

**Bonneville Power Administration**  
**Quarterly Business Review Transcript**  
**Date: February 9, 2021**

**JOHN HAIRSTON:** Good morning. Welcome to our first Quarterly Business Review for Fiscal Year 2021. I'm John Hairston, BPA's administrator. I really appreciate you taking the time for today's forum. I want you to feel free to submit questions to the host during the webinar and we will answer them at the end of those presentation. And for those questions that we can't really answer at the end, we will make sure we get a response as soon as possible.

As a reminder, this meeting is being recorded and will be made available at BPA.gov shortly after.

This is my first QBR since becoming permanent administrator here at BPA. It goes without saying, I am humbled and honored to lead an agency with such a rich history in the region and I'm excited for what the future holds.

Since becoming acting administrator several months ago, I've been meeting with many customers, tribes, elected officials, and others to just listen, learn, and build relationships. I truly feel collaboration is critical for BPA to achieve its goals.

Now, I've made it clear that under my leadership, BPA will remain committed to achieving the goals of the 2018-2023 Strategic Plan. And we will continue to report on our progress at the QBR. Now, that doesn't mean there won't be any updates or adjustments to the QBR format moving forward, but I really believe in continuous improvement and want to make sure that we're sharing information in the best, most useful way possible.

I'm happy to report that for the most part, BPA had a very successful first quarter, yet we still have some work to do in meeting our IPR commitment in Transmission.

Today, you'll hear about the positive overall financial results, including Fitch's revised rating outlook from a negative to stable due to increased liquidity. After Michelle Manary discusses our financial results, I'll talk about the progress that we've made toward our other strategic goals.

But first, I'd like to summarize our agency performance. You can see on slide 3 that we ended Q1 with strong results – meaning 11 of our 13 key performance indicators and both of our key strategic initiatives for Q1.

Now, I'll start with safety, which is critical for our strategic goal to “Value people and deliver results.” Throughout the pandemic, the focus of BPA's leadership has been to protect the health and safety of our workforce, while preserving our ability to provide critical power and transmission services to the region. A majority of our workforce today remains on telework status and will remain so at least through the end of March, based on what we're seeing in terms of recent COVID-19 data and trends.

We continue to stress our core value of safety so that we don't put our employees or our ability to reliably deliver power in harm's way.

Our safety performance shows that we've met our new leading indicating metric for completing corrective actions on time at 86%. We added this metric to our dashboard as a way to gauge

our safety performance before an accident actually takes place. The addition of this metric is a positive step in improving upon the safety program and culture we've developed here at BPA.

Our incident frequency rate for Q1 was 0.3. Although we're experiencing a relatively mild winter across much of our system – which I think is possibly contributing to the low injury rate – I will say that we remain committed to identifying hazards and correcting or mitigating them to prevent future injuries.

Now, I'll briefly describe the two KPIs that we didn't meet in Q1. First, the Federal Hydro Forced Outage Factor. Now, we had two outages actually Grand Coulee, both of which returned to service. And there were some ongoing forced outages at John Day and The Dalles, both for transformer-related issues. These transformer issues also contributed to missing the Q1 target for the System Average Interruption Duration Index for high-voltage lines. We've had four long-duration line outages – three of which were caused by the transformer failures. We have analyzed the causes of these outages and repairs and corrective actions are underway. The SAIDI high-voltage metric initially trended toward recovery in the first week of the second quarter, but severe windstorms caused multiple long-duration outages on the high- and low-voltage system. The end-of-year result for this metric will greatly depend on the occurrence of future weather events or wildfires, but as always, we will closely monitor the grid for any potential impacts.

Now, I'll turn it over to our Chief Financial Officer Michelle Manary, who will cover our financial performance results.

**MICHELLE MANARY:** Thanks, John. As you can see here, we are currently green for all of our KPI financial metrics. Let me explain why it's a bit different this year, though. This year's Agency IPR Cost is being measured against a two-year Rate Period target.

