JAN. 30 QBR TRANSCRIPT

SLIDE 2 - Introduction

Scott Simms: Good morning and welcome to the Bonneville Power Administration's first quarterly business review of fiscal year 2018. I'm Scott Simms, Director of Communications and on behalf of all of us at BPA, we're glad you can join us for this redesigned QBR today.

BPA Administrator Elliot Mainzer will be sharing more information in a moment on why the QBR redesign is an important turning point for BPA. First though, just a few housekeeping items for today's forum. This QBR presentation is being shared via WebEx. The WebEx link is available on our event calendar at bpa.gov. If you're having trouble accessing WebEx, the slide deck is also available at bpa.gov/goto/QBR.

So most of you have experienced a conference call interrupted by background noise at some point in your career. Today, in consideration of that we have placed all phones on mute for the presentation portion of this meeting. Questions can be submitted at any time today, but they will not be answered until the presentation is complete. To submit a question, click the chat button on the upper right hand part of your screen. Answer your question and press send. Your question will be sent to the BPA host.

SLIDE 3 - AGENDA

Scott Simms: Today we will start with Administrator Eliot Mainzer who will be covering the 2018 – 2023 Strategic Plan that has just been published this morning. And then you'll hear from senior executives to get updates on finance, power and transmission. We will close today with a brief update from Deputy Administrator Dan James on where we are with the spill surcharge. Then we will open up the meeting to questions. It's now my distinct pleasure to turn it over to Elliot for the unveiling of BPA's new strategic plan.

SLIDE 4 - STATE OF THE BUSINESS

Elliot Mainzer: Thank you Scott and good morning everybody. I really appreciate you joining us this morning. And I'm, of course, very excited to share with you an overview of our new 2018 – 2023 Strategic Plan, which as Scott said hit the street this morning. So it's a big milestone for us. A tremendous amount of effort not only here within Bonneville but really, really appreciate all the input we got across the region. I mean, everybody that contributed, our customers, tribes, all of our friends in state organizations, members of congressional delegations. Really an incredible amount of constructive feedback that really helped us sharpen this plan to make it much better and much focused. And I just wanted to start out by thanking all of you for helping us get to this important moment.

But before we turn to strategy, I'd like to start with culture. You know, at Bonneville we're working really hard to create a safe, positive and inclusive work environment, where people feel valued, enabled and ultimately accountable for delivering the results. And that accountability starts at the top. And that' why we decided to redesign the Quarterly Business Review, to create an opportunity for me and the other members of my senior executive team to report out on our business performance and progress on meeting our strategic objectives.

And by focusing on a set of key performance indicators, and keeping our eye on the bigger picture, we can provide customers and constituents with the visibility and transparency they need to monitor our commercial performance and progress in meeting our strategic objectives without necessarily getting pulled into the weeds and distracting Bonneville from it's responsibility to run the business on a day to day basis.

This sense of accountability, of course, must also be shared across the agency. And I'm pleased to note that we are joined on the call this morning by over 350 of our managers, who are assembled at the Oregon Convention Center for our winter all managers meeting. So hello to our management team as well. Really happy to have them on the call.

Going forward, at each QBR, I'll plan to start out with the state of the business, reporting on the key relevant issues that you all need and want to know about. And then you'll hear from senior executives to get updates on finance, power and transmission, as well as other important initiatives that are central to our business performance. The things we're reporting on will not only be connected to Bonneville's new strategic plan, which is now officially available at www.bpa.gov/strategicplan. I'm going to be giving you an overview of the plan this morning. And in future QBR's my state of the business updates will focus on issues associated with our strategic goals. Now I will say that my overview of the plan this morning is a fairly high level overview. And I really see it as the first installment on what I expect to much greater engagement with customers and others in the months ahead on the content of the plan and how we intend to meet our objectives.

