FY 2020 Second Quarterly Business Review
Participants: Elliot Mainzer and Michelle Manary
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(Break for direction.)

ELLIOT MAINZER: Good morning, everyone, and welcome to the 2nd Quarterly Business Review for Fiscal Year 2020. I'm Elliot Mainzer, Bonneville Administrator.

I'm joined this morning by our Chief Financial Officer, Michelle Manary. Really appreciate you making time for this forum this morning -- especially with the many challenges we're facing at the moment.

As usual, of course, please submit questions you may have during the webinar and we'll answer them at the end of the presentation. I will note that this session is being recorded this morning.

We're going to try to stay as close to our standard QBR format as possible this morning. Normally, of course, I start the meeting by sharing a high-level overview of the agency's performance, but given the current extraordinary circumstances, I would like to start with a brief discussion of COVID-19 and its impact on Bonneville and our customers.

Thanks to a very well-designed Continuity of Operations Plan, we were able to quickly transition the majority of Bonneville's employees into full-time telework status back in March -- a move that we actually made even before four Northwest states issued stay-at-home orders.

At the moment, more than 3,500 employees are logging in from home each day. Our mission-essential staff have continued to report to their work locations, and we've taken additional precautions to keep these employees safe and healthy and to ensure the continued reliable operation of our power and transmission grid.

With a few exceptions, work on all of our major initiatives has continued. The most significant delays have been in our transmission field projects, and I'll get into those details later in my state of the business update.

I would like to note that we've established the capability to sequester our control center operations teams in place if necessary. While this is something we certainly hope to avoid and do not have plans to implement at the moment, full sequestration cannot be eliminated from the realm of possibility given the unknown surrounding this pandemic.

We've also taken the time to develop a multi-phase return to the workplace plan, along with a set of metrics and decision criteria for advancing through each of the phases. We're looking at bringing our first groups of field employees in Montana and Idaho back to work in the latter half of May and early June. We will, of course, keep our customers updated on our return-to-the-workplace plan, but certainly we will not be returning to normal operations at Bonneville for what is likely an extended period of time.

Now, let me address what we're doing to support our customers during this time. We've heard very clearly the widespread concern among our customers about retail customer nonpayment and the financial hardships for their rate payers caused by the current economic crisis. We understand the tremendous uncertainty in the day-to-day operations of utilities across the region, and we're committed to working closely with our customers to help navigate these challenges.

We've been actively assessing flexible payment options for power and transmission customers. We're now discussing and refining these options with customers, and I expect we'll be announcing the details moving forward on these flexibilities very soon.

We've also heard very directly from customers who have strongly urged Bonneville to suspend the financial reserves policy surcharge for Fiscal Year 2021. I clearly understand the primacy of the financial and human impact that the COVID crisis has created for our customers and the communities they serve. Bonneville is now analyzing the impact of a potential surcharge suspension and evaluating future consequences as well as potential mitigants that can help sustain Bonneville's financial strength and resiliency over the long term. We'll have more information to report on this important, pressing topic in the near future.

In a few minutes, Chief Financial Officer Michelle Manary will update you on Bonneville's financial condition and describe how we've analyzed our Q2 forecast in light of COVID-19. But first, I'd like to provide a brief update on our overall agency performance.

Turning to the KSI and KPI dashboard, this KSI and KPI dashboard shows how our safety, reliability, and financial performance measure up against the performance metrics embedded in Bonneville's 2018 to 2023 Strategic Plan.

Our key strategic initiatives and key performance indicators are generally on track, with the exception of the forced outage factor for hydro.

I note that the agency does face financial performance risk amidst the COVID pandemic, for example, as you see with the IPR cost expenditure target, and Michelle will discuss this exposure during her portion of the presentation.

Starting with safety, let me turn to Bonneville's incident frequency rate. At last quarter's QBR, I reported that we were above our ceiling for the safety metric of incident frequency rate. At 0.9%, we are now just at the ceiling. This decrease can be partly attributed to the reduction in field work at the end of Q2. As we begin to ramp up field work in the coming months, and potentially transition a subset of employees back to the office environment, we'll be paying especially close attention to safety. We're all going to be readjusting to our jobs and activities that may feel new, and frankly, unfamiliar after a prolonged period of staying at home.