Historically, we've used the annual rate case amount as the measure's target. As we discussed, we closed FY20. We have carried over budget from FY20 to '21 in certain areas due to COVID-19 execution delays. The two-year rate period target for IPR expense allows us to hold ourselves accountable to our BP-20 rate case commitments.

When you combine Power and Transmission IPR caps, they are green. However, as of right now, we are forecasting to be over in one individual business line, which I'll touch on in a minute. We have more work to do in order to hit that IPR cap by year end.

Next slide. This is our waterfall chart. Remember here as the key, red means negative net revenues, and green means positive net revenues. Let's start on the far-left side. The agency net revenue forecast and KPI performance target is \$38 million for this year.

If you go to the next item, carryover, budget carryover for FY20 is responsible for a \$10 million increase in FY21 IPR expenses, compared to the rate case. As you may remember, we actually carried over \$27 million at the end of FY20, however, because Energy Efficiency does not think it will be able to spend their carryover, this year they removed it from their Q1 forecast.

Let's go to the next item – the IPR expense. The Q1 rate period IPR expenses are \$13 million higher than rate case. We actually went into the year with a \$24 million gap in this item, primarily driven by cost categories such as labor, including hourlies, property insurance premiums that are a bit higher than forecast, as well as some Grid Mod shaping. I'll go into this in a little more detail in the following slides. We're actively managing all our budgets, and this

indicates we have a bit more to go in order to hit our IPR commitment in Transmission. The goal, as stated before, will close this gap by Q2.

Let's go to the next item – other expenses. Other expenses are \$6 million lower than the rate case due to lower-than-expected transfer service costs than forecast in the rate case. We saw this last year as well, offset a bit by higher power purchases. The net is \$6 million to the good.

The next item – depreciation, amortization, and accretion costs are \$39 million lower than the rate case. As with FY20, this is driven by a lower non-federal asset balance – a.k.a., CGS – Columbia Generating Station – due to timing of accounting changes versus what was reflected in the rate case. This is what we saw in '20 and we see it again in '21. We were implementing a new accounting standard. We had to do our best forecast of the rate case. We were off a bit and so this continues on in '21.

Now, this next item – net interest expense – is red. Now, you're used to probably seeing this green, but it's red for one main issue that I will talk about. Right now, the net interest expense forecast is to exceed the rate case by \$24 million. Now, this is driven by several factors. The first one, let's talk about Transmission first. Transmission's net interest expense is \$40 million less than the rate case driven by three factors – lower interest rates than assumed in the rate case, lower call bond premiums than forecast in the rate case, and lower lease financing activity than expected due to capital underspend. Transmission actually went down by 40.

That's offset by Power's net interest expense is up by \$62 million more than the rate case. Let me break that down a bit. \$67 million is due to a difference in how certain Energy Northwest interest was treated in rates versus how it's showing up in actuals. This also is a product of changing how we account for Energy Northwest debt during the rate case. So, the same thing we saw depreciation, amortization, accretion, we're seeing in the opposite direction for net interest expense.

We missed the connection between rates and actuals for BP-20 but have addressed it for BP-22 and beyond. Actual net revenues look worse than the rate case, but this won't impact reserves because this is an accrual/non-cash increase only. Rates were set appropriately, just the categories we put them in shifted. This issue is offset a bit by the fact of lower capital spending and lower interest rates than expected in the rate case.

Please join us for a QBR Technical Workshop next week where we'll dive into this issue in a lot more detail and answer your questions.

Lastly, and this is the operating revenues, our end-of-year forecast shows that operating revenues will come in \$113 million higher than rate case, largely due to higher-than-expected trading floor revenues, which are being driven by higher prices than were forecast in the rate case. Combining all these core variances together, brings the agency's Q1 net revenue forecast to \$149 million.

Next slide please. This is a new chart. Like I talked about a little earlier, we shifted our IPR targets because of the carryover. We're looking at a two-year commitment because we want to make sure between the two years in the rate period, we are not going over our IPR caps. This allows us to hold ourselves accountable to our BP-20 rate case commitments.

So, you start with Power on the left. Power's forecast to end the rate period with IPR expenses \$50 million lower than the rate case.