SLIDE 5 - 2018-2023 STRATEGIC PLAN

Elliot Mainzer: So turning to Slide 5, for those of you who are on the WebEx, or anybody looking at this electronically, you see there, there it is, the official cover of our strategic plan, the Bonneville 2018 – 2023 Strategic Plan. It's subtitled, "Delivering on our public responsibilities to a commercially successful business." And again I want to thank all the folks who have helped us develop this document. I'm particularly pleased and I can see how it really highlights our people, and their role in delivering on our mission and developing relationships with our customers and stakeholders throughout the region.

Now it's interesting, I was reflecting the other day, it's kind of hard for me to believe that in April I will have been at Bonneville for sixteen years. The years are starting to fly by. And, you know, as long as I've been at Bonneville, we've operated from a vision of BPA as an engine of the region's economic prosperity and environmental sustainability. And it's those of you…See, that really is the starting point, the heart and soul of where we start from at BPA. Delivering on that vision and…and delivering on our role within the Northwest providing low rates, reliability, responsible environment stewardship and accountability to the region.

Now many of you have been involved in dialogue with us for the last couple of years stretching back to the Focus 2028 initiative a couple of years ago where we started to see some significant signs of risk and challenge to Bonneville's commercial performance. I'm not going to go into a really, really detailed review of all those fundamentals right now, but certainly the wholesale electricity markets, a big development of variable renewable resources, challenges and cost of aging infrastructure, evolving and rapidly changing markets and technology; all of these have put quite a bit of stress, certainly on our power side, and even our transmission business line as it's seen the cost of new infrastructure grow and the system becoming increasingly constrained, has placed a lot more focus on meeting customer needs and being a more agile responsive organization.

And so the plan, which has four main objectives, which I'm gong to get into shortly, is really focused on actions that we're going to be taking over the next five years to be more competitive and responsive to customer needs, to leverage and enable industry change through modernized assets and system operation. And to ultimate deliver on our public responsibilities through a commercially successful business. That really is the heart and soul of what we're trying to do. And this plan, and the actions that I'm about to lay out for you is going to be the central reference point for everything we are doing at BPA in the coming five years – potentially beyond. We're going to get really, really, really focused on these actions and objectives.

SLIDE 6 - MEASURING SUCCESS

So as we turn to the next slide, slide eight, I want to just briefly pause by mentioning we recognize that when you embark on a plan like this, it's really important… I'm sorry, go straight…Yeah, those. That's six. Excuse me, slide six. Let me get my glasses adjusted here.

You know, when you embark on a strategic plan of this magnitude, it's really important that you know how you're going to measure success. And you stick really closely again to those key performance indicators. And so throughout this presentation today, and in the document itself, you're going to see this symbol for our key performance indicators. These are the measures that we will be…that Bonneville will monitoring, these key indicators of its performance and they're also the measures that our senior executives will reporting out on regularly at future QBRs. Now not all of them will be reported quarterly, since some will only change annually. But today we'll be walking through all of them - and there are twelve - to provide a baseline of where we are today and to describe where we're going. For those of you who have access to the plan, you'll see all twelve of them, detailed on pages 52 and 53 of the plan.

SLIDE 7 - 1: STRENGTHEN FINANCIAL HEALTH

Turning to slide seven, I'm going to be moving into our first fundamental strategic goal. And that is to strengthen our financial health. You know, it's interesting, I've had lots of …lots of dialogue with many of you in the region. And some folks would say that, you know, strengthening your financial health isn't necessarily a strategic objective. But this represents, this focus and these actions that we are taking, do represent significant change in strategic thinking for BPA. And our focus on our financial plan, or strengthening our financial health is really a fundamental underpinning of this whole strategic plan. As a matter fact, you'll see it's the most detailed and extensive version of the plan. It will also be followed next with…next week by the formal release of our 2018 Financial Plan.

And I just can't emphasize enough how important we see really taking care of improving our cost-management discipline and taking care of our balance sheet. So the first objective within this section on strengthening our financial health, is really to improve our cost management discipline.

And the specific objective detailed within the plan is to hold the sum of program costs, by business line, at or below the rate of inflation through 2028. And this slide here on slide seven details the makeup of our program costs and percentage basis to both our power services and transmission services organizations.