Turning to the hydro system, forced outage factor reflects the percentage of hours within the period that the asset was not available to run due to an unplanned event. The value for Q2 of 6.6% is primarily a result of having experienced an extended forced outage at Grand Coulee Dam. Generating Unit 21 at Grand Coulee was forced out of service in Q1 due to transformer problems. After several attempts at repair, a spare transformer was installed, and the unit was returned to service on April 30th. Because of the size of this unit at 690 megawatts, this outage has had a significant impact on our forced outage rate.

Bonneville staff have been working closely with Reclamation and in particular Grand Coulee staff to minimize outage times. This has included approving overtime to quickly return other units at Coulee to service that were having scheduled maintenance done. BPA Transmission personnel played a major role in the G21 work, providing a crew to remove the failed transformer and getting the spare transformer interconnected and back in service as quickly as possible.

I will have more to say about our transmission field operations later in the presentation. Now, I'd like to turn it over to Michelle for her financial update. Michelle, to you.

MICHELLE MANARY: Thank you, Elliot. Thank you very much.

Going to slide five, let me orient you on something that Elliot touched on briefly. We have a COVID-19 impact on our normal financial health. You will see it as the green slash bars or the red slash bar, depending where it hits on our target. We wanted to give you an idea of Q2, end-of-year forecast, and maybe a possibility of what can happen.

Let me orient you toward that COVID-19 scenario. This is meant to be a bad case, not a worst-case scenario. It's basically a contextual bookend against the Q2 forecast. Q2 forecast was being developed in early April when we were all very new into the COVID-19, and so it was really hard for us to look and to forecast the impact. We decided to do a scenario instead.

It's not a probabilistic analysis, using statistical methods. It's not that sophisticated, but let me tell you what it is: It assumes some key factors. It assumes for Bonneville that the current pandemic response level continues past the end of FY20. What that means is people are on telework, crews are still out, except for emergency service, but it really is a slowdown of our capital programs in both Power and Transmission.

It assumes -- it went back to 2008, when we went into the recession. It assumes an average load loss for Power and Transmission of about 3%, because that's what's consistent with the financial crisis we saw back in 2008.

This is the caveat, too. Especially for expenses for the capital work that is not being done, that is reflected on the Transmission side, but it is not yet reflected on the Power side. We are actively working with Corps and Reclamation to figure out how that's going to impact our financials, and we'll know more in June. It really does give you an idea on the transmission side, and we'll break this down a little later. And at least a load shift on the Power side. Next slide, please.

This is our typical agency net revenue waterfall chart. On the left, you start with the Rate Case, and then you go through a lot of the positives on this side, and ends up on the far right, a Q2 forecast. The blue bar is the end-of-year Q2 forecast, and the hash bar, again, the $44 million is the COVID scenario.

Let's start on the left. The first bar, the IPR expenses, those are forecast to be about $9 million lower. This is primarily due to delays in project work with Fish & Wildlife.

The next bar over is what we call "other," and this is primarily made up of variable, non-IPR expenses. They are lower by over $24 million. The main driver there is our third-party GTA wheeling. When we went to establish these rates in the Rate Case, we had some of our utilities in the region running Rate Cases, and so we had to put an estimate of where those rates would be. Some of them ended up a little lower. We do see a $24 million cost down due to that.

The next item is depreciation, amortization, and accretion -- which is a non-cash, and this is important when we look at rate adjustment mechanisms and our reserve. That's expected to be about $46 million lower than the Rate Case.

The main driver here is the Columbia Generating Station amortization. As you recall, we went into this year with a brand-new accounting standard, which takes it from varying every period based on the debt payments, and basically now the asset is now amortized on a straight-line basis. Try to get that out there.

When we were putting this forecast together in the Rate Case, it was before the standard was live and we were still figuring out some of the smaller areas. There is about $45-$46 million that is going to be my nemesis through this rate period, but we will align it and expect to better align it in the next Rate Case.

