: Capital Program: Comparison of Initial and Current PIR Average FY06-07

Appendix 6: Capital Program Levels FY06-07

Appendix 7: Capital Program: Comparison of FY04-05 to FY04 Rate Case Program Levels

Appendix 1 – PIR Issues, Details and Explanation

Key Issues

In the course of the PIR public process, TBL received several comments focused on specific program levels. These comments are summarized and addressed in more depth below:

- Staffing – There is concern with the level of BPA’s full time equivalent (FTE) and contractor levels, particularly with the downturn in workload associated with the reductions to the capital program. It was asked that BPA clarify reasons for its current staffing levels and what efforts it is taking to manage them.
- Operating expenses – The cost cuts by TBL in FY 2003 and FY 2004 were reviewed with customers; however, TBL was asked to hold any increases in expense levels to the rate of inflation for FY 2006 and FY 2007.
- Capital – While PIR provided an opportunity to review capital projects and programs proposed for FY 2006 and FY 2007, there were questions on what other opportunities existed to provide comments and review capital projects. There was also concern with the proposed level of capital spending given the uncertainties surrounding Treasury borrowing authority, debt optimization and the potential use of third-party financing.
- Corporate costs – It was noted that while the business lines were responding effectively to market conditions and controlling costs, the same did not appear to be happening at the corporate level. Corporate was asked to show better containment of costs, reduced overhead and lower Corporate FTE.

A number of other issues were raised during the PIR public process that are outside the scope of PIR and while they will not be addressed in this letter, they will be addressed in the upcoming rate case or where appropriate. Such issues included:

- TBL revenues – TBL has seen a tremendous loss of revenue over the last two years and is forecasting further revenue declines through FY 2007. BPA was asked to increase its revenue forecast for the FY 2006-2007 rate period based on the belief that BPA is being too conservative in its outlook and is establishing too much of a cushion for the agency.
- Use of reserves – BPA should consider using TBL reserves to offset any potential program level increases that cause upward pressure on rates.
- Revenue financing – BPA should use Treasury or third-party borrowing instead of revenue financing.
- Debt optimization – According to some, BPA should assume use of debt optimization to reduce costs or to provide cash for the capital program instead of using revenue financing and that BPA should also further explain the debt optimization program. A technical workshop was requested¹ to outline the debt optimization program and long-term debt management.

What follows is a detailed discussion of issues regarding specific program levels as raised in the PIR public process:

¹ A technical workshop for debt optimization was held in Portland, OR on August 5, 2004. Information from the workshop is available on the TBL web site at http://www.transmission.bpa.gov/Business/Customer_Forum_and_Feedback/Programs_in_Review/pir2004_info.cfm?page=workshop&asect=1.

Staffing

Some public comments recommended that TBL further reduce its FTE level of staffing. In particular, they asked how FTE savings resulting from asset management were forecast since the presumed savings appeared to be lower than customers expected. Also, questions centered on establishing a corporate FTE reduction target on a par with the business lines.

In response, when compared to its FY 2004 staffing plan, TBL is planning a 200 FTE reduction, or about 10 percent of its work force, by the end of FY 2007. As the reductions occur, TBL management will seek to reduce or re-distribute the workload among the remaining staff while trying to maintain a healthy work environment. An important element in our strategy for reducing FTE, consistent with asset management principles, is to make increased use of contractor support which can be shaped to meet workload demands and quickly reduced when no longer needed. TBL believes this significant reduction in FTE is possible through increased efficiencies and prioritizing our work, but that any further FTE reduction, particularly in the areas of maintenance, planning and operations, could adversely affect system reliability.

There is an ongoing BPA-wide effort to improve the efficiency and cost-effectiveness of all Corporate general and administrative activities. BPA is working to offer early retirement and separation incentives later this year to help reduce its FTE and capture additional cost savings. Based on the KEMA recommendations developed in collaboration with customers, BPA is initiating specific efficiency efforts. These efforts are now called the Enterprise Process Improvement Project (EPIP). I have reviewed Corporate's FTE forecasts and find them to be appropriate. We will revisit these forecasts when we have more concrete results from the efficiency efforts under EPIP.

Expense Program Levels

In the technical workshop and in public comments, there were requests that TBL hold all program increases equal to inflation, calling specific attention to regulatory and regional association fees, employee awards and information technology.²

Revenue shortfalls from FY 2003 until present, and significant cost-cutting in response to these shortfalls, presented a difficult challenge for TBL. For example, the prior rate case assumed FY 2004 operating revenues of \$724.0 million and total expenses of \$711.9 million for a net revenue of \$12.1 million.³ In fact, revenues slipped to \$644.1 million, a decline of nearly \$80 million, and TBL reacted swiftly by cutting its program expenses more than \$37 million. This cost cutting, along with debt service interest savings, reduced the net revenue loss to \$12.2 million, tempering what could have been a larger loss. These actions in FY 2004 followed additional cost cuts in FY 2003 of more than \$44 million. This same reduced revenue trend and TBL's responsive cost cutting are continuing in FY 2005. Specific cost cuts included reducing TBL overtime levels and premium pay by 28 percent, administrative travel by 13 percent, non-electric plant maintenance by 3 percent and employee awards by 94 percent. These efforts will continue through FY 2005.

