# Nov 23 Quarterly Business Review Follow Up Responses

**Q. Fred Huette w/ NWEC wanted more information on net secondary, including a disaggregation between sales and purchases. He also suggested we add some slides on this to future QBRTW decks.**

**A.** In FY21, Power gross secondary sales came in at $626 million compared to a rate case forecast of $317 million, meaning actuals were $309 million better than the rate case forecast. FY21 Power purchases came in at $207 million compared to the rate case forecast of $54 million, meaning actuals were $153 million more than the rate case forecast. BPA will consider adding this level of net secondary sales disaggregation detail in the future.

**Q. Dave Arthurs w/ MSR asked why AFUDC wasn't less than the rate case given under-execution in capital expenditures.**

**A.** Allowance for Funds Used During Construction (AFUDC) is calculated by applying the AFUDC rate to the Construction Work in Progress balance for eligible projects under construction.

(AFUDC Rate) x (CWIP Balance) = AFUDC

While reduced capital spending in a given year will impact the CWIP balance, the rate that construction projects are completed (reducing CWIP and increasing Completed Plant) also influences the CWIP balance. For example, a large multi-year project will have AFUDC applied to both the prior year's spending and the current year's spending.

In the case of Power Services, the CWIP balance increased from $512.7 million in FY20 to $570.6 million in FY21, increasing by $57.9 million during the year. Similarly, Transmission Services CWIP balance increased from $608.3 million in FY20 to $738.6 million in FY21, increasing $130.3 million. This increase in the CWIP balance is a large driver in why AFUDC did not decline by considering the reduced capital expenditure levels. Additionally, roughly half of Transmission's under execution is related to customer-funded (PFIA) projects which do not have AFUDC applied to them. Therefore, under execution in this category of capital does not influence AFUDC actuals.

**Q. Paul Durham w/Benton PUD: As a follow-up from a question asked in Q1 earlier this year, could BPA provide a breakout of volume and total revenue amount by region (NW, CA, etc.) from these secondary sales since this is now considered historical information?)**

**A.** FY 21 gross secondary sales revenue and volume were ~$626 million and ~1,825 aMW. The FY 21 breakout by region: NW = ~$436 million and ~1,350 aMW. CA = ~$190 million and ~475 aMW.

**Q. Paul Durham w/Benton PUD: Power Detailed Income Statement, IPR Line 15 – Power Internal Support – Compared to rate case (column b), actuals were $2.2M added at the end of the fiscal year? Can you confirm why this is or why there wasn't a forecast for BP-20 for this item?**

**A.** Line 15 – "Power Internal Support (A)" is a new line item on Power's income statement and was not forecast in the BP-20 rate case.

**Q. Paul Durham w/Benton PUD: Line 26 – Power Grid Mod Existing – $2.3M, showing no forecast for BP-20? Can you also confirm this item?**

**A.** Line 26 – While "Power Grid Mod Existing" was where Power's Grid Mod costs for FY21 are shown on Power's income statement, the BP-20 rate case budget for Power's Grid Mod expenses are shown in row 28 "Power Grid Mod KSI Exp" and Power budgeted $4.125M for Grid Mod for FY21.

**Q. Paul Durham w/Benton PUD: Non-IPR Line 59 – Third-Party GTA Wheeling – Nearly $30M below rate case projections? Lower rates than forecast? Can you provide a little more detail?**

**A.** When BPA worked on the BP-20 rate case, a few transmission providers were going to file substantial rate increases, and those rate increases never materialized. In addition, in the rate case, BPA planned to pay financially for losses for transmission providers. Throughout FY21, BPA saved money and ended up self-suppling from the FCRPS.

**Q. Paul Durham w/Benton PUD: Line 70 – Other Power Purchase – Can you confirm the average cost projected in rate case vs. average cost BPA paid for the short term? Either by annual or monthly?**

**A.** The FY21 rate cast weighted average purchase price was ~$28.50/MWh. The FY 21 observed weighted average purchase price was ~$38.75/MWh.