The next bar is interest expense, and this is $12 million. That is primarily due by lower-than-expected interest rates. We're seeing unprecedented low interest rates, and we are seeing the benefit of that on our debt portfolio. That's the main driver here.

The next line item over is operating revenues that are actually $8 million higher than the Rate Case. However, there is some offsetting. There are some pluses and minuses here. The upside is due largely to the (4H10-C) credits that we got last fall that were $14 million higher than expected, as well as the $30 million power surcharge that took effect this year.

Now, this was offset by higher than expected slice true-up credit and lower than expected power secondary sales that we're seeing. This is the net of those four items going pluses and minuses.

So, if you combine all those together, we get agency Q2 end of year net revenue forecast of $110 million. Now, if you look at the hash bar, the COVID-19 analysis, shows $44, that's a $66 million decrease from the current end of year forecast. That is driven by a $14 million decrease in Power and a $52 million decrease in Transmission, and I'll go into more details in the upcoming slides. Next slide, please.

Let's break it down by business line, now. You have the Power Financial Services Performance slide. We've added a COVID-19 bar here as well. It's green. Your Rate Case is the blue, the pinkish/purplish is the Q2 forecast and your green is your COVID.

If you look over to the left, it's broken down by the solid is your IPR expenses and the hashed is your non-IPR expenses. The left-hand side is expenses, and the right-hand side is revenue.

So, Power second quarter, end-of-year baseline expense forecast is $87 million less than Rate Case. I've hit a couple of these drivers already, so $10 million of it in your IPR expenses is due to Fish & Wildlife reduction due to delays in project work. Then, the rest of it comes from your non-IPR expenses. This is the third-party GTA wheeling that I talked about, that lower as well as the inter-business lines, lower transmission ancillary services, those costs were down as well, offset by higher power purchases than Rate Case for the remainder of the year due to higher spill conditions.

We still continue to see average inventory and streamflow conditions that are spilling at higher levels.

If you look to the right to the revenues, their second-quarter, end-of-year baseline revenue is $10 million less than the Rate Case. Basically, due to an anticipated larger slice true-up credit and lower secondary sales due to lower inventory and lower prices. You see it both in the revenues and expenses. That's partially being offset by the reserve surcharge.

So, when you put it all together, Power's lower expenses and lower revenues result in a current baseline net revenue forecast of $126 million for this fiscal year, which is $77 million better than our Rate Case projections. As always, these are a point forecast and there are many factors and uncertainties for the second part of the year -- COVID-19 being a very large one. We are halfway through the year, looking toward the end of it in the green, but with a lot of uncertainty still out there.

The COVID-19 analysis indicates a $14-million decrease from the current net revenue forecast, driven by -- and this is the breakdown -- a $39 million decrease in PF revenue, so that's the 3% load loss we talked about, offset by $25 million in lower expenses, primarily due to project delays at Corps and Reclamation and energy efficiency.

Now, the one big caveat here is we are still working with Corps and Reclamation on the impact of the shift from capital to expense, and I'll know more at the third quarter review on that.

Let's go to Transmission, then. Same slide and format for Transmission. If you start with the expenses, their baseline is $26 million less than our Rate Case projections, and the decrease in the non-IPR is primarily that interest expense reduction that we saw due to lower interest rates.

The IPR, if you can look at that, is about $2 million above. We are watching that closely and we are committed to coming in at IPR or below. This mainly is driven by Transmission receiving a greater portion of overall enterprise service support than was assumed in the Rate Case. We switched methodologies this year, and in the Rate Case had to forecast this, and now we're seeing some actuals come in, but we are actively managing that.

If you look over to the right are revenues. The baseline for Transmission is $1.83 billion, which is $3 million below Rate Case. In a billion, that's basically around that Rate Case.

The little blip there is due to non-renewals of network point-to-point service, but it's basically right at there.

We still have some risk. Looking toward the end of the year, we're looking at summer temperature variations from normal, load loss, more than we've estimated for the COVID. Spring streamflow and pricing variability on short-term sales, that does impact that, and any customer actions where they decide not to renew, or if they defer any of their TSRs. We are watching that actively.

