November Quarterly Business Review

Follow Ups

Posted November 15, 2011

QBR Follow Ups

- **Q. Why is there an increase of $11.6 million between FY 2011 EOY costs of $75.1 million and the FY 2012 SOY target of $86.7 million for Non–Generation Operations?**
  - It is important to note that the FY 2011 SOY for this cost category was $86.9 million (or almost identical to the FY 2012 amount). Power Services was able to accomplish this savings of $11.8 million in FY 2011 by delaying the filling of multiple vacancies as long as possible and through additional cuts in service contracts and supplemental labor spending. However, these levels of spending reductions cannot, are not sustainable if Power Services expects to fulfill its key targets in the year ahead. Details of the increases can be found below:
    - $5 million of the increase is related to various Agency Services Business Support costs with the largest drivers being: $2.9 million for IT projects, $.7 million for Technology Innovation, $.6 million for Strategic Integration, and .4 million for Contracting and Forecasting Services.
    - $3.5 million of the increase is related to various service contract costs with the largest drivers being: Wind related projects of .$8 million, Canadian Treaty Project of $.5 million, Residential Exchange program of $.44 million, fed hydro projects of $.3 million, hydro forecasting of $.2 million, and several other increases ranging from $.1 - .15 million for various other projects including hourly coordination, snow pillows, tiered rates, and market analysis as well as supplemental labor costs.
    - $2.3 million of the increase come from additional FTE costs related to filling vacancies in Power Services as well as Legal staff that are assigned to PS matters.
    - $.5 million for additional Travel and Training costs. This category has been managed tightly in the recent past but expectations for the increase are based on the need to train new staff.
    - Despite these projected costs, Power Services still has strategic goals based on effective cost management and will contain costs in all these categories to the fullest extent possible. Some of the agency costs are outside of its direct control but the agency as a whole also has these same cost management strategies.

QBR Follow Ups

- **Q: If the Transmission business unit has net revenues of more than $50 million, why did BPA forecast the need for a rate increase prior to the WP-12 rate case?**
  - Looking at net revenues alone produces an incomplete Generally, BPA sets rates so that projected revenues are sufficient to meet all accrued expenses and to meet all cash requirements. The Transmission business unit's cash requirement is large due to significant Federal and non-Federal principal payments exacerbated by sizable non-cash revenues. As a result Transmission must generate very large net revenues just to break even on a cash basis. Transmission, however, also has very large financial reserves attributed to it. In the WP-12 rate proceeding, as in the TR-10 rate proceeding, BPA chose to use some of these reserves to hold down Transmission rates, producing positive net revenues while simultaneously consuming financial reserves attributed to Transmission that had accrued over previous rate periods. In FY 2012, the Administrator chose to apply $36 million to expenses and to use $15 million of financial reserves to pay for Transmission capital investments. Once these cash adjustments are taken out of the rate case forecast, BPA set rates to generate approximately $57 million of net revenues (after adjusting for reimbursables) while also drawing down financial reserves by $51 million.

TRANSMISSION REVISED REVENUE TEST
INCOME STATEMENT
($thousands)

		A	B
		Rate Case	**Without**
		FY 2012	**Cash Adjustments**
1	REVENUES FROM PROPOSED RATES	936,384	936,384
2	OPERATING EXPENSES		
3	TRANSMISSION OPERATIONS	130,050	130,050
4	TRANSMISSION MAINTENANCE	146,712	146,712
5	TRANSMISSION ENGINEERING	31,800	31,800
6	TRANSMISSION ACQUISITION & ANCILLARY SERVICES	138,373	138,373
7	BPA INTERNAL SUPPORT	77,100	77,100
8	OTHER INCOME, EXPENSES & ADJUSTMENTS	**(36,200)**	
9	DEPRECIATION & AMORTIZATION	198,604	198,604
10	TOTAL OPERATING EXPENSES	686,439	722,639
11	INTEREST EXPENSE		
12	INTEREST EXPENSE		
13	FEDERAL APPROPRIATIONS	23,086	23,086
14	CAPITALIZATION ADJUSTMENT	(18,968)	(18,968)
15	ON LONG-TERM DEBT	101,642	101,642
16	AMORTIZATION OF CAPITALIZED BOND PREMIUMS	561	561
17	DEBT SERVICE REASSIGNMENT INTEREST	54,352	54,352
18	NON-FEDERAL INTEREST	44,842	44,842
19	AFUDC	(30,069)	(30,069)
20	INTEREST INCOME	(17,362)	(17,362)
21	NET INTEREST EXPENSE	158,085	158,085
22	TOTAL EXPENSES	844,524	880,724
23	NET REVENUES	91,860	55,660
	Financial Statement Presentation Adjustments:		
	Reimbursable revenue not included in rate case		11,616
	Reimbursable expense not included in rate case		(9,917)
	Net Revenues in Rate Case Column on Transmission		**57,359**
	Summary Statement of Revenues & Expenses - QBR		

