TBL Programs In Review

Portland, June 25, 2004

Questions, Answers & Comments

Q1: Regarding Network Revenue, Appendix 1, Slice 3, did TBL assume that some contracts would be rolled-over that ultimately were not rolled-over?

A: Yes. (1000 MW of PBL, 1000 MW of DSIs, 1000 MW of one customer, and 350 MW of a second customer were not rolled-over.)

Q2: What is the interaction between the OTC of the Intertie and outages at Palo Verde. Did this interaction cause a 2100 MW fluctuation at the COI?

A: When generation is lost there is a reduction in frequency that results in the remaining Western Interconnect generators that are frequency responsive to increase their power output. In the case of generation being lost in Palo Verde, most of the response from Northwest generation can be seen as an increase on the California Oregon Intertie (COI). Typically, pickup seen on COI is 40-50% of the amount of generation lost. Following the August 10, 1996 disturbance, the WECC added a requirement to study the loss of two Palo Verde units when determining OTC's. There had been two occurrences within a three year period prior to the August 10, 1996 disturbance where two Palo Verde units had been lost close to simultaneously. Since that double contingency had been identified as a potential risk to the COI, the double Palo Verde generator outage was considered a credible contingency and has since been studied when determining the COI OTC. The two Palo Verde unit outage is often the most limiting contingency for the COI OTC.

The 2100 MW fluctuation at the COI on June 14, 2004 was symptomatic of the typical system response between Palo Verde and the COI. This situation resulted from a disturbance in the Palo Verde area that resulted the loss of 4500 MW of generation including all 3 generators at Palo Verde (normal contingency accounts for 2 generator outages).

Q3: What is “Rank 1” (see “Reliability is Important” in Appendix document)?

A: The TBL has created four categories of transmission facilities. Rank 1 includes 500 kV and some 230 kV transmission lines.

Q4: How long can transmission construction projects be deferred?

A: It depends on the situation. Some loads that have been reduced might never come back. The longer that the TBL can hold off in making a decision on construction, the better.

Q5: How much additional ATC resulted from the ATC methodology process?

A: About 400 MW.

Q5b: Will the sale of the additional 400 MW increase the probability of curtailments for current transmission rights holders?

A: This was a major concern in deciding whether to offer additional ATC over constrained paths and was a major consideration in the process and development of the ATC methodology.

Q6: Have you filed a vegetation management report?

A: Yes, a report was filed with FERC last week with all actions reported as of June 16.

Q6b: In filing with FERC on vegetation management, do you include lines maintained or lines operated?

A: This report covers FERC designated lines which are defined as transmission lines with a rating of 230kV or higher as well as tie line interconnection facilities between control areas or balancing authority areas and critical lines as designated by the regional reliability council. Therefore, this report covers all of the designated lines described above that BPA operates and maintains.

Q7: Is PBL involved in costs associated with non-wires solutions?

A: PBL is an active participant in the non-wires pilots and does share some of the costs.

Q7b: Is the goal of non-wires deferral or displacement?

A: It's a combination of both; however, the advantage of deferral is that it gives us a better ability to verify load growth and the need for new construction before making any large investment.

Q8: What is the TBL's target date for implementing zonal scheduling? The TBL should not go to zonal scheduling until it has a redispatch market in place.

A: As soon as possible, but Summer 2005 is the target. There is currently $3M budgeted for redispatch.

Q8b: The TBL business practice forum staff said that the TBL will step back from zonal scheduling and not implement it until it is clearer to everyone what the requirements would be.

A: John Anasis is conducting a work group within the forum that will be developing requirements. Details on this work group are available through TBL's Business Practices Technical Forum.

Q9: Schultz-Wautoma is an example of third-party financing. Will third party financing count against the TBL's borrowing authority?

A: We are discussing this with OMB regarding future borrowing.

Q10: How does the Open Season for McNary-John Day work in light of other cutplanes? You could buy West of McNary/West of Slatt and still have needs over other cutplanes.

A: Yes, that is correct. However, some requesters will get what they need because their requests go only over West of McNary.