If you put that all together and Transmission is looking at about -$14 million for the fiscal year, end of fiscal year, which is actually $23 million better than our Rate Case projection. Remember, we settled this Rate Case and we knew we were going to use reserves through this Rate Case, and so we're actually using less than we had expected in the Rate Case. I must say, point forecast, if you look at the COVID scenario, you actually see a $52 million decrease from the current forecast. This is broken down by $48 million of that is the expense-to-capital related to work. Then, about $4 million from the load loss. That's kind of our guess or kind of a bad-case scenario where we think we could end the year.

Now, with that, that assumes that we don't go back to any type of capital projects this year, and so we will continue to monitor this, and our third-quarter review will have much better information here.

Next slide. We'll look at capital, then. This is agency capital. Again, you see we started the Rate Case at $847. Both Fed Hydro and Transmission, we talked about this at Q1, really have embraced their capital programs, their optimization, and so they actually had some reshuffling and optimizing of projects, which brought down their execution for this year before the COVID-19 impact came about.

Fish & Wildlife, they had some hatchery project delay and then corporate, you see a small change in the corporate, and that's basically facilities reprioritize work after the asset management plan refresh. You're seeing a number of things.

Now, the thing to point out here, though, is the COVID-19. We thought we were going to be under the Rate Case capital expenses of $656, and the 19 scenario, which this is primarily Transmission, if not all, really has that even going down further. That's the capital-to-expense phenomenon that we are experiencing, and this assumes it stays throughout the year. Next slide, please.

Slide 10 is our traditional one look at our financial reserves thresholds and the rate adjustment triggers. You see the little orange triangles. There is COVID-19 that's translating all those COVID-19 scenarios into a reserve impact. What you'll see here is at the bottom, you see days cash just at the Q2 forecast, and then day's cash with COVID.

Normally, you'd see days cash, if we weren't going through COVID, we'd see the agency at 80 days cash; Power Services, 57; and Transmission, 146. You can see the COVID impact right below that.

The important thing to note here, if you look at some of these items, is that we have a number of things going on. The crack in our scenario model is not triggering, nor is RDC, but we do expect for Power at this point in time, to have a $30 million surcharge. Power needs 60 days cash on hand not to trigger, and we're at 57, if not a little below for the COVID scenario.

Transmission, if you look at it, no cracks, no surcharge, and the RDC is not triggering.

This also, I wanted just to note the COVID-19 days cash on hand forecast, that still looks like you have a $30-million surcharge, and then nothing triggers for Transmission, no other rate adjustment mechanisms.

Going to the next slide. I wanted to give you an update on IPR. Yes, IPR is upon us again, looking out at BP-22, and this is to establish our expense and capital spending for Fiscal Year '22 and '23 for inclusion in the BP-22 initial proposal that is underway within BPA.

We invite you to come and join us in that process in June. You can see the public workshops will kick off in June -- or the IPR will kick off in June, with the public workshops between June 16th and 19th. That will, then, follow a comment period following the kickoff, and concludes July 15th.

Now, given that, like Elliot stated before, we are acutely aware of the financial hardships facing the region due to COVID-19. Actually, you'll see that factored into our proposed spending levels. But with that, we'll be also articulating some difficult tradeoffs that are required to keep BPA's costs and rates as low as possible. At the same time, though, we remain anchored to our Strategic Plan, and we'll be ensuring BPA is committed to its financial health.

Now, before I hand it off to Elliot, I'd like to bring your attention to our QBR technical workshops on May 18th. We'll discuss the following topics -- there are four topics. The first one, we're going to deep dive into our second quarter forecast, including capital execution and reserves. We'll go into more detail there. We'll also start and look at our financials in the program plan view. We will introduce that. The third item, we'll talk about our Financial Reserves Action Plan, and what we are doing to ensure that the reserves error does not occur anymore, and where we're at on that plan. Last, we'll go into more detail in our grid modernization.

With that, I conclude, and it's back to you, Elliot.

ELLIOT MAINZER: Thank you, Michelle. That was a lot of information there.

(Inaudible, comments distorted.)