The primary drivers of expense levels are TBL's operations and maintenance costs. TBL believes that it has reduced these costs to the lowest level possible consistent with maintaining system reliability and being responsive to the recommendations that came out of the August 2003 Northeast blackout. Despite previous cost cuts BPA has an exemplary maintenance program that cannot be cut further while still maintaining needed reliability.

² Further information on information technology is under the "Corporate Program Levels" section in this appendix.

³ Please reference Appendix 4 for additional details.

Regulatory and Association Fees

In response to customer requests during the PIR process and, in an effort to further cut costs, TBL agreed to reduce payment of regulatory and association fees from the levels submitted in our initial PIR proposal. This payment reduction will be in addition to the calculation error that was disclosed at the August 25, 2004 technical workshop. TBL will reduce annual payment of regulatory and association fees by \$1.2 million for each year in FY 2006 and FY 2007.⁴

Employee Awards

BPA's employee compensation package consists of three parts:

- Base pay;
- Organizational Team Share and Agency Success Share – Group cash awards to encourage accomplishment of important organizational goals; and
- Individual awards - Cash awards to foster individual accountability for producing results that further BPA's mission.

Collectively all three parts reflect BPA's goal to offer a competitive compensation package that ensures the agency is able to attract and retain employees who possess 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 they expect.

In January 2003, BPA cut this compensation package to reduce expenses. As part of an agency-wide cost-cutting effort, BPA decided to suspend the use of both Organizational Team Share and Agency Success Share group cash awards as employee incentives. The suspension will remain in effect through FY 2005. In FY 2006 and FY 2007 these awards will be reintroduced at modest levels that are well below those used in FY 2002 and before, but at a high enough level to establish an employee incentive. Similarly, funds for individual cash awards and other related recognition program costs were greatly reduced for FY 2003. These awards were funded in FY 2003 at a nominal rate. In FY 2004, this funding was increased slightly and this funding level will continue through FY 2005. As with Organizational Team Share and Agency Success Share, we plan to increase the amount dedicated for individual and group recognition in FY 2006 and FY 2007, but the amount will still be below the levels dedicated to this program in FY 2002.

Capital Program Levels

Customers asked TBL to lower fixed capital costs of the major infrastructure additions by looking at a 10 percent reduction in other areas of its capital program. Customers also asked for further clarification of the opportunities to review and provide feedback on TBL's proposed capital program levels. The region is also seeking higher adequacy performance such as for the Puget Sound area and Northern Intertie, which would put upward pressure on the capital program. TBL's planned capital investments for FY 2006 and FY 2007 represent a balance of all these considerations.

TBL's capital program consists of Treasury-financed projects and non-Treasury financed projects. TBL's planned Treasury-financed capital program level is projected to be \$251.4 million for FY 2006 and \$262.0 million for FY 2007. The non-Treasury financed capital program level consists primarily of costs associated

⁴ Further information on regulatory and association fees is in appendices 2 and 3.

with generation interconnection. Additions and improvements for the purpose of generation integration will go forward only with funds provided by generators in advance in return for future transmission credits. This approach assures the region that BPA will not run the risk of having stranded investment if the generators decide to delay or cancel their projects. If customer financing goes forward, the total capital for FY 2006 is projected to be \$352.6 million and for FY 2007 it is \$331.4 million.

In consideration of your input and our continued reduced revenues, TBL is deferring over \$122 million in capital costs for FY 2006-2007 over the two years. This deferral is reflected in the program levels stated above. Previously authorized capital investment programs such as the Coulee-Bell and the Schultz-Wautoma projects have been recently completed or are already underway, and will be put into service as scheduled. Such projects create an upward pressure on FY 2006 and FY 2007 interest and depreciation costs. BPA expects, but cannot guarantee, that these increases may be partially offset by lower interest rates due to debt optimization efforts. Owing to the construction needs of transmission infrastructure, we will continue to have significant required investments, but we are committed to keep costs down by working with the region to develop transmission adequacy standards and look at alternatives to building lines, such as implementing non-wires solutions.