Q11: When benchmarking with CISO (see "Preliminary Benchmarking" in Appendix document), why are environmental and land costs excluded?

A: Due to the differences in costs associated with environmental and land, in order to make an "apples to apples" comparison these were excluded

Q12: Will TBL plan on working with other utilities on local area projects?

A: Yes. The proposed Lower Valley project in Idaho is an example of the local utility being able to do the work more quickly and more cost-effectively.

Q13: What did you do to cut costs by $26M as shown in slide 26, "Bottom Line Accomplishments?"

A: TBL tightened up on hiring as people left, cut operations & maintenance overtime, cut back in employee training and travel, cut employee awards programs to zero.

Q14: What are you going to do about debt optimization (including WPPSS)? Where did the reassignment of $315 million to TBL end up?
A: TBL will coordinate with corporate to hold a workshop on this topic.

Q15: Would TBL consider identifying infrastructure as a stranded investment?
A: This is not currently applicable. However, please note that it is not always increasing load that forces a look at infrastructure addition, sometimes it is loss of load such as the situation currently affecting West of Hatwai.

Q16: The TBL should have a quasi-firm product.
A: Development of new products will be discussed at the July 15 Rate Case Workshop.

Q17: What are you going to do regarding the "organizational structure" shown on slide 27, "New Initiatives?"
A: Some organizational realignment will occur that will move towards One-BPA which will reduce redundancies between PBL and TBL. AE's, metering, possibly scheduling are all areas that will be considered.

Q18: What is Asset Management?
A: BPA's definition is different from the industry definition. BPA's is a model that we would implement to require a ranking of proposed projects; ensure more rigorous decisions; and do an after the fact look to see if we should have done things differently.

Q19: How much of your capital programs is revenue financed?
A: $15M in FY04.

Q20: What do we do for load growth for power and transmission post-2011 when the PBL power sales contracts terminate?
A: Stay tuned to what BPA and WECC are doing. An important question that needs to be answered is "what is adequate?" BPA will tackle this question at upcoming symposium September 28-29.
Q20b: Will BPA piggyback on work already being looked at on resource adequacy in the WECC and SSG-WI?
A: WECC hasn't addressed resource adequacy yet. CREPC has approached WECC. If it happens, the Power Planning Pool will coordinate for the Northwest, but it hasn't advanced very far yet.

Q21: Are there incremental fixes to McNary-John Day that can help?
A: These are being looked into by planning as an alternative.

Q22: Do today's budgets reflect the increases in steel costs and other raw materials?
A: For current projects, steel has already been purchased, but TBL is keeping a close eye for upcoming projects.

Q23: What are you doing regarding One-BPA?
A: We are looking at doing some combining of functions, consistent with the Standards of Conduct.

Q24: Can you please clarify "Replacements" versus "Upgrades?"
A: Replacements are in kind such as a wood pole for a wood pole. Upgrades tend to involve technological advancement but may replace older technology.

Q25: Is the $10M on slide 49, "System Replacement Overview" for each year of the rate case?

A: Yes.

Q26: How much of the budget is allocated to capital replacements for the 115 kV system and below? How much of the budget is allocated for maintenance?

A: Low-voltage is defined by 115 kV or lower. The budget in FY 06 and FY 07 for 115 KV and below facilities is broken down as follows:

- FY 06: $29 million = 11% of total forecasted capital budget)
- FY 07: $35 million = 12% of total forecasted capital budget.

Using FY03 as an example, $19.4 million of the $70 million maintenance program is budgeted to direct maintenance of all facilities on the system. Of this $19.4 million, $3.2 million was spent on facilities (lines & substations) 115 kV and below.

In addition, TBL breaks down The $19 million for direct maintenance costs as follows:

- System Work: $3.3 million
- DC maintenance: $.1 million
- 500 kV: $8.2 million ($6.8/$1.4 – substations/lines)
- 230 kV[1]: $4.6 million ($3.2/$1/4 – substations/lines)
- 115 kV: $3.2 million ($1.6/$1.6 – substations/lines)

Q27: What is bare handing?