Now, you switch over to the right for Transmission, however, is forecast to end the rate period with IPR expenses \$13 million higher than the rate case. Just to reiterate, we're still working hard to close that gap and manage to our IPR commitments by the end of the year. Next slide.

Let's break this down. Let's look at the Power side. Power, the expense is on the left-hand side. Power's first quarter end-of-year total expenses is \$22 million greater than our rate case projections. This is largely from the additional \$10 million in IPR expenses from the FY20 budget carryover and \$12 million on the non-IPR expense side from the additional non-federal – CGS – interest expense. The non-IPR expense category is being offset by lower transfer service costs, no Tier 2 power purchases, lower amortizations, and lower federal interest expense.

Now, let's look at the revenues. Power's first quarter end-of-year revenues is \$114 million higher than rate case, due mostly to trading floor sales from higher-than-expected prices.

Putting this all together, net revenues. We are looking at a current net revenue forecast of \$161 million for this fiscal year for Power, which is \$93 million better than our rate case projections. Now, here's the big "but." This is first quarter. As many of you are aware, it is still super early in the year. A ton of variability in the forecast, including market prices and water supply. I am not taking this to the bank. It's a good place to be to absorb some of those. We still have yet to see some winter storms or summer water conditions, so a big caveat here is this is first quarter with a lot of variability.

Let's then turn to Transmission. Next slide, please. Let's break this down. Let's start on the left with expense. Transmission's first quarter end-of-year forecast is \$35 million lower than our rate case expense projections. The decrease is primarily driven by non-IPR costs being \$48 million less than the rate case. This is due to the lower lease financing needs, less call bond premiums, and lower interest rates on BPA outstanding bond portfolio than assumed in the rate case.

Transmission's IPR program expenses, however, are \$13 million higher, again, driven by higher-than-assumed property insurance premiums and increase in the BTO forecast due to the refinement of the Grid Mod, project portfolio, and higher personnel and contract costs than assumed in the rate case. We're leveraging some of the strategic cost management work underway to develop some options that tackle the remaining FY21 gap within the next few weeks. It is intended that these reductions will be made to the Q2 forecast.

Now, let's look at revenues, on the right. Transmission's first quarter end-of-year revenue forecast is \$15 million lower than the rate case, primarily driven by less point-to-point long-term contract renewals than forecast in the rate case. While this was slightly offset by some increases in conditional firm and higher short-term point-to-point sales, we also had a large non-renewal in the fiber revenue area, resulting in an overall lower forecast.

Combining those two, Transmission's lower expenses and lower revenues result in a current net revenue forecast of -\$11 million for the fiscal year. As you recall, this is a settlement year, so it's \$20 million actually better than our rate case projection. Again, this year is early and there are still a number of factors that could change the end-of-year forecast.

Let's switch to capital now. So, if you look at the agency capital here, you see on the left the rate case and on the right, the Q1 forecast. Let's talk about some of these categories. We'll start with Power.

Power capital, just to remind you, includes not only Fed Hydro, which is the Corps and Reclamation, but IT and Facilities as well. The Fed Hydro Q1 forecast is \$63 million below rate case forecast. The Q1 forecast reflects reclamation and Corps's realistic FY21 execution capability. The Corps is still working to work up project execution of larger capital programs since reprioritization and COVID-19 impacts.

Let's then turn to the other two categories – IT and Facilities. The Q1 forecast on a net basis is \$1 million below the rate case forecast due to prioritization of corporate IT projects, which reduce power-specific IT project spending. So, that \$9 million that you see over in the corporate – little red – you're offsetting some of that in the Power.

All the organizations that charge into the Transmission capital – so I'm switching to the next one – \$88 million. Just to remind you, this is not only the sustain/expand work, but it's also facilities, IT, security, fleet, and environment. All those together are forecast to be \$88 million below rate case. Let me break that down a bit for you.