Additionally, BPA continues its efforts to conserve the limited borrowing authority it has with the U.S. Treasury yet still meet its statutory and regulatory obligations that require capital funding. In light of the current situation where BPA's borrowing limit may soon be reached, the agency must be judicious in the use of its capital resources. Therefore, we continue to focus our efforts on strictly reliability-based projects, whether it is adopting new reliability and regulatory guidelines (North American Electric Reliability Council, Federal Energy Regulatory Commission, Western Electricity Coordinating Council), new infrastructure (Olympic Peninsula, Lower Valley, Western Montana), upgrades to existing infrastructure (I-5 Corridor) or replacement of aging infrastructure (wood pole replacement program). We will also continue to seek creative ways of funding necessary capital improvements such as third-party financing.

Due to the substantial costs associated with the recently completed and current capital projects, BPA has already deferred other capital programs. We are now at the point where further deferral of these projects would likely jeopardize system reliability and safety, and would increase operating expenses due to higher maintenance costs. Wood poles and other replacements were significantly curtailed the last three years. TBL has taken a hard look to examine system needs to determine the minimum level of investment needed through FY 2010. TBL budgeted only for those projects critical to meet reliability and safety objectives. More recently, replacements and some new starts were deferred to remain within borrowing targets. While customers have asked BPA to reduce the capital program, no specific recommendations for project-by-project reductions were suggested.

PIR invited interested parties to review capital program levels for FY 2006 and FY 2007 with TBL executives at seven regional workshops. In addition, the TBL held a technical session on August 25, 2004⁵ to provide further review and detailed information on capital programs and projects. PIR generally occurs every other year in concert with a transmission rate case. This allows for timely and efficient capital workload planning and management.

TBL brings all transmission projects greater than \$10 million to a detailed technical and economic review before the Infrastructure Technical Review Committee (ITRC), now conducted under the auspices of the Northwest Power Pool Transmission Assessment Committee. TBL has been engaged in this process since

⁵ All information shared at the capital workshop is posted to the TBL web site at http://www.transmission.bpa.gov/Business/Customer_Forums_and_Feedback/Programs_in_Review/pir2004_info.cfm?page=workshop&asect=1.

2001. A recent ITRC meeting, held on October 26, 2004, covered two proposed projects, the Olympic Peninsula and Lower Valley reinforcements. Evaluation includes need, alternatives, business case and risks. In addition, TBL marketing and sales staff review capital spending status during quarterly financial updates with Public Power Council, investor owned utilities, and direct service industries. These briefings commenced in March 2004 and may occur more frequently at the request of customers. Finally, BPA is embarking on a regional dialogue to create a definition of transmission adequacy that will allow stakeholders to examine policy choices and economic tradeoffs. This dialogue is expected to have a direct impact on decisions regarding BPA's future capital program.

Another suggestion provided through the public process was that we fully understand and share the business justification for proceeding with any type of office building modification or addition. We agree with your comments and should we propose to proceed with any type of office building modification or addition, we will share information with the public in such a way that enables a timely discussion before developing a final decision on whether or not to proceed with this capital addition.

Corporate Program Levels

Comments shared during the course of the PIR public process expressed a desire to better understand the increasing Corporate estimates and a lack of clarity on the composition of Corporate costs that consist of the general and administrative and shared services programs. In an effort to provide further transparency for determining these program levels and how the costs are allocated, TBL held a technical workshop August 25, 2004,⁶ in coordination with BPA's senior vice president of Employee and Business Resources. The workshop delivered a breakdown of the budget for each Corporate activity within programs, including the cost allocation methodologies.

BPA is making a concerted effort to protect value, improve business efficiencies, and reduce costs in our centralized corporate activities. However, overall program levels are increasing at a rate slightly higher than inflation due to several initiatives that will build more efficient and cost-effective programs moving forward. These include increased security, a centralized risk function led by a Chief Risk Officer and a major effort focused on implementing the Enterprise Process Improvement Project.

Additionally, the corporate organizations are planning to reduce staffing levels. BPA is working to offer early retirement and separation incentives later this fiscal year to bring FTE reductions and capture some short-term cost savings. Corporate's overall process improvement effort will provide direction for these reductions.

As a recent example of an agency efficiency effort, BPA has moved ahead with a consolidation of the information technology function.

Information Technology Consolidation

BPA consolidated its Information Technology (IT) organizations (except for grid operations) to increase efficiency in providing common IT services across the agency. IT costs presented in PIR discussions for FY 2006 and FY 2007 reflect costs prior to the IT consolidation.

The new IT organization has been given a target of reducing costs by 10 percent. Part of the 10 percent cut in the initial baseline will come from a \$6 million undistributed reduction that was

⁶ All information shared at the corporate workshop is posted to the TBL web site at http://www.transmission.bpa.gov/Business/Customer_Forum_and_Feedback/Programs_in_Review/pir2004_info.cfm?page=workshop&asect=1.

prepared for the FY 2006 planning budget. Part of these budget cuts will also be achieved through a targeted 10 percent reduction in BPA IT employees. These targeted cost savings were included in the initial PIR program numbers.