A: It is doing maintenance while a line is energized. This differs from hot-sticking in that crews will actually be suspended from and handling the line. For example, a lineman will go out on the line in a hanging chair and work on the wires with their bare hands while still energized.

Q28: Is there fiber-optic expansion in the capital program?

A: Most of the fiber is hung. Remaining terminal equipment to light the fiber is low cost.

Q29: What is the status of the TBL scheduling automation vendor? What is the status of OASIS?

A: We are in negotiations with OATI. We should be able to provide better information on this in two weeks. We are focusing on the January 2005 WECC requirements. For now, there will be no changes in OASIS.

Q29b: Will the new system accommodate zonal scheduling?

A: The new system will be better able to support this requirement.

Q29c: Is the new system in capital?

A: Since we are considering using an application system provider which is essentially renting, the costs would be in expense.

Q30: Are you doing standard or accelerated depreciation?

A: We are not doing accelerated depreciation.

Q31: Are you planning on doing a rate case and an OATT case?

A: We have no plan to do an OATT case. We will do an OATT case only if changes to the OATT are necessary. The redispatch appendix will most likely have to be replaced.

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[1] This includes maintenance for 345, 287, 161 and 138 kV facilities.

Q32: What are the details of these huge costs in slide 74, "General Administrative and Shared Services?"

A: **We will have a rate case workshop on this issue that involves BPA Corporate.**

Q33: Will you have call premiums in the future?

A: Yes. Some bonds that have been sold to the treasury have them.

Q33b: At what point does paying the call premium cross over with the benefits? Where do you see the pay-off?

A: Do not know. It depends and the analysis is done with each bond.

Q33c: What was the volume of the bonds that were refinanced (that results in the $17M call premium in FY03)?

A: The FY03 $17 call premium was due to the early redemption of 5 TBL federal bonds with principal totaling $315.2 million. These bonds had an average maturity of 2032 and average interest rate of 7% (much higher than today's prevailing rate). Here is the breakdown by bond:

Issuance	Maturity	Interest Rate	Principal ($)	Call Premium ($)
1995	2025	7.70%	28,054,000	1,585,051
1993	2033	6.95%	110,000,000	5,731,000
1994	2034	7.05%	50,000,000	2,730,000
1994	2034	6.85%	18,746,000	995,412
1994	2034	6.85%	108,400,000	5,756,040
		Totals	**315,200,000**	**16,797,503**

CLARIFICATION: Federal bonds that have a call option can be ***refinanced*** or ***repaid*** before their maturity date. The term 'refinanced' is used when a bond is called, but not paid in full. Refinanced bonds may have new maturity dates and will be assigned the prevailing interest rate. The term 'repaid' refers to when a bond is redeemed early and paid in full. The FY03 bonds above were repaid, not 'refinanced'. These bonds are no longer no BPA's books.

Q34: There are big jumps in operations expense in FY01 and FY02, is that generation inputs?

A: Yes that is part of it.

Q35: Are you using standard depreciation?

A: Yes, every so often we update it. We are not using accelerated depreciation.

Q36: Has there been a discussion about matching TBL and PBL rate cases?

A: We decided on 2 years, it is a 15 month process. There have been discussions but it gets difficult and potentially increases workload on customers.

Q37: What is the disclaimer "*This information has been made publicly available by BPA on June 8, 2004 and does not contain Agency-approved Financial Information.*"

A: The agency has adopted a policy on financial disclosure. It lays out the standards for identifying material as official financial information (standard reports such as the Annual Report or Quarterly Reviews). Financial information included in ad hoc reports (such as PIR) are not considered official financial information of record for BPA. Therefore, they are labeled as unofficial. This does not mean that the information is not good, quality information. It does mean that it is not information of record on the financial condition of BPA.

Q38: Where are legal services?

A: Legal costs are recorded as Corporate costs if generic in nature, but recorded under Marketing and Business Support if it is more specific to TBL issues. If the Legal costs are specific to a capital project, the legal costs are recorded to that project.

Q39: Have you benchmarked your awards program?