Let's start with the expand/sustain program. Q1 forecast is \$28 million below the rate case due to COVID-related delays in slowing project execution, as well as reprioritization. The second item is projects funded in advance. The Q1 forecast is \$42 million, so almost half of that is driven by a combo of contract delays as well as customers requesting to delay or cancel their projects. Half of that is due to projects funded in advance – customer-funded projects.

The third item is \$19 million below rate case, partly due to reprioritizing the scope and design work for the Technical Services Building and the continued scoping of the Vancouver Control Center. That's where facilities is down, because they did reprioritize and focus on different projects.

Fish & Wildlife underneath there, the environment piece of Fish & Wildlife is forecast equal to rate case, as you can see there. If we go to the next item, corporate, corporate is \$9 million above rate case due to prioritization of corporate IT projects, including Grid Mod projects, and project components qualifying for capital previously assumed to be expense.

As you may recall, we did not include any additional capital dollars for Grid Mod projects but decided to manage it within our overall agency capital budget. The agreement always was if corporate goes up, Power and Transmission, appropriately, goes down and so we stay neutral as an agency.

Let's now turn to reserves. The next slide, there we go. This is our Financial Reserves slide. I'm happy to say, I'm very excited that even though it's Q1, there is still a lot of variability. If you look on the very bottom, our agency days cash on hand is 91 days; Power is 93, and Transmission is 86. It is exciting. We are squarely in the middle of the "do nothing" zone, I call it. The zone that we are targeting that we can be healthy in our agency reserve levels, but that is the good news.

Now, unfortunately, it's still early in the year, so anything can happen. As of right now, we are forecast to be in a good zone. What you don't see here is the risk modeling for the probability of CRAC, FRP, or RDC. It's not quite complete and we plan to share those results at the QBR technical workshop on February 16. That would show you the variability and the probabilities of all the different rate adjustments mechanisms.

Let's go to the next slide, just kind of general updates. So, IPR2. We're working on getting you a finalized agenda for the IPR2 workshop. This should come out in the next week or two. We're aiming to have our IPR2 workshop in the first half of March, so stay tuned. More communication to come.

Second item, credit rating update. As John said, BPA's continued to maintain a high investment-grade rating. Leading up to the Port of Morrow lease financing bond deal done last December, Fitch actually revised the rating outlook from negative to stable. As you may recall, we were put on a negative outlook due to suspension of the Financial Reserves Surcharge for the remainder of the rate period. The negative outlook was lifted primarily due to BPA's improved liquidity at our FY20 fiscal year end. That's a very good sign.

We anticipate requesting updated credit ratings from all three agencies in May as part of the scheduled Energy Northwest bond transaction.

Also, I encourage anyone who wants to dive into some of the details behind the forecast to join our QBR technical workshop on February 16. Featured topics include detail financial performance, Energy Northwest interest impact – what I talked about in a lot more detail, of course – Strategic Cost Management Initiative, where that's at and how we plan to use that, and Grid Modernization update.

I will now hand it back to John, who is going to give you some business highlights for the first quarter of FY21.

**JOHN HAIRSTON:** All right. Thank you, Michelle. I touched on our fifth strategic goal earlier, and now I'd like to cover some of our other priorities.

We continue to make significant progress on our Grid Modernization Key Strategic Initiative. In December, our metering team – in collaboration with the Bureau of Reclamation staff – completed the installation of high-side metering at Grand Coulee. We are now in the process of acceptance testing for this equipment. But this is an important milestone as it will provide greater insight and accuracy into the actual flow of electricity entering the bulk electric grid.

Now, installing these modern meters that provide improved accuracy in real time is foundational for the many other efforts in our Grid Modernization portfolio. This is a key component of our efforts to achieve improved accuracy and enhanced visibility into the federal power and transmission systems.

Regarding the Energy Imbalance Market, we are implementing three projects that will enable participation if we decide to join the EIM. These projects were launched in October of 2019 and are on track to be in place for testing this summer. We are sharing our progress on these projects in our EIM Implementation Outreach workshops. We held a workshop last week where we shared a sample settlements bill and laid out our future workshop schedule and topics. Our next workshop is scheduled for March. If you missed last week's workshop, you can find the materials on the EIM page of our website.

