



Participation In BPA's Conscription Process: Opportunity Or Extortion?

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BPA's Conscription Process

- BPA's Historical Background
- Current Market Forces
- Market Forecasts
- Making An Informed Business Choice
 - Price
 - Credit Worthiness
 - Business Ethics
 - Implicit Threats
- An Informed Choice



BPA's Historical Background

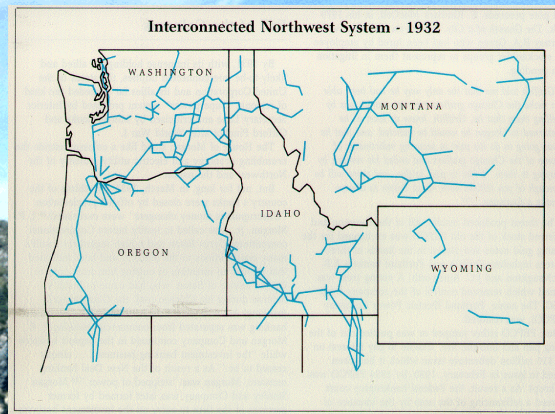
- BPA was created by Roosevelt and set up by J.D. Ross
- BPA was designed to offset the problems of the robber barons and capture the benefits of the Columbia
- It succeeded very, very well



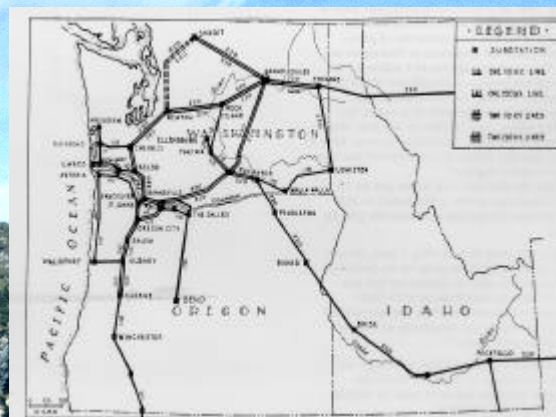
The Robber Barons



Robber Barons of the 20s



J.D. Ross Master Plan



BPA Has Failed Almost Continuously Since 1970

- The Hydro-Thermal Program
- The 1980 Pacific Northwest Electric Planning and Conservation Act
- WPPSS
- The 1995 Biological Opinion
- The 1992 Resource Program

Defaulting On The Promises

The history of the Regional Power Act has been a continuous series of broken promises

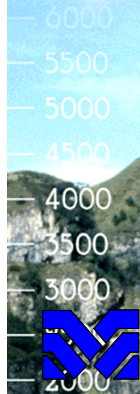
- 1981 -- Reallocation of Federal non-firm
- 1981 -- Recalculation of rate pools to exclude investor owned utilities
- 1983 -- Cancellation of WNP-3
- 1985 -- Elimination of 7(b)(2) rate test
- 1986 -- Reconsultation of the Residential Exchange
- 1991 -- Curtailment of the DSI Top Quartile
- 1995 -- Cancellation of BPA resource contracts
- 1995 -- Fish cap to avoid funding of environmental programs

Overview

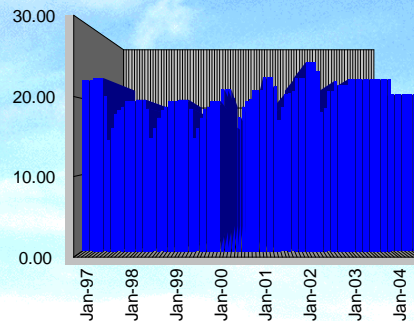
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Current Market Forces

- The region is massively surplus
- Prices are low (and are staying low)
- Many buyers and sellers are contributing to a stable open market
- recent McCullough Research power purchases have received ten to twenty responses



Actual Transactions



Market Forecasts

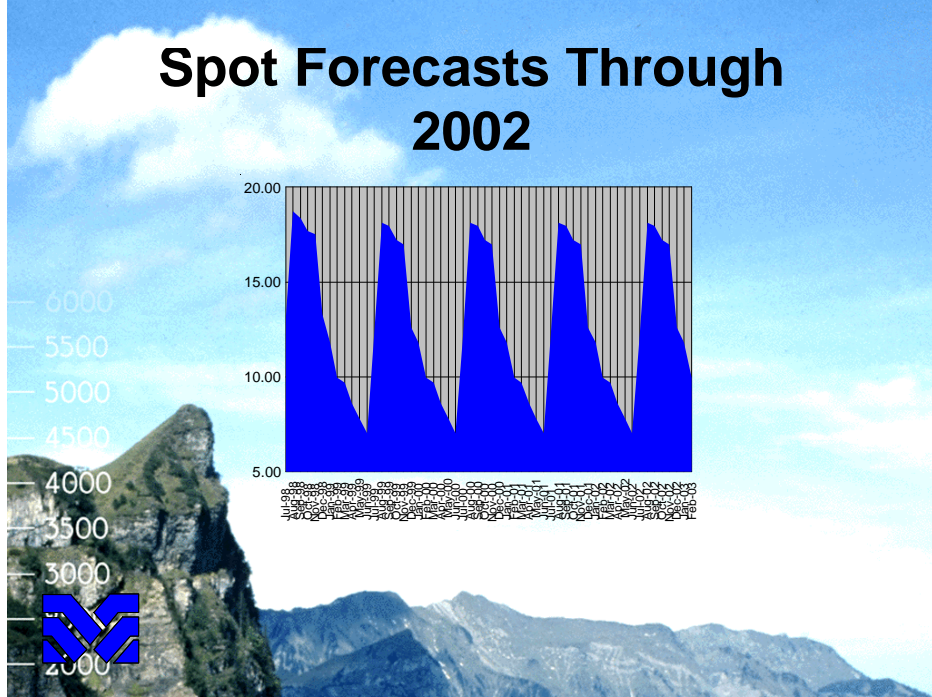
- BPA forecasts differ by use
 - BPA forecasts high prices in the evaluation of foregone fish costs
 - BPA forecasts low costs in their marketing
- Most other forecasts reflect actual conditions



