

will serve copies of the Final ROD on all parties. At the conclusion of the rate proceeding, BPA will file the SN-03 rate proposal with FERC for confirmation and approval.

BPA must continue to meet with customers in the ordinary course of business during the rate case. To comport with the rate case procedural rule prohibiting *ex parte* communications, BPA will provide notice of meetings involving rate case issues for participation by all rate case parties. Parties should be aware, however, that such meetings may be held on very short notice and they should be prepared to devote the necessary resources to participate fully in every aspect of the rate proceeding. Consequently, parties should be prepared to attend meetings every day during the course of the rate case.

#### **Part IV—BPA's Proposed Solution to the Cost Recovery Problem**

##### *A. Introduction*

As noted earlier, the Administrator determined that in spite of the significant cost cutting identified in the Financial Choices process, BPA has less than a 50 percent probability of meeting its Treasury payment obligations. On February 7, 2003, the Administrator sent a letter to rate case parties and other interested individuals explaining the continued deterioration of BPA's financial situation and announcing the triggering of the SN CRAC process.

BPA is proposing a three-year variable SN CRAC adjustment to power rates, which has a cap limiting the amount of revenues that can be collected each year. Under BPA's proposal, in August of each year, the level of SN CRAC for the next fiscal year will be determined, based on the then-current forecast of PBL's accumulated net revenues (ANR) for the end of the then-current fiscal year. The annual average expected value for the SN CRAC is about 30 percent above May 2000 base rates. The adjustment in a particular year could be as high as 41 percent or as low as zero, depending on PBL's financial condition as reflected in BPA's forecasted ANR.

These percentages do not reflect the overall rate increase customers can expect after the implementation of PBL's proposed SN CRAC because of the interaction among the three CRACs. The total power rate customers will pay will reflect changes to the LB and FB CRACs and the proposed SN CRAC. While it will vary, the resulting total rate is expected to be about 16 percent, on average, above FY2003 rates (which include LB and FB CRACs) for the remainder of the rate period.

##### *B. Safety-Net Cost Recovery Adjustment Clause Design*

BPA's SN CRAC proposal uses a Treasury payment probability measure different from that used in prior rate cases. BPA is concerned that a rate increase of the magnitude necessary to achieve the 80–88 percent five-year TPP standard used to establish the WP-02 rates is not sustainable in the current economy. Therefore, BPA is proposing to relax the standard, but at the same time provide sufficient assurance that by the end of the rate period BPA will have a high probability of making its payment to the U.S. Treasury. This assurance will be met in part by an additional criterion that the PBL expected net revenues for the entire rate period (FY 2002–2006) will be zero or greater. For the next general rate proceeding, BPA intends to return to its long-term goal of 88 percent TPP.

In January 1993, BPA adopted a 10-Year Financial Plan that included a TPP standard for use in setting BPA's rates. At that time, BPA typically had two-year rate periods and the TPP standard called for achieving a 95 percent probability that BPA would make all of its Treasury payments in that rate period on time and in full. BPA's 1996 rates were set to cover a five-year period, and in that process, the 95 percent probability was translated into an 88 percent five-year TPP that provided comparable assurance of timely repayment. The Fish and Wildlife Funding Principles guided the development of power rates for the FY 2002–2006 rate period. In the Fish and Wildlife Funding Principles, the standard for that five-year TPP was allowed to be in the range of 80 to 88 percent in light of the economic burden that achieving the full 88 percent TPP would impose on the Pacific Northwest region.

Specifically for the SN CRAC proceeding, BPA is proposing to use three payment probability criteria in lieu of the long-term goal, mentioned above, including the net revenue criterion. BPA does not intend to replace the 88 percent standard, but is proposing these three alternative standards in this SN-03 process in order to meet the twin goals of moving toward a financially healthier BPA while limiting the effect on a fragile economy. The first criterion is a 50 percent probability that BPA can make all of its Treasury payments in the FY 2004–2006 three year period. This is relaxed from 87.5 percent, which is the three-year probability that corresponds to 80 percent for a five-year period. The second standard, a Treasury Recovery

Probability (TRP), requires that the calculated probability that BPA will be able to make all of its FY 2006 payments to the U.S. Treasury, including repayment of any amounts missed in years FY 2003–2005, is at least 80 percent. The third standard requires that net revenues over the FY 2002–2006 period are zero or greater. These criteria provide a high level of assurance that BPA's obligations to the U.S. Treasury will be satisfied by the end of FY 2006.

##### *C. BPA's Proposal*

The proposed SN CRAC design is similar to the existing FB CRAC as described in the 2002 GRSPs. The proposed SN CRAC is a temporary, upward adjustment to posted power rates based on the level of end-of-year ANR in the generation function, as defined in the section on the FB CRAC in the 2002 GRSPs. The August forecast of ANR or each fiscal year from 2003–2005 is compared to the SN CRAC threshold applicable to that fiscal year. If the forecasted ANR is below the threshold, an SN CRAC rate adjustment will be implemented to collect either the amount of the difference between the forecasted ANR and the threshold, or an annual cap, whichever is smaller. The proposed SN CRAC rate adjustment will be determined annually, go into effect on October 1 of each year, and be in effect for the remainder of that fiscal year. The adjustment will be applied to the appropriate rates for the 12-month fiscal year.

The ANR threshold levels for the remaining three years of the rate period are: \$-400 million for FY 2004, \$-140 million for FY 2005, and \$5 million for 2006. The annual cap is \$470 million.

Consistent with the 2002 GRSPs, the SN CRAC applies to power customers under the following firm power rate schedules:

1. PF Preference (PF excluding Slice), PF Exchange Program, and PF Exchange Subscription;
2. Industrial Firm Power (IP-02), including purchases under the Industrial Firm Power Targeted Adjustment Charge (IPTAC) and Cost-Based Index Rate;
3. Residential Load (RL-02), including both actual power deliveries and the monetary benefits of any Residential Exchange Program (REP) Settlement;
4. New Resource Firm Power (NR-02); and
5. Subscription purchases under Firm Power Products and Services (FPS).

The SN CRAC does not apply to:

1. Pre-Subscription Contracts (to the extent prohibited by contract);