WP-07 BPA DATA RESPONSE

Request No: IN-BPA-001

Date of Request: December 5, 2005

Request: EXHIBIT: Testimony Book 1 WP-07-E-BPA-08_thru_12

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Please provide all documents regarding the review of industry practices and "other considerations," including the names of persons contacted, the utilities contacted and a extended explanation of "other considerations."

Date of Response: December 12, 2005

Response: The team of BPA employees who studied this issue and formulated a recommendation to BPA's Finance Management Committee reviewed the financial statements of both investor owned utilities and public utilities in the region to discern the practices that were being used to account for conservation investments. The team also discussed the issue with BPA's independent financial statement auditors, PriceWaterhouseCoopers, as to whether there was a predominant practice in the electric utility industry. Team members made a limited number of contacts and primarily used the financial statement notes dealing with accounting policies contained within utility financial statements. The team concluded that the predominant practice in the industry was to expense conservation investments in the year incurred. Two regional utilities with large conservation programs, Portland General Electric and Eugene Water and Electric Board, both used five-year amortization periods; there were a few utilities that used a ten-year period. Very few utilities amortized conservation investments over a period that was greater than ten years.

BPA's decision to adopt a five-year amortization period for conservation investments starting in FY 2007 took into account a number of other considerations. The principal considerations were the following:

- Revenue requirement/rate impacts of changing from the treatment that is currently in effect (a declining 10-year period, where the FY 2007 conservation investments would have been amortized over 5 years, FY 2008 investments over 4 years, etc. FY 2011 investments would have been expensed, causing a spike in conservation revenue requirements) compared to a 5-year amortization period, 10-year amortization period, and a 15-year amortization period.

- The growth in rate regulated assets (non-revenue producing assets) on BPA's balance sheet per FAS 71. A five-year amortization or a policy of expensing conservation would produce the least growth in rate regulation-created assets. Rating agencies would favor financial policies that moderated the growth in rate regulation-created assets. This treatment would decrease the risk of stranded investment costs going forward.

- BPA's access to capital is limited to the U.S Treasury with debt limits established by Congress. BPA's remaining borrowing authority is very limited. A five-year amortization period would use the least amount of borrowing authority for periods of time beyond five years, since the borrowing that would be undertaken in year 1 would be repaid by the sixth year. A treatment of expensing conservation would have the least negative impact on BPA's borrowing authority.

cc: Hearing Clerk and Service List (via electronic mail)