

**February 2014 QBR Responses to Robert Kahn, Executive Director
Northwest & Intermountain Power Producers Coalition**

(1) What causes the end of year financial reserves (in the February 11, 2014 QBR package) to be reported on slide 21 as \$1,272 million and on slide 30 as \$1,244 million? Which is correct and what is the composition for Power, Transmission, End FY13 Reserves Not for Risk and For Risk?

Your questions are likely representative of thoughts of other stakeholders and point out to us that our presentation may be confusing. BPA’s fiscal year runs from Oct 1 thru Sept 30. The \$1,272 M on slide 21 (of the February 11 QBR package) is the amount as of the end of our FY13 fiscal year. The amount on slide 30, \$1,244 M is the reserves as of the end of December 2013, the end of the calendar year, not our fiscal year.

The composition of End of FY13 financial reserves for Power and Transmission by reserves for risk and not for risk can be found in slide 19 of the November 2013 QBR as follows:
<http://www.bpa.gov/Finance/FinancialInformation/FinancialOverview/FY2013FinancialOverviewDocuments/2013%204th%20Qtr%20Package.pdf>

Table 1. BPA Financial Reserves - actual as of September 30, 2013 (\$ in millions)

	Split		Total
	Power	Transmission	
End FY13 Reserves	693	579	1,272
Less: End FY13 Reserves not for Risk	511	120	631
Reserves available for Risk	182	459	641

(2) What caused the end of year financial reserves to drop from \$1,272 million (FY 2013 actual) to \$1,016 (FY 2014 start of year) which is displayed on slide 21 (of the February 11 QBR package). If the details are contained in the presentation, please identify the slides (line items) that are responsible for the overall \$256 million degradation of financial reserves.

We would like to make the following clarification: Financial reserves of \$1,016 million in column B of slide 21 (“FY 2014 Start of Year”), is the forecast done at the start of FY14 of what financial reserves were expected to be by the end of FY14 (September 30, 2014). The \$256 million difference between column A and column B is the estimate (done at the start of FY14) of what will happen over the course of FY14 with respect to Total Financial Reserves based on all of the revenue, expense and cash positions forecast at that time. Column C is the updated forecast prepared at Q1 FY14 of estimated financial reserves for September 30, 2014, which is \$870 million, \$402 million lower than the actual end of year FY 2013 financial reserves.

The \$256 million decline in reserves from column A to column B is mainly due to an estimated decline in net revenues of \$54 million and use of \$175 million for capital purposes (including use of a portion of the Power Prepay proceeds).

The \$402 million decline in reserves from column A to column C incorporates new information available as of Q1 FY14 and is mainly due to an estimated decline in net revenues of \$106 million, use of \$165 million for capital purposes (including use of a portion of the Power Prepay proceeds) and use of \$89 million for the new residential exchange settlement payment.

(3) February 11, 2014 QBR Forecast suggests that Transmission Services will have \$ 4 million higher net revenues compared to budget for End-of-Year 2014 (slide 24); Power Services will have \$57 million lower net revenues compared to budget for End-of-Year 2014 (slide 28). How does the change in net revenues affect BPA’s financial reserves?

Changes in net revenue have a direct effect on BPA’s financial reserves. However, BPA’s financial reserves are also changed by cashflows that are not included in net revenue.

The February 11, 2014 FY14 forecast for Transmission Services’ net revenue is \$4 million higher than SOY, however other cashflows that affect reserves for risk total \$(11) million, netting to a reduction of \$7 million to Transmission Services’ reserves for risk (from \$411 at SOY to \$404 at Q1 FY14).

The February 11, 2014 FY14 forecast for Power Services’ net revenue is \$57 million lower than SOY, however other cashflows total \$(10) million, for a total a reduction of ~\$66 million to Power Services’ reserves for risk (from \$143 at SOY to \$77 at Q1 FY14).

(4) Slide 30 illustrates BPA’s forecast of End-of-Fiscal Year 2014 Reserves, as of February 11, 2014.

(\$ Millions)	Power	Trans	Total
End FY14 Reserves Forecast	360	511	870
Less: End of FY14 Reserves Not for Risk Forecast	283	108	390
Reserves Available for Risk Forecast	77	404	480

Please explain how the revenues/expenses through 2014 further degrade financial reserves from \$1,016 million (Start of year 2014) to \$870 million and provide the breakdown between Power, Transmission, and reserves for risk/not for risk. Also, is there are assumptions/studies/projections that support these estimates, please provide.

We hope our answer to question 2 answers the first part of this question.

The following is a breakdown of the changes between SOY and February 11 FY14 forecasts:

Table 2. BPA Financial Reserves – Forecast for September 30, 2014 (\$ in millions)

Forecast vintage	SOY FY14	Q1 FY14
Power Services		
Reserves for Risk	143	77
Reserves not for Risk	344	283
Transmission Services		
Reserves for Risk	411	404
Reserves not for Risk	120	107
Estimated Total Reserves as of 9/30/14 (forecast)*	\$ 1,016	\$ 870

* Rounding

(5) Is the (February 11) financial forecast that BPA is forecasting for 2014 assuming the 95% Treasury Payment Probability standard that the agency has adopted or something else? Please explain what standard is being assumed in determining the estimate?

Forecasts BPA makes quarterly throughout the year are based on updated revenue and expense expectations over the remainder of the fiscal year. The Treasury Payment Probability (TPP) standard is a rate-making standard for determining whether business unit revenues produce sufficient cash to ensure a 95% probability that by the end of the year payments to the U.S. Treasury are made on time and in full. Actual financial results are not influenced by the TPP standard, to the extent that a Cost Recovery Adjustment Clause (CRAC) or Dividend Distribution Clause (DDC) are not triggered.

Estimates of revenues and expenses at each quarterly forecast are updated by subject matter experts. This process typically includes an accounting of actuals up to the point of the nearest month end accounting close, and new estimation of revenues and expenses in light of this information for the remainder of the fiscal year. Some aspects of this process are highly sophisticated. For example, parts of the revenue forecast use Monte Carlo simulations of runoff and market prices to estimate expected net secondary sales revenue. Other aspects rely on the judgment of subject matter experts. For instance, a component of reserves not for risk is Large Generation Interconnection Agreement (LGIA) projects. These projects involve customers depositing money with BPA and BPA performing construction with those funds. A subject matter expert estimates expected new deposits and expected construction spending. For debt repayment, BPA sets the scheduled Treasury debt repayment in the rate case, some changes can occur (including debt refinancings resulting in slightly different debt repayment than was estimated in the rate case.)

Financial Disclosure

This follow-up information has been made publicly available by BPA on April 1, 2014 and contains financial information released on February 11, 2014.