	TRANSMISSION REVISED REVENUE TEST				
	STATEMENT OF CASH FLOWS				
	($thousands)				
		A		**B**	
		Rate Case		**Without**	
		FY 2012		**Cash Adjustments**	
1	CASH FROM CURRENT OPERATIONS				
2	NET REVENUES	91,860		55,660	
3	EXPENSES NOT REQUIRING CASH:				
4	DEPRECIATION & AMORTIZATION	198,604		198,604	
5	TRANSMISSION CREDIT PROJECTS NET INTEREST	17,970		17,970	
6	AMORTIZATION OF CAPITALIZED BOND PREMIUMS	561		561	
7	CAPITALIZATION ADJUSTMENT	(18,968)		(18,968)	
8	DRAWDOWN OF CASH RESERVES FOR CAPITAL FUNDING	15,000			
9	ACCRUAL REVENUES (AC INTERTIE/FIBER/LGIA)	(48,616)		(48,616)	
10	CASH PROVIDED BY CURRENT OPERATIONS	256,411		205,211	
11	CASH USED FOR CAPITAL INVESTMENTS				
12	INVESTMENT IN:				
13	UTILITY PLANT	(579,415)		(579,415)	
14	CASH USED FOR CAPITAL INVESTMENTS	(579,415)		(579,415)	
15	CASH FROM TREASURY BORROWING AND APPROPRIATIONS				
16	INCREASE IN LONG-TERM DEBT	564,415		564,415	
17	DEBT SERVICE REASSIGNMENT PRINCIPAL	(41,141)		(41,141)	
18	REPAYMENT OF LONG-TERM DEBT	(25,000)		(25,000)	
19	REPAYMENT OF CAPITAL APPROPRIATIONS	(175,110)		(175,110)	
20	CASH FROM TREASURY BORROWING AND APPROPRIATIONS	323,164		323,164	
21	**ANNUAL INCREASE (DECREASE) IN CASH**	**160**		**(51,040)**	**(51,200)**

SOY FY 2011 Total Reserves to EOY FY 2011 Total Reserves

- The crosswalk below shows the transition from Start of Year (SOY) FY 2011 Agency Total Reserves of $1,114 million to End of Year (EOY) FY 2011 Agency Total Reserves of $1,006 million.
- Even with positive EOY FY 2011 FCRPS net revenues of $82 million (Row 2), the Agency experienced a -$108 million (Row 10) reduction in cash. There are *three* principle drivers for the negative FY 2011 cash flow.
  - *First* is the Slice True-Up cash adjustment of $-28 million (Row 4) – largest true-up due customers from FY 2010, paid in FY 2011 and true-up from FY 2011, paid in FY 2012. *Note:* Fiscal year lags of Slice True-Up cash payments and receipts are included in the rate case risk analysis but are *not* included in the cash flow test because it is an issue of timing, effecting liquidity, not cost recovery.
  - *Second* is the -$30 million of reserve financing of Transmission capital (Row 5).
  - *Third* is a -$25 million reduction to cash in the Funds Held for Others (Row 9). The bulk of this reduction is in Transmission Funds Held for Other (FHFO) balances which totals -$21 million.

1	**SOY FY2011 AGENCY TOTAL RESERVES**		**$1,114m**
2	*FCRPS NET REVENUE*	82	
3	*NET REVENUE & BALANCE SHEET CASH ADJ*		
4	SLICE TRUE UP	(28)	
5	TRANSMISSION RESERVE FINANCING	(30)	
6	DEPRECIATION LESS FEDERAL PRINCIPAL PAYMENTS	(16)	
7	CAPITALIZATION ADJUSTMENT	(65)	
8	LGIA REVENUE CREDITS & NON CASH REVENUES	(26)	
9	FUNDS HELD FOR OTHERS & OTHER	(25)	
10	ANNUAL (DECREASE)/INCREASE IN CASH		(108)
11	**EOY FY2011 AGENCY TOTAL RESERVES**		**$1,006m**

- The -$28 million Slice True-Up adjustment, -$30 million in Transmission reserve financing and -$25 million in FHFO combine to -$83 million of negative cash flow not included in net revenue.
- There are other notable contributors to the deviation of net revenue and cash flow including Capitalization adjustments (Row 7) , LGIA Revenue Credits (Row 8) and Principal debt payments in excess of Depreciation (Row 6) which together totaled -$107 million. These contributors change very little over the rate period.