MAY 18 QUARTERLY BUSINESS REVIEW TECHNICAL WORKSHOP FOLLOW UP

FINANCIAL RESULTS FOLLOW UPS

Q. What are the high level drivers of the Slice True-Up credit?

A. The Slice True-Up Credit increased from Q1 to Q2 primarily due to a reduction in Operating Expenses, with the largest reductions attributed to decreased Non-Treaty Storage and Libby Coordination Agreement expenses and decreased Fish & Wildlife expenses.

Q. Can more detail be provided under the COVID scenario regarding the drivers of changes in revenues, expenses and capital for each business line? For one example, it would be useful to understand the proportion of lower revenues coming from PF and secondary sales?

A. Revenue Reduction:

The COVID-19 Scenario revenue reductions are based on temperature normalized load impacts from the 2008 financial crisis, applied to the FY 2020 load forecast.

For Transmission, the FY 2020 Network Integration (NT) load forecasts for April through September were reduced by the monthly shape of the 2008 financial crisis recession. This results in a $3.6 million revenue reduction compared to the base FY 2020 Q2 forecast. This is approximately a 3.3% reduction on the NT product, or 0.3% on total transmission revenues. There are no other Transmission revenue reductions related to COVID-19 forecast in the Scenario.

For Power, FY 2020 PF revenue was reduced based on the worst load reduction year of the recession. This load loss was shaped into the remaining months of FY 2020 (April through September). This results in a $31.6m reduction in net revenue relative to the Q2 forecast. This $31.6m includes a $9m increase in Load Shaping True Up expense. This reduction is 1.2% of the total power revenue forecast.

At the time of the analysis, we had not seen an appreciable change in secondary power prices, so explicit changes in Net Secondary Revenue (NSR) were not included in the Scenario. That said, there is an implicit reduction in NSR built into the analysis: The PF load reduction would result in a commensurate increase to secondary market sales. In order to be conservative, we did not forecast any increase NSR for this load shift. No other Power revenue changes were included in the Scenario.

Expense:

Under the COVID-19 Scenario, Transmission expenses increase by $48 million relative to the base Q2 forecast. $18 million in expense reductions related to facilities projects, training, and overtime were forecasted. These reductions are offset by (1) $15 million in labor costs shifting from transmission direct capital work to expense and (2) $50 million in corporate and transmission indirect capital charges which may need to be expensed due to under-execution of capital.

Power expenses decline by $25 million due to reductions in IPR costs. $17 million of the reduction is from projected Corps and Reclamation expense, $4 million is from Energy Efficiency expense, and the remaining $4 million is primarily reductions in Power personnel and service contracts.

Capital:

Transmission's direct capital declines by $109 million (44%) due to a significant reduction in their ability to execute construction during the pandemic. This under execution leads to the forecast expense increase of $50 million due to capital indirect charges. Transmission's baseline forecast includes $109 million in indirect labor and corporate support charged to capital. If only 54% of projects are executed, then only $58 million of these charges would be allocated to capital projects at the current loading rate, leaving $50 million uncharged.
Power's direct capital declines by $80 million (38%) due to greatly reduced ability to execute construction during the pandemic. This decline in Capital does not have a notable effect on Power's FY-20 Net Revenue, but would have an effect on costs and spending in future years.

Q. Is a detailed breakdown of the components of the $48 million shift from capital to expense for transmission services in the COVID scenario available?

A. See "Expense and Capital" section of the previous response. Note that the $48 million figure is the total change in expenses, which consists of $18 million in expense reductions and a total of $65 million in expense increases related to capital.

Q. In previous financial packages, BPA has provided a detailed statement of revenues by sources compared to forecast. This statement was valuable and PPC would request it be added back into future QBR technical workshop materials, even if as an appendix item.

A. We will consider adding more detailed reporting of revenues to future Quarterly Financial Packages.

Q. PPC would like to better understand the variances in IT spending relative to the asset plan and SOY forecast.

A. The IT capital budget is broken into 3 categories: 1.) Power, 2.) Transmission, and 3.) Corporate. Row 18 on slide 21 only represents the Corporate business unit capital spending and shows an increase from rate case of $7.4 million. Row 15 represents the Power business unit specific IT budget and shows a decrease from rate case of $3 million. Transmission business unit specific IT is not listed on a separate row but is embedded in row 4 "Upgrades & Additions" and was materially unchanged from the rate case amount of $4.6 million. In total the Q2 EOY capital forecast for IT has increased $4.4 million compared to rate case. The $4.4 million increase is mainly due to an Enterprise Business System Disaster Recovery project at the Munro control center (~$3 million) along with a new Customer Billing Center project (~$1.6 million) that is required to meet BPA's Grid Mod efforts.

The Enterprise Business System Disaster Recovery project was originally planned to occur in the next 2 years but was pulled forward due to an opportunity that arose for exceptional pricing and repurposing of the existing equipment to the alternate data center.

The Customer Billing Center project was originally forecast as expense and fell within the Business Transformation Office budget, but was determined to be capital as the project details matured and shifted to the IT capital budget.

It has historically been difficult to project what Power & Transmission specific IT projects will move forward. Often forecast-to-rate-case deltas are explained by the shifting in capital expenditures from the business units to Corporate when the projects are determined to support

both Power and Transmission. The exception in this case is the two specific projects discussed above that have pushed our forecast FY20 IT capital spending above rate case and SOY.

Below is a table that provides a crosswalk of the IT capital forecast by business unit:

IT Loaded Capital Expenditures ($ in Thousands)				Deltas		
Business Unit	Rate Case	SOY Forecast	Current Forecast	SOY-Rate Case	Current - SOY	Current - Rate Case
TRANS	4,606	8,829	4,686	4,224	(4,143)	80
POWER	3,900	3,090	806	(810)	(2,284)	(3,094)
CORPT	13,200	11,620	20,587	(1,580)	8,967	7,387
Grand Total	**21,706**	**23,539**	**26,079**	**1,834**	**2,540**	**4,374**

Q. Is any stochastic range around EOY reserves for risk available for either the "status quo" Q2 forecast or COVID scenario available?

A. No, not at this time.