A: Yes. We have done benchmarking and it is across the board on what programs consist of. Our awards are not big. Historically we have awarded 60% of our awards- we have $2K budgeted per employee - payout is based on finances, contracts with managers, some supervisors even have contracts down to the employee level. We are looking at awards like $25 Starbucks gift certificates. We are lot tighter than we used to be.

Q40: Are the awards tied to certain job classes, e.g. schedulers, traders, etc.?

A: If you are talking about retention pay for dispatchers and transmission schedulers, those were temporary awards to mitigate market pressures and maintain experienced staffing levels. When the market went down we did away with those types of awards.

Q41: Is what is budgeted for the awards the maximum amount?

A: Yes. Awards are budgeted at the maximum amount so that they are fully covered in the agency's budget. Awards are paid out based on employee merit as well as the Agency and TBL meeting certain agreed upon success factors.

Q42: A question on the security changes? IS there a possibility of increased costs?

A: We have prioritized our facilities- 68 facilities- taken them in chunks of 10, hardened the facilities, put in remote monitoring in some places, etc. We are looking to see what the requirements are from GAO and Homeland Security.

Q43: Please provide a breakdown of Ancillary Services.

A: Ancillary Services are those services that are necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of BPA's Transmission System in accordance with Good Utility Practice. Ancillary Services include: Scheduling, System Control and Dispatch; Reactive Supply and Voltage Control from Generation Sources; Regulation and Frequency Response; Energy Imbalance; Operating Reserve – Spinning; and Operating Reserve -- Supplemental. More information on ancillary services can be found at the TBL web site at the "Rates & Tariff" http://www2.transmission.bpa.gov/Business/Rates_and_Tariff/default.cfm?page=current or TBL "Business Practices" http://www2.transmission.bpa.gov/Business/Business_Practices/default.cfm?page=Ancillary.

Q44: General administration and shared services are a big portion of TBL costs but they have the least amount of exposure. Why?

A: TBL and corporate will hold a workshop to provide further breakdown on corporate costs.

Q45: What are the regulatory fees for in transmission system development?

A: Participating more in EPRI- one part is dues and membership and the other are joint participation projects.

Q46: Does this information cover the internal costs for Grid West?

A: In General Administration there is $4.0M for FY06 which includes the temporary board and $2.9M in FY07. If a TOA gets signed there will be additional costs.

Q47: Exclusive of generation inputs, transmission programs staying the same, interest and depreciation increased by 13% do you have any sense of the sales? Looks like you are looking at a 6% or more increase?

A: It depends on other items like revenue financing, etc. One place TBL is looking to increase revenue is on the DC intertie. Short-term numbers are low, could get a bit lower still. There aren't a lot more sales that are going to occur, except in short-term sales, right now customers are re-selling transmission for 20 to 30 cents on the dollar.

Q48: We know you have constraints, you have places that may have demand if you had capacity and yet it s being sold on 20 to 30 cents on the dollars, and that means there are other places where there isn't the need, does that mean the planning was wrong?

A: Not necessarily. The use of the system has changed.

Q49: What is included in the rate case?

A: Revenue requirements- interest, depreciation, Redispatch, revenue credits, etc. Interest and depreciation is here now because we wanted to make the connection to the capital program. Interest and depreciation gets nailed down in the rate case.

Comments:

C: When you consolidate IT and develop information systems, BPA should involve the customers because BPA could lower its costs at the expense of its customers.

C: Time and time again the TBL has developed systems (for scheduling, billing, etc.) and dropped them on customers without sufficient notice and time for customers to develop their own associated systems.

C: In order to avoid building unnecessary systems, it would be nice to know where Grid West is going before the TBL implements zonal scheduling.

C: You should look into other utilities funding, paying for, and potentially owning certain transmission facilities.

C: On the rate case workshop segmentation issues tend to get locked up very early. I would like BPA to address this up front so we can influence it.

C: Outside of interest and depreciation, G&A and SS are such big expense we would like more detail. We want to see more accountability for these costs.

C: There doesn't seem to be any cost effectiveness in your legal department, e.g. how long they work on issues, whether the business case is there, etc.