So, for those of you participated in our IPR processes over the years and have given us the feedback that we need to move away from the sort of classic bottoms up type of approach, we're going to be changing that IPR experience significantly. And we're going to be starting with specific cost-management targets for each IPR. We'll be articulating those and we'll managing to much more of a top down, target-based approach. We'll try to be very responsive to what we've heard from our customers. And at the end of the day, we know that that long standing pattern of rate increases and cost increases that we've seen over the last ten years is not sustainable. And we have to change that starting now. And I'll come back to that a little bit more in the power section.

SLIDE 8 – STRENTGHEN FINANCIAL HEALTH (CONT.)

The second element of our financial health assessment, of cost-management is also focused on capital investment and making sure that the life cycle costs and value of that is based on industry leading standards. I'll come back to that. But the second major component of our financial health objective is to build financial resiliency. And what I mean by financial resiliency is the ability of an organization to withstand disruptive events that impact revenues or expenses while allowing the organization to continue to deliver on its mission. And we're going to be seeking to build financial resiliency through objectives for debt utilization, debt capacity and liquidity.

On the term debt utilization, describes how Bonneville uses debt to fund capital investments and how Bonneville repays that debt. Our first goal in this area is to achieve a debt-to-asset ratio of 75 to 85percent within ten years. And to trend towards 60 to 70 percent in the long term. Now we'll be talking a lot more about this in the weeks ahead. And Mary will talk about it a little bit more during this here. But this is a very important goal as we attempt to de-lever a bit and have a more sustainable debt to asset ratio than we did.

The second area is in the realm of debt capacity. And the specific objective in the area of debt capacity is to maintain sufficient debt capacity to fund Bonneville's capital programs on a rolling ten year basis and to preserve $1.5 billion of available financing from the U.S. Treasury. And we're going to have to move beyond our traditional source of debt financing, in order to have a sustainable, long term approach to investing in the system. So we talk about that as the all of the above financing strategy.

And the third area is a focus on liquidity. And our goal in this area is to maintain a minimum of 60 days cash on hand for each business line and maintain a 97.5 percent annual treasury payment probability. This again is another topic I know is of significant interest to customers. We'll be expounding it on a little bit more and focusing on it in workshops and other rate case engagement going forward. But we really believe that this element of financial resiliency is extremely important and we are very committed to focusing on it.

And ultimately, and the fourth objective, is to try to maintain high investment-grade credit ratings…[clears throat]…excuse me…from all three of the rating agencies. That's just so important for an organization like Bonneville who is investing hundreds of millions of dollars a year in its assets to both sustain and modernize our asset portfolio.

So that concludes the summary of our first financial…our first objective to strengthen financial health.

SLIDE 9 - 2: MODERNIZE ASSETS AND SYSTEM OPERATIONS

Our second major strategic goal is to modernize our assets and system operations. And this starts with administering an industry-leading asset management program. I think many of you have seen over the last couple of years we've significantly raised the bar within BPA for our approach to asset management. We've hired an agency asset manager who reports directly to our chief operating officer. We've put all five of our major asset categories; power, transmission, IT, facilities, fish & wildlife, on a common economic metric…[clears throat]…so we can efficiently allocate capital between those assets. And we're going to make sure that we understand our assets criticality health and risks; establish risk-based asset performance objectives, such as lost generation reliability to make sure that we're using...meeting analytical methods to prioritize maintenance activities and capital investment for safe, reliable asset performance. We have to be incredibly good at asset management, in order to invest wisely in this system, and we're committed to doing so.

The second objective, under modernizing assets and system operations, is to modernize the federal power and transmission system operations, and supporting technology. I think we're all aware of the changes that are happening around us with new technology, new markets and these create both significant challenges and opportunity. And we're going to be working from a five year grid modernization roadmap for the federal system that is going to position Bonneville, like some of the other utilities in the region, to be able to both leverage and enable industry change to support more reliable, efficient and economical system operations. This is going to be a huge lift from Bonneville which you've heard us talking a lot and so moving out shortly on a significant grid modernization initiative.