We entered Phase IV of our EIM Decision Process in December. Now, Phase IV is the rate and tariff proceedings where we will issue final decisions on the policies and changes discussed in the Phase III policy process. We plan to move into Phase V. Phase V is when we will make a final decision regarding whether to join the EIM sometime in late summer of 2021.

Now, BPA is also actively participating in the Northwest Power Pool's Resource Adequacy Program detailed design phase. Now, we continue to evaluate how the program could work for BPA and its customers. We anticipate that we will start a public process in the summer once the design is complete and the modeling results are available so that we can evaluate whether or not BPA should join the program.

Now, we also kicked off our BP-22 rate case in December with our initial proposal for Fiscal Year 2022 and '23 rates. We will conclude the rate case at the end of July. New rates will go in effect October 1 of this year. Just as a reminder, you can find rate case information on [BPA.gov](http://BPA.gov).

Now, somewhat related, given that our current long-term power contracts expire in 2028, this is a topic of interest for many of you. The Provider of Choice Initiative is designed to lay out the foundation for the development of policies and contracts BPA will offer beyond 2028 when the current contracts expire.

In October, we released a summary of customer views related to our post-2028 interests, contracts, as well as rate structure. Feedback indicates customers' general agreement with the summary of key themes. The key themes really indicate that, one, this is a time of great uncertainty in the industry and region. Two, most of the foundational principles and interest of the regional dialogue are still relevant. Third is customers generally feel that the current contracts and rate structure are working well but would like to see certain key adjustments.

Then, the last would be really the theme of preservation of the current clean system mix and customers' ability to comply with low-carbon legislative requirements is critical. So, with affirmation of these key themes, BPA will move forward into more substantive conversations. In the spring, we expect to start discussions around principles and some initial staff leanings on the foundational tenets of the post-2028 contracts. We're targeting late 2021 for the release of a concept paper. As always, we look forward to the thoughtful conversations, collaboration, and healthy policy debates in the coming year so that we can extend the Pacific Northwest's rich history of low-cost, reliable, low-carbon public power for the region. Really, we're moving forward in that area.

In terms of the Columbia River System operations, the Spokane Tribe of Indians, the Coeur d'Alene Tribe, and a group of NGOs have filed lawsuits against BPA for issuing the EIS ROD. At this time, I can't comment on the litigation, but what I can say is that BPA remains committed to working with our federal, state, tribal, and other non-governmental partners to mitigate the impact of the system on fish and wildlife in the region.

The states of Washington, Oregon, Idaho, and Montana are engaged in a process called the Columbia Basin Collaborative. Their goal is to take a broader, more collaborative view on regional solutions that can improve conditions for fish and wildlife. We are helping as an ad-hoc advisor for the four states representing the federal action agencies. At this time, I would say there is a lot more we need to understand and consider before we know what our role might be. The states will be sharing their initial thoughts on the framework for the collaborative later this month.

In the meantime, I'm committed to looking at balanced solutions to preserve the value of the hydro system while making advancements for fish and wildlife. An important element of our CRSO selected alternative is flex spill. Flexible spill first began in 2019 as a two-year agreement. We now have some results for the 2020 flex spill operation. Generally speaking, it

met or exceeded expectations for power and for supporting young salmon and steelhead migration.

Higher total dissolved gas levels did not result in elevated numbers of gas bubble trauma in salmon and steelhead. Monitoring will increase for other native species in 2021.

We found that fish encountered powerhouses at a lower-than-expected rate and had faster travel times from the river to the ocean. The flex spill operation increased revenues by \$4.7 million compared to the cost of the 2018 court-ordered operation. High spill in the spring of 2020 resulted in lower revenues compared to the same time in 2018. The flexibility to reduce spill and increase power generation in August allowed us to take advantage of high demand and high power prices.

As a background, flex spill is a joint operation between BPA, its federal partners, state, and tribes. It consists of spilling 16 hours per day at 125% total dissolved gas and up to eight hours per day at a lower level of spill at six of the eight dams on the lower Columbia and Snake rivers. The goal is to provide both fish and federal power system benefits.