Summary of Corporate Program Level Increases:

The Corporate program level consists of three separate line items: Legal, Shared Services and General and Administrative. The Corporate program level has increased between the initial and current PIR proposals for FY 2006 and FY 2007. Most of this increase is due to a calculation error made in the initial PIR proposal, which resulted in an understatement of Corporate program levels. This error was addressed and explained in the August technical workshop on general and administrative and shared services costs⁷ and is equal to \$4.4 million, 75% of the total difference between initial and current PIR proposals. Removing this error from the initial PIR proposal, and with the decrease in Shared Services costs, the total average annual increase for the total Corporate program level (which includes Shared Services, Legal and General and Administration) is \$1.5 million over the two year period FY 2006-2007. However, because of this error the difference in the Corporate program level between the initial and current PIR proposals is \$5.9 million.⁸

For the TBL's initial PIR proposal, Corporate used numbers from the Power Business Line's August 2003 Safety Net Cost Recovery Adjustment Clause process. These numbers were updated in September 2004 and reflected programmatic increases which are included in the TBL's current PIR proposal. These programmatic changes are addressed more specifically below:

- **Shared Services Cost:** There was a decrease in shared services costs of \$700,000.
- **Legal:** An average increase of \$165,000 per year is due to additional support to the TBL to cover projected increases in transmission-related activities.
- **General and Administrative:** The majority of the increases in corporate overhead distributions are due to new efforts or initiatives in three areas: security, risk management, and Grid West. Enhanced security requirements, including additional security at transmission facilities, add to annual security costs by an average of \$272,000 for FY 2006-2007. BPA has continued to develop its risk management function and that has increased costs about \$68,000 per year. Between the initial PIR proposal and current PIR proposal, the schedule for implementation of Grid West changed. This change extends BPA-provided funding for Grid West development costs into FY 2007 adding an average of \$800,000 per year. In addition, there are several incremental increases, such as higher cost of living and award funds, that amount to approximately \$860,000 per year.

⁷ Further details from this workshop are available on the TBL web site at http://www.transmission.bpa.gov/Business/Customer_Forum_and_Feedback/Programs_in_Review/pir2004_info.cfm?page=workshop&aset=1.

⁸ Please refer to Appendix 2 under "Corporate Expenses."

Expense Program: Comparison of Initial and Current PIR Average FY06-07 Program Levels
(\$ in Thousands)

Program & Other Operating Costs	Averages Across FY2006-07		
	Initial Proposal	Final Proposal	Delta
Transmission Acquisition			
Leased Facilities <i>Note <1</i>	6,145	12,614	6,469
Settlements	912	912	0
Stability Reserve Payments	310	310	0
Sub-Total Transmission Acquisition	7,366	13,835	6,469
Transmission System Operations			
Information Technology	10,180	10,180	0
Power System Dispatching <i>Note <3, <5</i>	10,184	9,800	(384)
Control Center Support	7,770	7,770	0
Technical Operations	3,620	3,620	0
Substation Operations	18,193	18,193	0
Sub-Total Transmission System Operations	49,947	49,563	(384)
Transmission Scheduling			
Management Supervision & Administration	356	356	0
Reservations	300	300	0
Pre-Scheduling	740	740	0
Real-Time Scheduling <i>Note <3</i>	3,206	3,356	150
Scheduling Technical Support	6,240	6,240	(0)
Scheduling After-The-Fact	653	653	0
Sub-Total Transmission Scheduling	11,495	11,645	150
Transmission Marketing			
Transmission Sales	2,243	2,243	0
Marketing Internal Operations	1,060	1,060	0
Transmission Finance <i>Note <4</i>	761	760	(1)
Contract Management	2,007	2,007	0
Transmission Billing <i>Note <4</i>	2,006	2,056	50
Business Strategy & Assessment	2,192	2,192	0
Marketing Information Technology Support	2,585	2,585	0
Meter Data	1,947	1,947	0
Sub-Total Transmission Marketing	14,801	14,851	49
Transmission Business Support			
Executive and Administrative Services	10,831	10,831	0
Staff Management	416	416	0
Internal General & Administrative	3,098	3,098	0
Aircraft Services	743	743	0
Logistics Services	3,700	3,700	0
Security Enhancements	1,007	1,007	0
Sub-Total Transmission Business Support	19,794	19,794	0
Transmission System Development (TSD)			
Research & Development	3,330	3,330	0
TSD Planning & Analysis	1,523	1,523	0
Capital to Expense Transfer	4,000	4,000	0
Regulatory & Region Association Fees <i>Note <2, <5</i>	2,627	700	(1,927)
Sub-Total Transmission System Development (TSD)	11,479	9,552	(1,927)
Transmission System Maintenance			
Non-Electric Maintenance	8,794	8,794	(0)
Substation Maintenance	15,200	15,200	0

