

NOV 18 QUARTERLY BUSINESS REVIEW FOLLOW UP

Q. Various: Please provide more detail and context around the differences between FY20 net interest expense actuals and rate case expectations for both Power and Transmission.

A.

(\$Thousands)		Transmission		
		FY20 Rate Case	FY20 Actuals	Delta
Interest Expense				
1	Federal Appropriation	11	-	(11)
2	Capitalization Adjustment	(18,968)	(18,968)	(0)
3	Borrowings from US Treasury	120,163	104,449	(15,714)
	a LT Debt	113,717	104,449	(9,268)
	b Premiums/Discounts	5,882	-	(5,882)
	c Amort of Capitalized Bond Premiums	559		(559)
4	Debt Service Reassignment	1,382	1,463	81
5	Customer Advances	4,326	8,135	3,810
6	Lease Financing	76,544	65,730	(10,813)
7	AFUDC	(14,211)	(14,837)	(626)
8	Interest Income	(5,078)	(2,175)	2,903
9	Other income, net	-	5,095	5,095
Total interest expense and other income, net		164,169	148,893	(30,984)

Description of key deltas:

Row 3 – Federal bond interest expense is ~\$16M lower than rate case primarily due to lower interest rates (~3% vs ~3.4% in rate case) and no call bond premiums. Lower rates were offset by bond issuance earlier in the year than anticipated in the rate case.

- While FY20 capital spending was less than anticipated in the rate case, overall borrowings were slightly more than anticipated in the rate case due to a use of deferred borrowing, i.e. converting deferred borrowing into actual bonds outstanding. However, the average interest rate on bonds issued was about 40 basis points lower than projected in the rate case.
- The rate case assume most bonds were issued in the last half of the year, with some issued on 9/30, which would result in no interest expense in FY20. In reality, bonds were issued in each quarter throughout the year. This earlier bond issuance offsets some of the decrease from lower interest rates.
- The call bond premiums in Row 3b were avoided completely and therefore did not materialize as interest expense.

Row 5 – The main driver of the delta is the inclusion of 3rd AC interest expense due to the accounting change in FY19 to the revenue standard that was adopted.

Row 6 – The main driver is fewer lease purchase projects signed on leases than anticipated in the rate case as well as lower interest rates.

Row 8 – Lower interest income due to lower interest rates than assumed in the rate case.

Row 9 – A non-cash mark to market expense incurred during a lease purchase (POM12) take out that was not anticipated in the rate case.

	(\$Thousands)	Power		
		FY20 Rate Case	FY20 Actuals	Delta
Interest Expense				
1	Federal Appropriation	44,685	44,690	5
2	Capitalization Adjustment	(45,937)	(45,937)	-
3	Borrowings Issued to US Treasury	61,145	56,303	(4,842)
4	Bond Premiums/Discounts	13	-	(13)
5	Non-Federal Interest	245,801	250,035	4,234
6	AFUDC	(15,904)	(12,848)	3,056
7	Interest Credit on Cash Reserves	(4,959)	(1,086)	3,873
8	Interest Income On Decommissioning Trust	(8,818)		8,818
9	Other Expense and Income (Gains/Losses)	(5,052)	(12,073)	(7,021)
Total Interest Expense and Other Income		270,974	279,085	8,111

Description of key deltas:

Row 3 – Federal bond interest expense is ~\$5M lower than rate case primarily due to lower interest rates offset by bond issuance earlier in the year than anticipated in the rate case.

- On average, interest rates on long-term debt were ~2.5% vs. ~3.0% assumed in the rate case.
- The rate case assumed most bonds were issued in the last half of the year, with some issued on 9/30, which would result in no interest expense in FY20. In reality, bonds were issued throughout the year. This earlier bond issuance offset about \$2M of the decrease from lower interest rates.
- While FY20 capital spending was less than anticipated in the rate case, overall borrowings were slightly more than anticipated in the rate case due to a use of deferred borrowing, i.e. converting deferred borrowing into actual bonds outstanding.

Row 5 – Main driver of the increase to Non-Federal interest expense is the use of a short-term note to accelerate a portion of the 2020 RCD appropriation payments into FY19 that was not modeled in the rate case.

Row 6 -- Decrease to AFUDC is due to decrease in capital expenditures mainly a result of the construction slow down due to COVID-19 pandemic precautions/shutdowns.

Row 7 – Decrease to interest credit (interest earnings on the BPA Fund) is due to lower interest earning rates on funds on deposit than assumed in the rate case.

Row 8 and 9 - CGS Decommissioning Trust income and dividends moved line items and the actuals are represented in row 9.

Q. Fred Heutte, NW Energy Coalition: Please provide more detail about the budget carryover amounts listed on slide 21.

A. [See additional detail about budget carryover from FY20 to FY21 at Nov 17th QBRTW Carryover Follow-up.](#)

Q. Megan Stratman, Northwest Requirements Utilities: Please provide further detail regarding the results of the reprioritization described on slide 10. It sounds like the agency decided to work on more Sustain projects instead of Expand, and that capital costs for equipment are much lower for Sustain than Expand. If this is true, would you please further elaborate and provide more clarity, including examples and showing the changes over the number of years it has occurred? (looks like the reprioritization began in FY18, so maybe starting in FY17 thru FY23)

Additionally, would you please provide a follow up response that more clearly and in more detail explains the following:

- **The results of the reprioritization:**
 - **Sustain expense \$ before**
 - **Sustain expense \$ after**
 - **Sustain capital \$ before**
 - **Sustain expense \$ after**
 - **Expand expense \$ before**
 - **Expand expense \$ after**
 - **Expand capital \$ before**
 - **Expand capital \$ after**
- **Comparison to budget to actuals.**
 - **To the extent actuals differ from budget, please denote what and how much was due to COVID-related delays versus other issues (and then describe what those other issues were).**

Please show this information for as many years as necessary to understand the full picture. This may be FY17 thru FY23, or even longer.

