

Response to Stuart Clarke for Snohomish quarterly cash comparison question:

Background:

- On April 13, 2005, Snohomish PUD, Lloyd Jordan requested assistance in analyzing the quarterly FCRPS cash balances from the first quarter of 2002 through the first quarter of 2005.
- Snohomish provided Cash by Quarter PowerPoint slide depicting FCRPS cash balances in each quarter from 2002 through the first quarter of 2005. See attachment (Cash by Quarter 04132005.ppt).
- Stuart Clarke forwarded this request and attachment to PBL and Financial Operations for comment on April 18, 2005.
- Financial Operations prepared response regarding actuals to assist in analyzing cash balances in the prior three years and forwarded this to Stuart Clarke on May 5, 2005.

How can cash build in the Bonneville Fund in each quarter while BPA insists in the Power Function Review that its Power reserves are falling to \$180 M at 2006 fiscal year-end?

- Financial Operations noted that the Cash by Quarter graph from Snohomish reflect the FCRPS cash per the FCRPS quarterly reports and annual reports. FCRPS cash includes cash in the BPA fund and unexpended appropriations of the Bureau of Reclamation and the Corps of Engineers.
- The quarterly and annual cash flow statements provide the detail of cash provided from operating activities, cash used for investment activities and cash provided by borrowing and appropriations. These statements could assist Snohomish in their detailed quarterly cash comparison. The quarterly and annual FCRPS Statements of Cash Flows are available on the external website at: <http://www.bpa.gov/corporate/pubs/> Click on Financial Reports under the Reports heading. From there a listing of specific reports will be on the right hand side for both the Annual and Quarterly Reports.
- Snohomish should look at each year as a whole for comparison. It is difficult to draw any conclusions about BPA's fiscal year-end cash balances based on within-year FCRPS cash balances. However, the magnitude of BPA's year-end Treasury payment generally means BPA's lowest level of cash is realized on September 30 of each year.
- Within each year, cash balances fluctuate from month-to-month and from year-to-year based on many factors, some of which are unrelated to operations. Some factors that are unrelated to operations and are not consistent from month-to-month yet have a significant influence on BPA's within year cash balance are:

- Payment of Treasury bonds and appropriations that are due throughout the year but the majority at year-end
 - Treasury borrowing, and
 - Energy Northwest net billing (The ENW annual budgets differ from year to year and with recent CRAC rate increases this obligation in net billing has been satisfied sooner in the past two years than in prior years. This means that cash would go to the Bonneville Fund sooner than in prior years.)
- Financial Operations made a presentation to the Public Power Council on March 30, 2004 regarding BPA Financial Reserves. This document was handed out at the meeting for discussion and covers:
 - Definition of BPA financial reserves – BPA financial reserves are a calculation consisting of cash in the BPA fund plus deferred borrowing (the difference between capital expenditures and Treasury borrowing)
 - Trends & patterns for the annual shape of reserves
 - Major impacts on reserve levels
 - Factors for adequate reserves

This document is not on BPA's website but is attached (BPA Reserves bullets.pdf) to provide Snohomish with these concepts and addresses the monthly shape of financial reserves with the trends and patterns that occur throughout the year. The FCRPS quarterly cash balances as shown on the Snohomish Cash by Quarter slide is consistent with these same trends and are influenced by the same events.

How have the quarterly cash balances been allocated within BPA's accounting records (i.e. specific reserve accounts, such as PBL reserves, TBL reserves, PBL working capital, TBL working capital, cash amounts unallocated and other)?

- BPA uses accrual accounting and does not account for BPA financial reserves by "specific reserve accounts". BPA has one cash fund with the U.S. Treasury, and all receipts and payments affect that fund only. Cash held in the BPA fund is fungible and not separately recorded by business unit or purpose.
- For rate-setting purposes and FERC's separate accounting requirements, BPA makes an estimation of fiscal year-end financial cash reserves to the generation and transmission functions. This uses the Accrual-to-Cash worksheet taking into consideration risk issues and is used for the rate making case. This worksheet was presented in the Aug 18 workshop last year and is located at: <http://www.bpa.gov/power/psp/rates/meetings/040818ws/> scroll down to Responses to Workshop Data Requests, #6 is the Accrual to Cash Adjustments for FY 2005 FB/SN CRAC Rates.
- Snohomish may submit their data request for this information in the rates process and the Accrual-to-Cash worksheet for the ToolKit forecast can be presented at this year's August FB/SN CRAC workshop.

BPA Financial Reserves

Information requested by the Public Power Council

- ◆ Reserves are a combination of cash and deferred borrowing
- ◆ Annual Shape of Reserves – trends & patterns
 - ⌘ The hydro system generates the most cash in spring and early summer, and least in fall, when streamflows are typically low—as a result, reserve levels rise from the winter months into the spring and summer months
 - ⌘ Reserves *typically* peak and stabilize during the spring and summer months
 - ⌘ Reserves drop at the end of the fiscal year (September 30th) due to the year-end US Treasury payment
- ◆ Major Impacts on Reserve Levels
 - US Treasury Payments – throughout the year but the majority at year-end
 - Debt optimization
 - Energy Northwest net billing
- ◆ Adequate Reserves are...
 - Important for mitigating against unpredictable and uncontrollable events
 - Required to cover BPA's costs, including purchase power, when the region needs it and meet BPA's obligation to pay its US Treasury debt
 - Imperative to maintain BPA's financial health in the financial community
 - Critical to BPA since availability of BPA's clean hydropower depends both on the weather and the needs of migrating fish
- ◆ Are FY 2004 reserve levels normal? BPA entered FY 2004 with \$511 million in reserves. We've seen reserve levels rise sooner due to a shortened net billing cycle as a result of debt optimization. We expect reserve levels to stabilize as we enter the summer months as is the typical pattern barring any uncontrollable events that could increase costs. BPA is on target to meet its forecasted end of year reserve level.