Program & Other Operating Costs	Averages Across FY2006-07		
	Initial Proposal	Final Proposal	Delta
Transmission Line Maintenance	16,715	16,715	0
System Protection Control Maintenance	8,290	8,290	0
Power System Control Maintenance	8,325	8,325	0
System Maintenance Management	6,280	6,280	0
Right Of Way Maintenance Note <5	13,515	12,515	(1,000)
Heavy Mobile Equipment Maintenance (HMEM) Note <5	1,279	1,278	(1)
Technical Training	2,969	2,969	0
Sub-Total Transmission System Maintenance	81,368	80,366	(1,001)
Transmission Environmental Operations			
Environmental Policy & Planning <i>Note <6</i>	1,259	1,298	38
Pollution Prevention & Abatement (PP&A) <i>Note <5, <6</i>	3,340	3,290	(50)
Sub-Total Transmission Environmental Operations	4,599	4,587	(11)
Transmission Other			
Civil Service Retirement System (CSRS)	11,050	11,050	0
Non-Federal Debt Service <i>Note <1</i>		(1,340)	(1,340)
Sub-Total Transmission Other	11,050	9,710	(1,340)
Total Operations & Maintenance Expense	211,898	213,903	2,005

Between Business Line (BBL) Expense			
Ancillary Services <i>Note <4</i>	65,904	64,485	(1,419)
Corps/Bureau/Network/Delivery Facilities <i>Note <4</i>	3,544	3,732	188
Station Service <i>Note <4</i>	4,700	3,508	(1,192)
Total BBL Expense	74,148	71,725	(2,423)

Corporate Expense			
Legal Support <i>Note <4</i>	1,711	1,876	165
Shared Services Costs <i>Note <2, <4</i>	23,107	26,789	3,682
General and Administrative <i>Note <4</i>	25,450	27,466	2,016
Total Corporate Charges	50,268	56,131	5,863

Total TBL Expense	336,314	341,759	5,445
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This information has been made publicly available by BPA on January 7, 2005, but due to the detailed nature or the manner in which it is grouped, the numbers cannot be separately identified in any other publicly released Standard Financial Report or other Agency Financial Information.

Notes:

<1 Lease costs for Schultz-Wautoma project originally included in interest

<2 Error correction as discussed in August 25, 2004 workshop

<3 Re-categorization of costs from Power System Dispatching

<4 Updated estimate

<5 Additional cost reduction

<6 Re-categorization of costs from PP&A

Presentation of costs for IT do not reflect the consolidation of the IT function to the Corporate Organization. However, in total, IT costs would not increase or decrease with the consolidated presentation.

Expense Program Levels FY06-07
(\$ in Thousands)

Program & Other Operating Costs	FY2006	FY2007
TBL Transmission Acquisition		
Leased Facilities	12,614	12,614
Settlements	912	912
Stability Reserve Payments	310	310
Sub-Total Transmission Acquisition	13,835	13,835
Transmission System Operations		
Information Technology	10,130	10,230
Power System Dispatching	9,800	9,800
Control Center Support	7,770	7,770
Technical Operations	3,620	3,620
Substation Operations	18,193	18,193
Sub-Total Transmission System Operations	49,513	49,613
Transmission Scheduling		
Management Supervision & Administration	356	356
Reservations	300	300
Pre-Scheduling	740	740
Real-Time Scheduling	3,206	3,506
Scheduling Technical Support	6,215	6,264
Scheduling After-The-Fact	653	653
Sub-Total Transmission Scheduling	11,470	11,819
Transmission Marketing		
Transmission Sales	2,243	2,243
Marketing Internal Operations	1,060	1,060
Transmission Finance	760	760
Contract Management	2,007	2,007
Transmission Billing	2,006	2,106
Business Strategy & Assessment	2,192	2,192
Marketing Information Technology Support	2,585	2,585
Meter Data	1,922	1,972
Sub-Total Transmission Marketing	14,776	14,925
Transmission Business Support		
Executive and Administrative Services <i>Note <1</i>	9,944	11,718
Staff Management	416	416
TBL Internal G&A <i>Note <1</i>	3,098	3,098
Aircraft Services	743	743
Logistics Services	3,700	3,700
Security Enhancements	1,007	1,007
Sub-Total Transmission Business Support	18,907	20,681
Transmission System Development (TSD)		
Research & Development	3,331	3,328
TSD Planning & Analysis	1,524	1,521
Capital to Expense Transfer	3,000	3,000
Inventory Management	1,000	1,000
Regulatory & Region Association Fees	700	700
Sub-Total Transmission System Development	9,555	9,549
Transmission System Maintenance		
Non-Electric Maintenance	9,244	8,344
Substation Maintenance	14,810	15,590
Transmission Line Maintenance	16,290	17,140
System Protection Control Maintenance	8,080	8,500
Power System Control Maintenance	8,110	8,540
System Maintenance Management	6,120	6,440