SLIDE 10 - 3: COMPETITIVE POWER PRODUCTS AND SERVICES

We then move into our third major strategic goal which is to provide competitive power products and services. If you look at slide 10, this is a graph I've become extremely familiar with in the last couple of years and something that our customers and others have pointed out to us multiple times. And this graph shows our priority firm power rates from 2010 and the trend towards 2020. It shows the varying direction of our rate as opposed to market prices. And although it's certainly true that a direct comparison of the Bonneville power rate…power products, with market prices, is not necessarily a perfect apple to apples comparison, because there are certainly attributes of our power products that are not totally captured within wholesale market prices.

It is also very true that if these trends continue, the trend of upper rate trajectory continues, and we find ourselves significantly out of the money on the next…middle of the next decade, we have a major competitiveness problem on our hands. And this is a trend we have to address right now.

When you look at our strategy for providing more competitive power products and services, we start with a clear recognition that we're not going to entirely cost manage our way out of this situation. We have to look for new revenue opportunities as well. We have to grow the top line. And we have to look for ways to…

SLIDE 11 - COMPETITIVE POWER PRODUCTS AND SERVICES (CONT.)

So our first objective is to increase power revenue through new market opportunities for clean capacity. And we're going to be very, very active in this marketplace. It's already starting now with some transactional opportunities. We have a new senior vice president, Joel Cook, who's very, very engaged on this topic and leveraging the full capability of our power organization to increase the power revenue base.

And this also requires us, as we articulate in objective 3B, to address the market and regulatory barriers in capturing the clean energy and capacity value of the federal Columbia River power supply. And we need to make sure that as new energy policies are articulated that the reliable, flexible and low carbon federal Columbia power system is appropriately valued in these emerging energy policies. Because the region's existing hydro resources can play an essential role in meeting greenhouse gas emission goals at the lowest total cost, while also maintaining reliability objectives. So we're going to stay very engaged on this topic.

Our third objective, objective 3C in the plan, is to prioritize our fish and wildlife investments based on biological effectiveness and mitigation for FCRPS impact and to manage our fish and wildlife program costs that are below the rate of inflation inclusive of new obligations and commitments. As you see in this plan, we articulate right out front that protecting, mitigating and enhancing the region's staff for resources that were impacted by the development of the federal hydro system is an important and intrinsically valuable goal in its own right and it's also legally required. We take this public responsibility extremely seriously. But we see we do not have the capacity, commercially, to continue to taking larger and larger rate increases. And as with all of our other programs across the organization, we need t make sure that we're really prioritizing our fish and wildlife investment as effectively as possible. And making sure that the upward pressure on rates is managed because we have to do this. It involves in significant tradeoffs and prioritizations. It's hard work, but it's work that we together as the region have to accomplish.

The fourth area turns to the topic of energy efficiency. Again, as we say in the plan, the development and acquisition of energy efficiency savings is one of the most important achievements and legacies that Bonneville and its customers have had for thirty-eight years. But again, we need to make sure that we're keeping an eye on our bottom line and commercial success. And making sure that energy efficiency and demand response to investments are aligned with the long-term needs of BPA and its customers.

I want to just put a little bit more color on this, knowing this is such an important topic. And we will work collaboratively with the Northwest Power and Conservation Council, our customers and regional public interest organizations to insure that BPA meets its statutory obligations. However, our investments will be more closely guided by Bonneville's power and transmission system needs, and the imperatives of competitiveness and long-term commercial performance.

And then finally, we have objective 3E, is to modernize the Columbia River Treaty. And I'm encouraged that we're starting to see the beginnings of the negotiations between the United States and Canada.

SLIDE 11 - 4: MEET TRANSMISSION CUSTOMER NEEDS EFFICIENTLY AND RESPONSIVELY

Our strategic goal number four cuts right to the heart of Bonneville's goal as a transmission service provider. And we've talked about something that we've heard clearly from our customers as well. And so strategic goal four is to meet transmission customer needs efficiently and responsively. Our customers have time and again ask us now for greater clarity on how to access additional transmission service.