Spot Forecasts Through 2002

The graph displays electricity spot prices over a two-year period. The y-axis is labeled with values 5.00, 10.00, 15.00, and 20.00. The x-axis is labeled with dates from 1/1/00 to 12/31/02. A blue area represents the spot price, which shows significant volatility. A vertical grey shaded region covers the period from approximately March 2000 to March 2001. The price peaks at nearly \$20/MWh in early 2000, drops to around \$7/MWh in mid-2000, and then rises again to nearly \$20/MWh in early 2002.

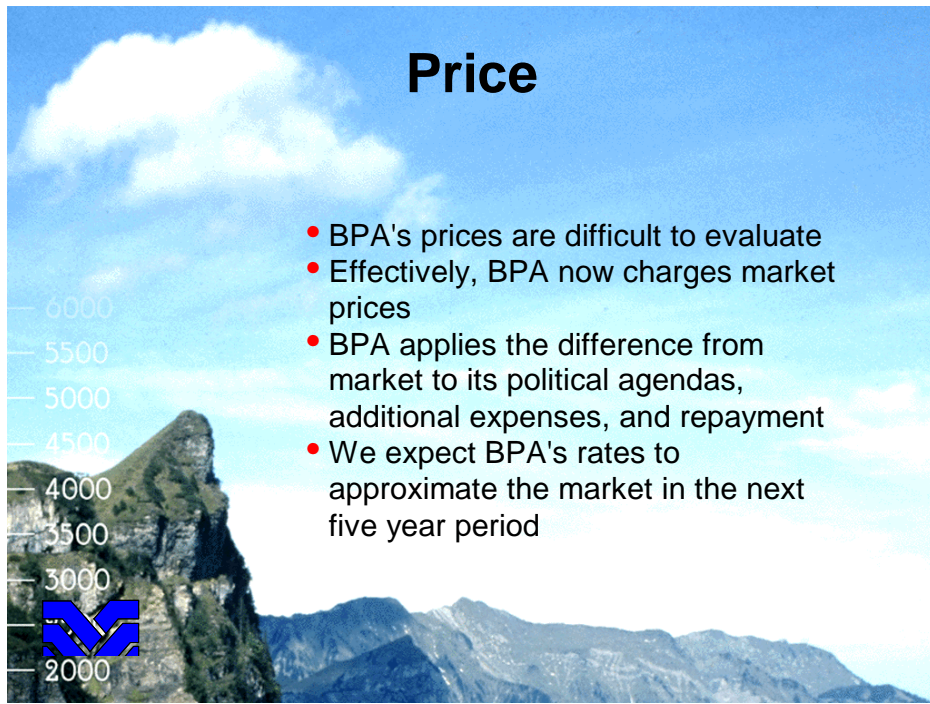
Date	Spot Price (\$/MWh)
1/1/00	18.50
3/1/00	10.00
5/1/00	7.50
7/1/00	18.00
9/1/00	10.00
11/1/00	7.50
1/1/01	18.00
3/1/01	10.00
5/1/01	7.50
7/1/01	18.00
9/1/01	10.00
11/1/01	7.50
1/1/02	18.00
3/1/02	10.00
5/1/02	7.50
7/1/02	18.00
9/1/02	10.00
11/1/02	7.50
12/31/02	10.00