Program & Other Operating Costs	FY2006	FY2007
Right Of Way Maintenance	13,465	11,565
Heavy Mobile Equipment Maintenance (HMEM)	1,278	1,278
Technical Training	2,969	2,969
Sub-Total Transmission System Maintenance	80,366	80,366
Transmission Environmental Operations		
Environmental Policy & Planning	1,286	1,309
Pollution Prevention & Abatement	3,290	3,290
Sub-Total Transmission Environmental Operations	4,576	4,599
Transmission Other		
Civil Service Retirement System (CSRS)	11,550	10,550
Undistributed Cost Reduction	-	0
Non-Federal Debt Service <i>Note <2</i>	(2,680)	0
Sub-Total Transmission Other	8,870	10,550
Sub-Total System Operations & Maintenance	211,868	215,938
Between Business Line Expenses		
Ancillary Services	64,485	64,485
Corps/Bureau/Network/Delivery Facilities <i>Note <3</i>	3,544	3,920
Station Service <i>Note <4</i>	3,200	3,816
Sub-Total Between Business Line Expense	71,229	72,221
Corporate Expenses		
Legal Support	1,844	1,908
Shared Services Costs	26,221	27,357
General and Administrative	25,715	29,217
Sub-Total Corporate Charges	53,780	58,482
Total Expense Program Levels	336,877	346,641

This information has been made publicly available by BPA on January 7, 2005 but, due to the detailed nature or the manner in which it is grouped, the numbers cannot be separately identified in any other publicly released Standard Financial Report or other Agency Financial Information.

Notes:

<1: Executive and Admin Services includes expenses for Executive Management, Pay for Performance and Asset Management. TBL Internal G&A includes expenses for General Administration and Relocations. The increase in FY 2007 is due to moderate increase in pay for performance program.

<2:Schultz-Wautoma AFUDC credit due to project still under construction for part of FY 2006. FY 2007 recognizes the project being completed with no offsetting AFUDC credit.

<3:Corp and Bureau estimate.

<4: Estimate of Station Service and Re-dispatch based on current level usage and current rates.

Presentation of costs for IT do not reflect the consolidation of the IT function to the Corporate Organization. However, in total, IT costs would not increase or decrease with the consolidated presentation.

Sources: FY2004 data is from the FY2004 Audited Income Statement, FY2005 is consistent with the Start of Year budget and Final Program Levels as approved by Steve Wright, October 4, 2004.

Expense Program: Comparison of FY04-05 to FY04 Rate Case Program Levels (\$ in Thousand's)				
	FY04 Rate Case FY04 Note <1	FY04 Actuals Note <2	FY04 Rate Case FY05 Note <1	FY05 Forecast Note <2
Total Operating Revenues	724,016	644,059	745,142	639,806
Operating Expenses				
Transmission Operations <i>Note <3</i>	96,312	83,998	98,811	77,893
Transmission Maintenance <i>Note <4</i>	84,491	77,475	86,511	83,218
Transmission Engineering <i>Note <5</i>	10,533	19,893	10,768	9,099
Transmission Acquisition and Ancillary Services <i>Note <6</i>	88,623	79,977	88,860	86,292
Transmission Reimbursables	10,000	8,352	10,000	10,000
General and Administrative/Shared Services <i>Note <7</i>	76,948	62,616	77,228	77,778
Other Income, Expenses, and Adjustments <i>Note <8</i>		(2,792)		(7,413)
Sub-Total Expense Programs	366,907	329,521	372,178	336,867
Depreciation	178,813	188,918	190,746	189,150
Sub-Total Operating Expenses	545,720	518,438	562,924	526,017
Net Operating Revenues (Expenses)	178,296	125,620	182,217	113,789
Net Interest Expense	166,160	137,822	176,289	141,537
Total Expenses	711,880	656,261	739,213	667,554
Net Revenues (Expenses) from Continuing Operations	12,136	(12,202)	5,928	(27,748)

This information has been made publicly available by BPA on January 7, 2005, but due to the detailed nature or the manner in which it is grouped, the numbers cannot be separately identified in any other publicly released Standard Financial Report or other Agency Financial Information.

Notes:

<1 The TBL groupings of expenses by programs and sub-programs for FY 2004 and 2005 estimates, developed as part of the FY 2003 Rate Case, are reconstituted to match the programs and sub-programs groupings shown on this report.

<2 Actuals: FY2004 Includes the Variable Interest Entity transactions. FY2005 scenarios do not include the VIE. For FY2005 the impact of the VIE is \$49K in additional expenses.

<3 Transmission Operations includes Transmission System Operations, Transmission Scheduling, Transmission Marketing, Transmission Business Support and Legal Support.

