

**SUMMARY OF CAPITALIZATION STRATEGY  
(1/15/03)**

The ability of BPA to capitalize land needs to be consistent with these principles:

1. Consistent with GAAP and FAS 71 guidelines
2. Measurable Benefit
3. Acknowledgement of Limited Borrowing Authority

With these principles, next steps would include:

1. Approach must be included in Rate Case (not in current one)
2. If Safety Net CRAC initiated, include language describing capitalization of land
3. Must provide creditable/quantifiable benefit against a defined obligation
4. Decision subject to review of BPA's independent auditors

Proposal:

1. BPA is willing to consider Capitalization of Land beginning in 2004, if
2. SN CRAC initiated including language describing capitalization of land, and
3. We can demonstrate clear credit against our obligations

***Draft (1/15/03)***

**Performance-Based Approach for Capitalization of Fish & Wildlife Land Purchases**

The alternatives below for potential Capitalization include categories of wildlife and fish habitat (land) purchases only and do not consider habitat enhancement types of projects.

- The present Rate Case language for fiscal years 2002 – 2006 does not describe our planning for capitalization of land.
- If BPA chooses to capitalize land, considered non-revenue generating assets under FAS 71, those purchases would have to meet the dollar threshold of at least \$1M and lifetime of 15 years or greater and also have defined benefits that meet BPA's responsibilities for mitigation under the Power Act or otherwise meet our responsibilities under ESA.
- Hatcheries and screens have long-term program benefits in terms of fish produced for mitigation and likewise protection of fish.
- For wildlife, the track record for defining the ledger sheet of losses in acres and Habitat Units along with those indices for land purchased has been established. Generally, individual MOA's that define the credit BPA receives for the project are written and signed between BPA and the entity holding title to the property. To capitalize these purchases it would require the HEP analysis that defines the wildlife credits be accomplished prior to purchase and capitalization. Resolution of the 1:1 vs. 2:1 crediting issue for protection may also be necessary for this approach. The only wildlife agreement that BPA has capitalized to date is the Montana Wildlife Agreement, which was signed in 1998 and provides indemnification for BPA for mitigation for wildlife losses due to the construction and inundation of Libby and Hungry Horse Dams.
- For fish habitat, either ESA or non-ESA listed populations, definition of losses and a mechanism for crediting actions against these losses has not been defined. The NMFS FCRPS Biological Opinion comes closest to describing how benefits might be measured where they ask for protection of high quality fish habitat in tributaries (RPA 150). There is potential for BPA to work with NMFS and the Council to establish an agreed upon crediting mechanism and to document how this mechanism addresses BPA's responsibilities.
- A similar opportunity may be possible with the Council and fish & wildlife managers for the non-ESA listed fish populations where a crediting mechanism could be developed and agreed upon.
- Appropriate levels of cost sharing could also be developed for capitalized land as well as determining ownership, e.g. who holds title to the property or easement.

Proposal & Timeline: We could begin planning to capitalize land for these benefits for fiscal year 2004 if the decision is made to initiate a Safety Net CRAC and appropriate language describing this approach is included in the Safety Net CRAC. FERC's timeline for approval of this Rate Case may be as late as September 30, 2003, potentially deferring all land purchases until fiscal year 2004. There however would be time for BPA, NMFS, Council, and fish & wildlife managers to develop crediting mechanisms for ESA-listed and non-ESA listed fish. We realize that subbasin planning may be the mechanism for defining the losses for resident fish, in another 12-18 months (possibly by late FY 04).