ELLIOT MAINZER: (Resumes in progress) -- to be a response for the customer input, so appreciate that. I'm now going to turn to the state of the business. I've got a number of issues I would like to provide some general updates on.

As I said earlier, Bonneville is successfully moving forward with most initiatives on their original schedules, despite the challenges that are created by social distancing. I'm sure all of you can relate at this point. We all have our people working for us as hard as possible in the utility community and hats off to all the staff across the region who are doing their best to juggle multiple responsibilities, keeping lights on, staying at home, taking care of parents, kids, etc. Thanks, everybody, for all the hard work.

One of the things that's a hot topic is we recently asked our customers for feedback on an alternative schedule that we had proposed for the TC-22, BP-22, and EIM Phase 3 workshops. After considering all customer comments, Bonneville determined that the schedule will actually remain unchanged, including the form of customer input. I think it's really important that we proceed in this fashion. Since customer collaboration and engagement is absolutely essential to our work on market evolution and integration. The full schedule of workshops, including the proposed topics (inaudible) become available, is regularly updated, and will continue to be posted to the BPA website.

Bonneville is also actively participating in the Northwest Power Pool exploration development of a resource advocacy program for the region. I think this is extremely important work. For Bonneville, key elements of the program are to ensure appropriate modeling of the hydro system, evaluation of jurisdictional implications, and transmission deliverability.

Bonneville is very encouraged by the progress of the regional collaboration and the potential for a stronger regional resource adequacy program administered by the Northwest Power Pool. All participating entities, including Bonneville, plan to make internal decisions about continued participation and funding of the next phase of development early this summer. Very happy to see that work proceeding effectively.

Another area in which we're monitoring the impact of COVID-19 is grid modernization. Now, we have identified some potential delays to projects due to restrictions on travel and construction as well as limited access to control center staff. At the same time, we have also implemented technology solutions to enable us to progress on projects at remote locations, and teams are working hard to keep projects moving forward and on track.

As I mentioned last quarter, we have posted project summaries on our grid modernization website to provide more information on each of our grid modernization projects. I encourage you to take a look at these as they share valuable information on what each project is designed to achieve.

At our Q3 QBR, we should have better information on how well our COVID-19 mitigation plans are working -- extremely important work for Bonneville and the region.

I wanted to just note that at this point, we are still on track to join the Western Energy Imbalance Market in March of 2020, our Phase 3 policy process continues to move forward, and our implementation team is making progress, identifying the systems and process changes we'll need to make to enable participation in the market. We continue to keep an eye on the critical path to ensure that we make the proposed 2022 go-live date.

We're also working with customers on strategies to solicit input and perspectives that can help inform Bonneville's positions on extended day-ahead market issues.

I'd like to turn my attention now to the Columbia River System Operations Draft EIS. I think as many of you know, the co-lead agencies released the draft EIS on February 28th. We accepted comments through April 13th, and held six public teleconferences between March 17th and March 31st to provide opportunities for citizens and stakeholders to share verbal comments. As expected, we received thousands of comments, and the co-lead agencies are now busy reviewing and responding to comments and remain on track to deliver a final EIS this summer and a record of decision on September 30th.

I would like to now provide an update on the status of Transmission projects on hold. I know this is of interest to many of you. As a result of the COVID-19 pandemic, Bonneville reviewed all of our active construction projects and delayed all but the most essential projects. This was a decision that was really made through the lens of safety and the lens of operating a four-state utility and just wanting to be as sensitive as we possibly could to the needs of our employees and the safety of their communities. Only projects that were needed for safety and reliability continued.

We ended up delaying 57 construction projects and continued working on 15 projects. Now, as I mentioned in my opening remarks, Bonneville has been working on a transition plan to bring our employees back to the workplace. And while employees who can effectively work remotely will continue to do so for the foreseeable future, we're looking at bringing back a small subset of field crews as early as late May, early June. This group includes employees who work in areas of Montana and Idaho, where we're actually seeing a downward trajectory in COVID cases.

We have a very detailed transition plan to bring these employees back safely, and doing so will allow them to get back to some very urgent work, which will be especially critical as we approach wildfire season.