<4 Transmission Maintenance includes Transmission System Maintenance and Transmission Environmental Operations.

<5 Transmission Engineering includes Transmission System Development.

<6 Transmission Acquisition and Ancillary Services includes Transmission Acquisition and Between Business Line Expense.

<7 General and Administrative/Shared Services includes Corporate Expense except for Legal Support.

<8 Other Income, Expenses and Adjustments includes Transmission Other.

Sources: Actuals: FY2004 is from the audited final Income Statement. Rate Case: FY2004 and Rate Case: FY2005 are from the May 2003 Final Transmission Proposal, Forecast: FY2005 represents the final PIR results reviewed by Steve Wright October 2004.

**Capital Program: Comparison of Initial and Current PIR Average FY06-07 Program Levels
(\$ in Thousands)**

Capital Program	Averages Across FY06-07		
	PIR Initial <i><Note 1</i>	PIR Proposal <i><Note 2</i>	Delta
Main Grid <i><Note 3</i>	55,680	52,019	(3,661)
Area and Customer Service <i><Note 4</i>	16,305	17,318	1,013
Upgrades and Additions <i><Note 5</i>	43,658	42,852	(806)
System Replacements <i><Note 6</i>	75,080	52,060	(23,020)
Environment <i><Note 7</i>	5,309	4,753	(557)
IT Development	10,619	10,619	0
All Other Capital <i><Note 8</i>	3,380	3,298	(83)
Sub Total TBL Capital	210,031	182,918	(27,113)
Indirects <i><Note 9</i>	80,005	73,812	(6,193)
Total TBL Capital Requiring Treasury Borrowing Authority	290,036	256,730	(33,306)
Non-Treasury Financed <i><Note 10</i>	113,002	85,266	(27,736)
Total TBL Capital Program	403,039	341,996	(61,043)

This information has been made publicly available by BPA on January 7, 2005, but due to the detailed nature or the manner in which it is grouped, the numbers cannot be separately identified in any other publicly released Standard Financial Report or other Agency Financial Information.

Notes:

<1 Source: Initial PIR is from the Initial PIR meetings in June 2004.

<2 Source: Forecasted Capital used in the November 3, 2004 Revenue Requirements

<3 Planned capital for I-5 Corridor 230 kv upgrades and NERC Criteria Compliance decreased from initial proposal

<4 Work plan changed to start Lower Valley Reinf. And SW Ore Coast(Bandon-Rogue) a year earlier than planned in initial proposal

<5 Fiber Optics program reduced

<6 Removal of Dittmer Annex project from the capital plan

<7 Capital program for Enviroment decreased an average of 12% from initial proposal

<8 Capital program for Capital ADP Equipment decreased from initial proposal

<9 AFUDC decreased from initial proposal

<10 Projects shown in this section with the exception of Schultz-Wautoma have not been approved and depend upon signing transmission agreements requiring customer advance payments in return for future transmission credits before going forward.

Capital Program Levels FY06-07
(\$ in Thousands)

Program Description	Completion Date	FY06 Forecast	FY07 Forecast
Main Grid Projects			
Puget Sound Area Additions, Phase 2	2006	281	-
Schultz-Wautoma 500 kV Line	2006	2,350	-
Line Relocation (Nisqually Reservation)	2005	1,679	-
Line Relocations on Tribal Lands	On Going	3,495	3,654
Olympia-Shelton 500 kV Line	2007	10,491	12,896
I-5 Corridor 230 kV Upgrades	2007	5,247	5,373
Libby-Troy 230 kV Upgrade	2007	1,049	7,523
Other Associated Generation Integration	On Going	5,000	5,000
NERC Criteria Compliance	On Going	10,000	10,000
System Reactive Facilities	On Going	5,000	5,000
Various Additions	On Going	5,000	5,000
Sub-Total Main Grid		49,591	54,446
Area and Customer Service Projects			
SW Oregon Coast (Bandon-Rogue)	2010	315	1,827
Driscoll-Clatsop 230/115 kV Line	2006	4,721	-
Longview 230/115 kV Bank #2	2007	-	537
Lower Valley Reinforcement	2008	2,318	8,597
East Omak 230/115 kV Bank	2007	-	537
Madison Shunt Cap	2007	-	484
Reconductor Chehalis-Centralia 69 kV #1	2006	1,616	-
Reconductor Chehalis-Centralia 69 kV #2	2007	-	1,775
Split Bridge Shunt Cap into Two Groups	2008	-	376
Miscellaneous Line Upgrade/Cap Additions for Wind Projects	On Going	2,308	3,224
Customer Service Items	On Going	3,000	3,000
Sub-Total Area & Customer Service		14,277	20,358
Upgrades and Additions			
System Controls	On Going	12,589	12,896
Control Center Systems	On Going	8,791	6,265
Flathead Valley Reinforcement (Remedial Action Scheme)	2007	1,049	1,075
Fiber Optics (Includes Terminations)	On Going	12,589	14,508
Miscellaneous Line Upgrades	On Going	5,245	5,373
Miscellaneous Substation Additions	On Going	2,098	3,224
Sub-Total Upgrades & Additions		42,362	43,342
System Replacements			
Non-Electric Plants	On Going	4,196	4,299
Transmission Lines	On Going	2,098	2,149
Wood Poles	On Going	6,295	6,448
Non-Ceramic Insulators	On Going	315	322
Spacer-Damperers	On Going	2,728	2,794
Substations	On Going	10,491	10,747
System Protection	On Going	7,344	7,523
Power System Controls	On Going	3,147	3,224
Tools and Equipment	On Going	5,000	5,000
Emergency Funds	On Going	10,000	10,000
Sub-Total System Replacements		51,613	52,507
Environmental Projects			
Pollution, Prevention and Abatement	On Going	4,669	4,836
Sub-Total Environment		4,669	4,836