**Q. Paul Durham w/Benton PUD: Transmission Detailed Income Statement –IPR-Line 8 – Capital to Expense Transfer – Substantial amount of change from RC, can you confirm in more detail, which items shifted? Are these capital items more around fire prevention or sustain category items?**

**A.** When the rate case was developed, it did not account for the pending sale of assets at Anaconda. Consequently, BPA had expensed work that was assumed to be capital.

**Q. Line 10 – Engineering Line Rating and Compliance – 33% Mean Absolute Deviation (MAD) forecast to actuals? Can you provide a little more detail, even though it's a relatively small expense?**

**A.** This variance results from the increase in Lidar support associated with the Wildfire Mitigation Program, which was not forecast in Rate Case.

**Q. Paul Durham w/Benton PUD: Line 54 – Reliability Demand Response/Redispatch – Nearly all but eliminated?**

**A.** Redispatch service is still effective in BP-22. The procedure for Transmission Services to request redispatch from BPA Power Services is in the Redispatch and Curtailment Business Practice. Redispatch is for congestion relief and includes Discretionary Redispatch, Network Transmission (NT) Redispatch, and Emergency Redispatch. Transmission Services compensates BPA Power Services for supplying the generation inputs for redispatch.

**Q. Paul Durham w/Benton PUD: Non-IPR - Line 68 – Station Service Payments? Can you explain what this item is and its large variance from Rate Case to Actuals?**

**A.** Station Service is real power Transmission takes directly off the BPA power system for use at substations and other locations such as Ross and Big Eddy/Celilo complex. Transmission compensates BPA Power Services for supplying the station service energy. The variance is driven by a reporting issue where a portion of the Ancillary Services Payments shows up in Station Services Payments. Overall, the Non-IPR Commercial Activities Program is unaffected.

**Q. Paul Durham w/Benton PUD: Interest Expense - Line 82 – Borrowings from U.S. Treasury – $33M, better rate only? Or did BPA also borrow less than anticipated? Looks like capital-wise, still underspent nearly $170M**

**A.** Line/Row 20 on the Power Income Statement shows that "interest expense" was about $33M higher than the rate case. This line consists of three distinct interest expense components:

1. Interest expense on Appropriations. Appropriations interest expense was about $1.7M less than the rate case.
2. Interest expense on borrowings from the US Treasury (federal borrowings) was lower than the rate case by about $23M.
    a. While there was significant capital underspend for both Power and Transmission, new Federal borrowings in FY21 did not follow suit. Federal borrowings were at nearly the same levels projected in the rate case for both business lines, which means deferred borrowing from prior years was converted to actual borrowings.
    b. Lower rates were a key driver of interest expense being $23M lower than rate case forecasts. In particular, lower rates on existing variable-rate debt (VRD), whose rates reset every 3 or 6 months, were significantly lower than assumed in the rate case. At the rate case, Power had about $1B of VRD outstanding, with forecasted VRD rates in the 3% range. Nearly half of Power's VRD was fixed out in FY20, at rates in the 1% to 2% range, and the remaining VRD continues to reset at rates below 1%.
3. Non Federal interest expense, which was about $59M higher than rate case. Covered at the Q1 QBR Technical workshop, this expense is associated with the new EN accounting BPA adopted in FY20, which was not fully picked up in the BP-20 rate case. The increase in Non-Federal interest expense was generally non-cash in nature. Please see the Q1 QBR Technical workshop package for details.

**Q. Paul Durham w/Benton PUD: Line 85 – Lease Financing – Can some detail be provided? Nearly $13.2M less than rate case.**

**A.** The BP-20 Rate Case included a $3.5 million "Master Lease" line for projected debt that is no longer used. The timing of bond take-outs also has an impact on interest expense. Several Port of Morrow lines of credit had interest expense in BP-20 Rate Case but were instead taken out to bonds between July 2019 and June 2021. BPA pays interest on the LOCs through take-out, then has a partial year of interest on the new bonds at the interest rate based on current market conditions. The assumed bond interest rate in BP-20 was 4.280%, but the actual interest rate for bonds issued during the Rate Case period was between 2.179% and 2.861%. The Rate Case also assumed new advances in FY 19 and FY 20 with a forecasted interest rate of 3.570% and 4.070%. These advances did not occur, and instead, $71 million in available LOC capacity was returned to the bank in early FY 2020.