Speaking of wildfire, Bonneville is developing and will actually release a wildfire mitigation plan by the end of the third quarter. The plan builds on our 2019 wildfire mitigation efforts. It's also connected to both BPA's strategic plan and asset management program plans. This new plan advances Bonneville's successful wildfire mitigation efforts by continuing to mature asset criticality, health, and risk data analysis to identify and prioritize assets that pose a wildfire risk.

We're going to post the plan to its external website and share with customers, elected officials, and other interested constituencies. I know that's of high importance to the region. We're going to keep our eye on the ball with respect to fire risk management and getting these capital projects back up and running safely and efficiently.

Just a couple of final items. In other Transmission news, the Northern Grid Regional Planning Organization reached a critical milestone on April 1st. The Federal Energy Regulatory Commission accepted tariff modifications filed by participating investor-owned utilities. The next step for Bonneville is going to be to propose amendments to our Open Access Transmission Tariff to reflect our participation in Northern Grid as part of the TC-22 tariff proceeding.

I would point out that supporting the formation of Northern Grid was a key element of Bonneville's Strategic Plan to meet transmission customer needs more efficiently and responsibly, to well-informed regional resource development and grid optimization across a broad spectrum of participants. Finally, I would like to note that Bonneville remains on schedule to complete our current cluster study at the end of this month. We expect to provide closeout packages to customers who submitted service requests no later than June 1st, and that will then initiate the next phase of the transmission study and expansion process, at which point, customers will choose how they'd actually like to proceed.

As I shared last quarter, the study contained approximately 4,000 megawatts of long-term, firm, point-to-point service requests, and over 80% of the requested megawatts are from new generation developers east of the Cascades, generally seeking to deliver to west-side loads or to Bonneville interties.

That concludes my update and the formal part of our presentation this morning. I'd like to now see if we have any questions for either Michelle or myself. Amanda, do we have anything coming in in terms of questions?

QUESTION: Yes, there are a couple of questions that came in. The first is just asking for a definition of enterprise services. Michelle, do you want to take that?

MICHELLE MANARY: Sure. Yes, those are -- enterprise services are basically what we usually call "corporate," so anything that's not a business-line-specific. We call it "enterprise" because it deals with a number of things. It's basically what we used to call corporate services.

QUESTION: All right. The next question is for Slide 8, asking: What was the $48 million capital expense? Was that an increase in capital spending or a decrease?

MICHELLE MANARY: Can you go to Slide 8, please? There we go. Just so I have reference. On Slide 8, can you read the question again, Amanda?

QUESTION: Yes. What was the $48 million capital expense? Was that an increase or a decrease?

MICHELLE MANARY: Maybe it's Slide 9, then. This is expenses on Slide 8. It might have been--

ELLIOT MAINZER: In terms of the depreciation associated with the Columbia Generation Station?

MICHELLE MANARY: That's what I'm thinking. That is the accretion or the -- they call it "accretion," in accounting terms. It's basically the amortization of the CGS. We didn't quite get it aligned in the Rate Case with the new standard, and so we're off by about $46 million. That's a non-cash event.

QUESTION: Those are all the questions that I see coming in. Let's give it another minute just in case anybody is typing something up.

ELLIOT MAINZER: While we're doing that, thank you all for joining us this morning. It's interesting, we're constantly pushing the outer edges of technical sophistication and social distancing here in the world. It's always an interesting experience doing a presentation like this when you're no longer in the same room, even with your colleagues.

I really do appreciate you joining us this morning. These are extraordinary times, and I really wish you all the very best. Please, stay safe. We're all trying to do our best to stay connected. We're going to be keeping you posted on a variety of different fronts as we move forward.

Amanda, anything else in terms of questions?

QUESTION: I don't see anything else coming in. As you can see on the screen, everybody's welcome to e-mail Communications@bpa.gov if they have follow-up questions.

ELLIOT MAINZER: Well thanks again, everybody, for joining us. Thanks, Michelle and the team. All of you, please do stay safe and healthy out there. I certainly hope I have a chance to see you in person in hopefully the not-too-distant future. All the best. Take care, thanks again.

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