Program Description	Completion Date	FY06 Forecast	FY07 Forecast
Information Technology (IT) Development Projects			
Business System Development	On Going	5,245	5,373
Transmission System IT Development	On Going	5,245	5,373
Sub-Total IT Development		10,491	10,747
All Other Direct Capital			
Capital Automatic Data Processing Equipment	On Going	1,093	1,290
Completion of Prior Year Items	On Going	105	107
Capital-to-Expense Adjustments	On Going	(3,000)	(3,000)
Retirements and Sale of Facilities	On Going	5,000	5,000
Sub-Total All Other Capital		3,198	3,397

Total TBL Capital (Direct)	176,202	189,633
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Indirects			
Transmission System Development Program Indirect		20,772	21,279
Transmission System Development Management Supervision & Administration		8,393	8,597
Support Services Capital Distribution		10,071	10,317
Allowance for Funds Unused During Construction (AFUDC)		16,018	12,830
Corporate Distributions		8,031	7,509
Corporate Shared Services		11,759	11,771
Corporate Legal Support		136	141
Sub-Total Capital (Indirect)		75,179	72,444

Total Capital Requiring Treasury Borrowing Authority	251,382	262,078
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Non-Treasury Financed <Note 1			
Generator and Third Party Financed <Note 2			
Paul-Troutdale 500 kV	TBD	5,246	5,373
McNary-John Day 500 kV (including Wanapa Energy Integration at McNary)	TBD	60,742	43,955
Schultz-Wautoma 500 kV <Note 3	2006	4,616	-
Generator Interconnection	TBD	10,600	-
Projects Funded in Advance	TBD	20,000	20,000
Total Non-Treasury Financed		101,204	69,328

Total Capital (Direct, Indirect & Non-Treasury)	352,586	331,406
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Notes:

<1 Source: This category includes those facilities where BPA retains ownership but which is funded by a third party.

<2 Projects shown in this section with the exception of Schultz-Wautoma have not been approved and depend upon signing transmission agreements requiring customer advance payments in return for future transmission credits before going forward.

<3 Source: Project has been approved and is being funded through third party financing.

**Capital Program: Comparison of FY04-05 to FY04 Rate Case Program Levels
(\$ in Thousands)**

TBL Capital Program	FY04 Rate Case FY04 <Note 1	FY04 Actuals <Note 2	FY04 Rate Case FY05 <Note 1	FY05 Forecast <Note 3
Main Grid	148,858	165,505	104,872	30,271
Area and Customer Service	11,390	4,521	13,103	6,431
Upgrades and Additions	40,054	40,439	43,316	30,726
System Replacements	42,143	44,046	34,492	46,344
Environment	7,369	2,345	5,414	4,119
Information Technology Development	0	0	0	11,575
All Other Capital	(2,163)	51	(2,142)	3,309
Sub Total Capital	247,651	256,907	199,055	132,774
Indirects	79,339	74,223	81,204	74,509
Total Capital Requiring Treasury Borrowing Authority	326,990	331,130	280,259	207,283
Non-Treasury Financed <Note 4	139,026	1,565	79,762	151,743
Total TBL Capital Program	466,016	332,695	360,021	359,026

This information has been made publicly available by BPA on January 7, 2005, but due to the detailed nature or the manner in which it is grouped, the numbers cannot be separately identified in any other publicly released Standard Financial Report or other Agency Financial Information.

Notes:

<1 Source: FY04 Rate Case

<2 Source: Actuals as of September 30, 2004; unaudited financial statements

<3 Source: Forecasted Capital used in the November 3, 2004 Revenue Requirements

<4 Projects shown in this section with the exception of Schultz-Wautoma have not been approved and depend upon signing transmission agreements requiring customer advance payments in return for future transmission credits before going forward.