2012 BPA Rate Case
Customer Workshop

Risk: Use of Transmission Reserves

August 17, 2010

Tracking Financial Reserves – the natural process

- After the June risk workshop, some customers asked for additional information on the preferred approach, the implicit/explicit use of reserves between business units.
- BPA would track actual reserves for the agency as a whole and the business unit attributions as they resulted from their separate cash flows.
- If one business unit had a negative balance, total agency reserves would decline while the other business unit would be kept whole (and earning the interest offset credit due on its total balance).
- The table below is a simplified illustration. It assumes that Power reserves start at $150M but decline by $25M per month so that it has a negative balance by the end of the year. Transmission has a breakeven year with no change to reserve balances other than the interest offset credit.

FOR ILLUSTRATION ONLY

($ in millions)	1	2	3	4	5	6	7	8	9	10	11	12	Annual Total
BPA Reserves (actual)	600.00	576.73	553.38	529.97	506.48	482.92	459.30	435.60	411.83	387.99	364.08	340.10	
Change in balance	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(300.00)
Interest earned	1.73	1.66	1.59	1.51	1.44	1.37	1.30	1.23	1.16	1.09	1.02	0.95	16.05
Ending reserves	576.73	553.38	529.97	506.48	482.92	459.30	435.60	411.83	387.99	364.08	340.10	316.05	
T Reserves (attributed)	450.00	451.35	452.70	454.06	455.42	456.79	458.16	459.54	460.91	462.30	463.68	465.07	
Change in balance	-	-	-	-	-	-	-	-	-	-	-	-	
Interest earned	1.35	1.35	1.36	1.36	1.37	1.37	1.37	1.38	1.38	1.39	1.39	1.40	16.47
Ending reserves	451.35	452.70	454.06	455.42	456.79	458.16	459.54	460.91	462.30	463.68	465.07	466.47	
P Reserves (attributed)	150.00	125.38	100.68	75.90	51.06	26.13	1.14	(23.93)	(49.08)	(74.30)	(99.60)	(124.97)	
Change in balance	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(25.00)	(300.00)
Interest earned	0.38	0.30	0.23	0.15	0.08	0.00	(0.07)	(0.15)	(0.22)	(0.30)	(0.37)	(0.45)	(0.42)
Ending reserves	125.38	100.68	75.90	51.06	26.13	1.14	(23.93)	(49.08)	(74.30)	(99.60)	(124.97)	(150.42)	

Correcting for the Imbalance

- In the illustration on the prior page, Power ends the year with a reserve balance of negative $150M.
- Short of a CRAC-like mechanism, Power would need to correct the imbalance in the following rate period. A rate case would be the natural process for the correction.
- The effect on rates would likely be significant. Financial reserves are one of the primary tools for mitigating risk. A negative reserve balance would require a large rate increase so that Power could achieve an acceptable Treasury payment probability.

What are reserves available for risk?

- When BPA uses the term "reserves" in a financial context, it is short-hand for "financial reserves," which comprise two kinds of assets in the Bonneville Fund at Treasury (cash and investment instruments we call "Treasury specials" that earn interest for BPA) plus deferred borrowing. Deferred borrowing refers to amounts of capital spending that qualify for borrowing from the Treasury when we have not yet completed the borrowing: we can complete the borrowing quite simply when necessary, and that will generate cash.

- Risk modeling uses a subset of financial reserves called “reserves available for risk.” Unless otherwise specified, all references to reserves in this presentation refer to reserves available for risk.

- Reserves available for risk is the result of subtracting “funds held for others” from total reserves.

What are reserves available for risk? (continued)

- Funds Held For Others (FHFO) are cash balances that when received, come with a legal (contractual) commitment to be used for a specified purpose. The balances are derived from accounting records and take into consideration cash outlays associated with the contracts or activities.
  - For example: Per an LGIA contract, LGIA funds are deposited by prospective Transmission customers and designated to be used to build an interconnection facility.
  - FHFO can be withdrawn in whole or in part on very short notice, and are therefore a less than optimum source of operational liquidity.
  - FHFO balances, with the exception of the undistributed REP funds, are not generated by sales of power or transmission services.

		A	B	C
	($ in millions)	Power	Transmission	BPA
1	Special deposits	$75	$15	$90
2	Funds held on behalf of others	$38	$126	$164
3	Other customer advances	$12	$34	$46
4	Total	$125	$175	$300

Notes:
1. Special deposits include undistributed REP funds from the 7S rate case, and net Master Lease funds
2. Funds held on behalf of others include EE Project funds for Power and LGIA and PFIA funds for Transmission
3. Other Customer Advances include all other deposits (e.g. security deposits) made by customers into the BPA fund per contractual obligations