Now, I know there's been a lot of discussion about capital execution. I mean, it's a hot topic for Transmission customers. As Michelle mentioned, we will be holding an IPR2 to discuss capital program assumptions that were incorporated into the proposed BP-22 transmission rates.

We are on our way this year to implementing our secondary capacity model, which is an effort to increase the output of our capital program. This year, we will primarily be focused on scoping and design, since typical projects are on a two-year cycle. Through our asset management program, we continue to advance in maturity around criticality, health, and risk measures. This is allowing us to prioritize projects based on these analytical variables.

We also continue to advance the wildfire mitigation plan. Work around line prioritization is underway to identify critical areas as we move into the summer of 2021 and we are working across BPA and the region to collaborate on advances and strategies.

Finally, I'd like to briefly mention the cybersecurity campaign against the federal entities that use compromised code from certain versions of our SolarWinds Orion software. BPA had no affected versions of the software in operation. We have performed a top-down review of our systems and found no evidence of any intrusions.

Now, BPA uses a robust set of cybersecurity practices as a critical component of our mission to deliver power safely and reliably to our customers and to the Northwest. BPA operates from the perspective that it is always a potential target and it's committed to protecting the Northwest electric grid from constantly evolving cyber threats.

Now, that concludes my overview of agency priorities. Clearly, there are a lot of things going on FY21. Even though this is just a first-quarter forecast, and a lot can happen between now and the end of the year, I am cautiously optimistic that BPA is in a position to financially tackle challenges that we may face during the year.

However, we still have some hard work to do. We're looking at tradeoff discussions that need to be had in order for us to manage transmission budgets and to achieve our IPR commitment. I expect to have a plan to close the gap by, like Michelle said, Q2.



Now, I look forward to continuing to partner with our customers and the region to help position BPA as a strong entity for many years to come. Thank you for your time. At this time, we'll entertain any questions that you may have.

**QUESTION:** Hi, John, we have received a few questions in the chat. The first one is for Michelle. The question is: Would you please explain the causes for the Transmission Financial Reserve to fall \$122 million, i.e., to \$150 million for Q1 in 2021? As I recall, the EOY 2020 amount was \$272 million. The administrator decided to trigger the RDC for about \$80 million and the net revenues for Q1 in 2021 were positive.

**MICHELLE MANARY:** Sure. Yes, this is one that I actually even asked the same question. You have to remember, and you put it right there first, that Transmission, we implemented the RDC – Reserve Distribution Clause – and we decided to use that to pay down debt, which we will. That's about \$80 million.

As you'll also remember, this was a settlement year. We went into the rate case on a cash basis assuming we were going to lose \$55 million in cash. Then, as you can see in the net revenues, if you take that, didn't lose quite \$55 million, that's how you get down. That's the thing that we forget. We planned on a rate basis to actually lose cash this year. That's what's actually pulled us down even farther in the middle of that range.

**QUESTION:** All right, next question. Michelle, this came in for you on slide 11, just wanting confirmation are Transmission reserves shown after the RDC?

**MICHELLE MANARY:** Yes, they are. This is actually after we have taken out the RDC. It's at the end of year what we think the balance will be.

**QUESTION:** The next question I have is for you, John, asking about residential exchange. Can you ask John Hairston what work will be done on the Residential Exchange Program that expires later this year?

**JOHN HAIRSTON:** Thanks. I know that we're getting our teams together to look at potential solutions to the residential exchange. I've indicated in the past that the cost is something that is definitely a challenge for us moving forward. We're going to look at any potential solutions we can to stem the tide on those costs as well as maybe come up with some solutions that will allow us to provide some stability moving forward.

I do know that we have a team that's beginning to engage and looking at some answers. We will definitely be informed customers as we move forward on that.

**QUESTION:** Those are all the questions that I received in the chat so far. For anybody who has additional questions that haven't been answered, feel free to contact [communications@bpa.gov](mailto:communications@bpa.gov) and we'll try to get back to you. Thank you.

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