A. BPA's response is being developed and will be posted when available.

Q. Megan Stratman, Northwest Requirements Utilities: Would you please share what the leverage ratios are by business line - now, recent history, and forecast?

A. [See detail of leverage ratios by business line from FY08 through FY20 at historical leverage ratios.](#)

Q. Marie Morrison, Snohomish County PUD: Slide 4, Row 4 - What is the driver for lower Inter-Business Unit Revenues?

A. The inter-business line revenues under-ran BP-20 due to a forecast allocation to BPA Power Services of total short term revenues that was too high. The remaining short term revenues were allocated to other direct customers. This resulted in the inter-business under-run and direct over-run.

Q. Marie Morrison, Snohomish County PUD: You mentioned lower renewal of Canadian Entitlement in the discussion on Slide 4. Could you provide more details on which line item it affects?

A. PTP Long-Term is lower due to lower renewal than forecasted in the BP-20 Rate Case reservation amount for Canadian Entitlement.

Q. Marie Morrison, Snohomish County PUD: Slide 10 - It is my understanding from Jeff Cook that PFIA is highly customer-driven (i.e., wind and solar interconnections to the BPA TX grid) and costs are mostly outside of BPA's control. Could you explain why the reduction in PFIA is a result of the change in the prioritization strategy?

A. Projects Funded In Advance (PFIA) are customer-driven projects. BPA forecasts in each rate case what the expected PFIA project expenditures will be, but it is mostly dependent on customer requests as to the level of capital expenditures required to fulfill the requests. PFIA project requests to be executed in FY20 were much smaller than expected at rate case and was the main reason for FY20 actuals being \$60 million below rate case. To a smaller degree, yet still significant, BPA's capacity to execute on PFIA projects can be affected by other capital work that needs to take place. In FY20 some of the impact was due to the pandemic and the pause in work that occurred. When work resumed under the new pandemic processes, all the projects in the capital program were assessed to determine priority. During this review several paused projects that were related to reliability, safety or compliance were started initially while other projects were continued to be paused for a period of time. This reprioritization created some of the decrease in the \$60M amount shown. In addition, as stated earlier these projects are customer driven and in some cases the customers delayed/paused their projects in FY20.

Q. Marie Morrison, Snohomish County PUD: Slide 11 - If possible, could you provide details on the components of the PS Reserves not for Risk not shown on Slide 50 (example, NTSA, Slice carryover mentioned in the call)?

A. See detail of Power Reserves Not for Risk below:

POWER	9/30/2019 Actuals	9/30/2020 Actuals	Current Month less Prior YE
Total Reserves Attributed to Power	343.4	504.8	161.4
1. Funds Held for Others	26.7	16.9	-9.8
Energy Efficiency Projects	11.5	5.9	-5.6
Federal Load/F&W Caucus	4.9	4.9	0.1
Funds Held in Escrow	-0.4	0.0	0.4
Customer Dep for Creditworthiness	10.7	6.0	-4.7
2. Capital Funds	0.0	0.0	0.0
3. Liquidity Facility Borrowings	0.0	0.0	0.0
4. Cash Timing Differences	114.0	27.9	-86.1
Restricted Funds - AP/AR (Carryover to next FY)	41.6	9.3	-32.3
Restricted Funds - NTSA/LIBBY/Slice (Carryover to next FY)	73.7	19.0	-54.6
EN Timing Difference	-1.3	-0.5	0.8

5. Other Reserves Not for Risk	0.0	24.8	24.8
Budget Carry-Over	0.0	24.8	24.8
Less: Reserves Not for Risk (RNFR) Attributed to Power	140.6	69.5	-71.1
Total: Reserves for Risk (RFR) Attributed to Power	202.8	435.3	232.5

Q. Marie Morrison, Snohomish County PUD: Slide 47, Row 103 - Please provide details on the delta on PF Load Forecast Deviation Liquidated Damages (liquidated damages with Cowlitz PUD related to the reduction in NORPAC load).

A. PF Load Forecast Deviation Liquidated Damages accounts for any difference between Cowlitz’s forecast used in the Net Requirements Process and the actual load that occurs at Cowlitz’s consumer, up to Cowlitz’s RHWM. This provision ensures that the equivalent of BPA Tier 1 rates are collected from Cowlitz when BPA and Cowlitz are unable reach an agreement on a specific point forecast for the load.

In the BP-20 Rate case BPA used a forecast estimate of 151.19 aMW for the consumer load, compared to Cowlitz’s forecast of 80 aMW. The FY20 rate case revenue forecast includes \$9.5M in liquidated damages based on the rate case estimates.

In the FY20 Net Requirements process Cowlitz’s forecast for the consumer load was 140 aMW, an increase of 60 aMW compared to the BP20 forecast used to estimate the \$9.5M in LD revenue. In FY20 the actual load was 139.7 aMW. Liquidated Damages were not accessed because FY20 actual load was less than the amount of power included for the load included in the forecast used to establish Cowlitz’s take-or-pay amount in the FY20 Net Requirement.

Q. Marie Morrison, Snohomish County PUD: Slide 45, Row 19 - Please provide details on Non-Treaty Storage Agreement and Libby Coordination.

A. NTSA: \$(1,955,304)
 Libby: \$(5,212,394)