Making An Informed Business Choice

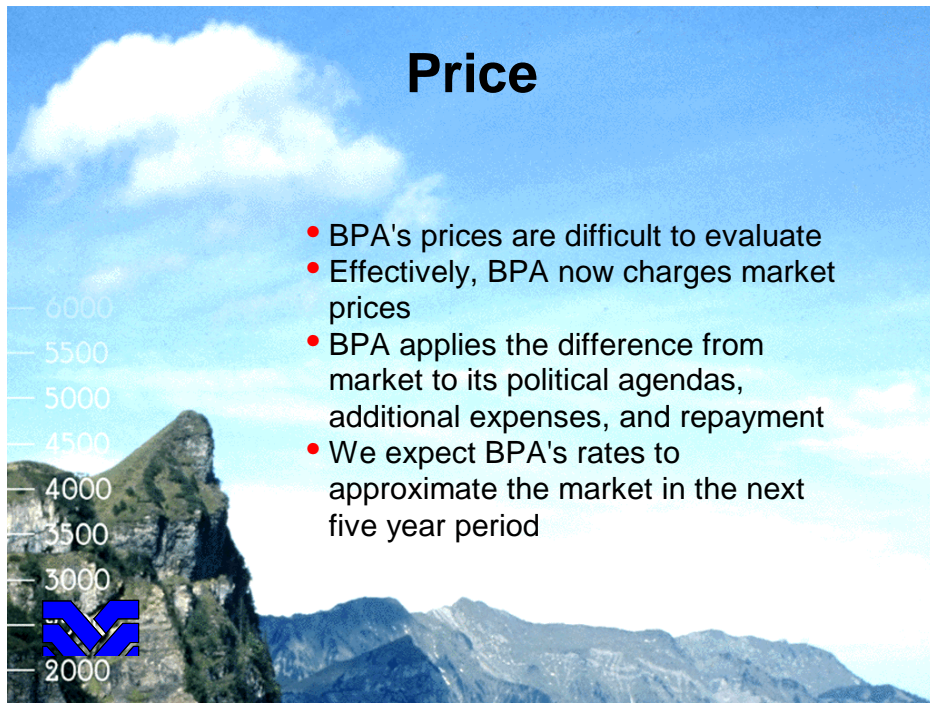
- Price
- Creditworthiness
- Business Ethics
 - Tenaska
 - Fish and Wildlife
- Implicit Threats

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- # Making An Informed Business Choice
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 - Creditworthiness
 - Business Ethics
 - Tenaska
 - Fish and Wildlife
 - Implicit Threats



Price

- BPA's prices are difficult to evaluate
- Effectively, BPA now charges market prices
- BPA applies the difference from market to its political agendas, additional expenses, and repayment
- We expect BPA's rates to approximate the market in the next five year period

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Creditworthiness

- BPA has no credit and no independent financial existence
- BPA's credit is the best in the world -- it is an agency of the U.S. Government
- BPA's payment history to the treasury is erratic
- BPA reserves the right to break contracts that threaten its repayments to the treasury

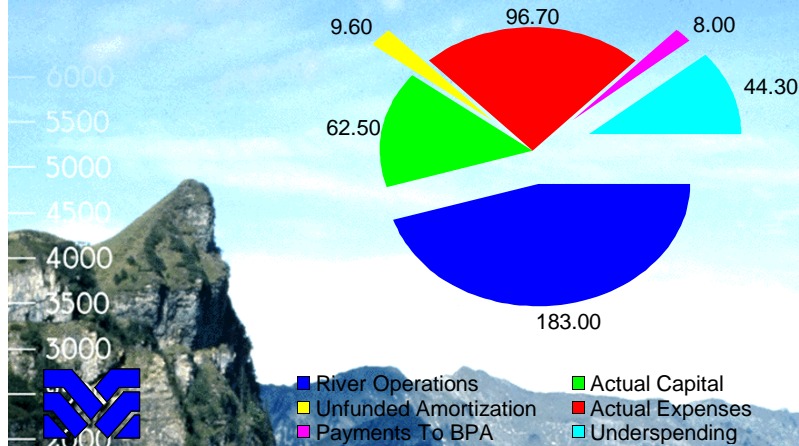
Business Ethics

- BPA's recent history has seen a rapid decline in what is traditionally called "business ethics"
- BPA public relations has exaggerated and misstated important factual issues
- Recently BPA unilaterally broke a \$1,000,000,000 contract to Tenaska

Public Relations

- BPA continuously trumpets that it is spending \$450 million per annum on fish programs
- The reality is that BPA has averaged one third that amount over the past two years

1996 Fish and Wildlife Expenditures



Tenaska

- BPA willfully signed an out-of-market contract to purchase 240 megawatts in 1994 at 50 mills
- In early 1995, BPA unilaterally abrogated the contract
- To date, BPA has spent several hundred million dollars in penalties and settlements and twenty to thirty million dollars in litigation expenses (BPA maintains that these amounts are secret)
- A decision awarding massive amounts to Tenaska is expected this summer

Implicit Threats

- BPA has "colored" utilities' decision making with two implicit threats:
 - Shoot the Afro-American -- referencing the late 70s movie Blazing Saddles where the black sheriff holds off the enraged townsfolk by holding a pistol to his own head
 - Hotel California -- you can check in but you can never leave
- Both arguments are opportunistic and make little economic or legal sense

Shoot The Afro-American

- BPA often threatens that allowing them to face market forces will force the abandonment of environmental or financial responsibilities



Hotel California

Last thing I remember
I was running for the door
I had to find the passage back
To the place I was before
"Relax," said the nightman
"We are programmed to receive
You can check out any time you like
But you can never leave"



An Informed Choice

- Snohomish need not gamble with its future
- The best solution is to solicit and review all options
- Avoid vendors with poor credit and questionable ethics
- Purchase at the lowest prices
- *Forecasts are good -- offers are better*