And I think we've responded in the appropriate way, starting out with objective 4A, which is to address load service, congestion and new transmission service requests by using flexible, scalable cost effective and efficient solutions. This was most clearly demonstrated by our decision last year not to build the I-5 corridor reinforcement project, and committing Bonneville to this more efficient and scalable path.

The second focus within transmission, and again, all of us will have to contribute to these opportunities and objectives is to develop and implement policies, pricing and procedures for regional planning that incentivize grid optimization and efficient regional resource development.

Objective 4C, and I wanted to make sure that I network integration customers hear this loud and clear because this has been a very important dialogue, is to meet the current and future needs of network integration transmission service customers through clear business practices and streamlined processes.

Finally, and a topic that I know that has, again, been of significant interest to the region, has to do with the alignment of Bonneville's tariff with FERC pro forma. And so objective 4D is to offer more standardized products and services by better aligning Bonneville's open access transmission tariff with pro forma and industry best practices. And I’m very pleased to see already that our transmission services organization and all the other supporting orgs within Bonneville have already begun rolling out on the transmission of tomorrow, getting ahead of the curve on these issues and also already very, very engaged with the region. I really appreciate the work. That the changes in transmission are going to involve significant culture change. And that leadership team and all the folks across agency are really committed to a much more efficient and responsible customer service experience of our transmission customers. So I want to thank them for getting ahead of this.

SLIDE 13 - STRATEGY AND CULTURE

So finally, I want to turn to the next slide. And I'm going to run just a few more minutes, folks, before I turn it over to the other members of the team. And that gets to the issue of Strategy and Culture. And I talked about that in the beginning. And, you know, really, as I've said to my people here at Bonneville, you know, my biggest learning…[clears throat]…is administrator, and something I'm sure my friends who are managing utilities across the region can completely relate to, is the fact that a good business strategy achieves nothing without the people and culture to make it happen. And it's the reason why we have placed so much emphasis, here at Bonneville, in fostering a safe, positive, inclusive work environment where our people feel valued and enabled to deliver results. And as you'll see in the plan, everything here at Bonneville starts with safety.

And our culture really is rooted in safety. And I just feel so strongly that if we're able to develop a strong safety culture, there are so many positive behaviors and attributes that derive from that. And we're going to continue investing in leadership and diversity. And ultimately, creating the kind of culture that helps Bonneville successfully deliver on this plan.

So, I just have a couple more minutes. So I'd like to just recap a couple of things. I know we're moving just a little bit long. But I think it's really important. One of the big questions I get from folks, both internally and externally at Bonneville, is what's going to be different about this plan? You know, I think many of you who've been actively engaged with us, on the development of this strategy in the last few years, probably recognize a number of these issues. I certainly hope you recognize the focus on cost management and competitiveness and responsiveness, and the financial elements are just foundational. But ultimately what's going to be different? So I just want to recap.

The first thing you're going to see from Bonneville is much greater focus and prioritization around strategic objectives. This plan is going to serve as the central reference point for everything we're doing over the next five years. It will be the basis of business unit operating plans, asset management plans and performance incentives.

The second thing is we're going to have…And I emphasize…I want to emphasize it again much greater cost management and budgeting discipline. We're committing to manage total program costs by business line at or below the rate of inflation through 2028. This is going to take a lot of hard work and force us to carefully scrutinize all of our business activities and processes to insure we're maximizing the value of the system, supporting and investing in the revenue generating parts of the business and eliminating work that does not advance our strategic priorities.

The third area is you're going to see much greater rigor around asset management. And this is going to include taking a hard look at the economic value proposition around all of our assets. To determine if they are producing sustainable returns to Bonneville and our customers, especially with new and emerging needs.

The fourth area is that we are really taking on an extremely ambitious grid modernization strategy, that's going to engage many if not all parts of the agency. And this strategy will help us to extract more value from our existing power and transmission assets, and prepare Bonneville to be a more active player in the Western energy market. I can tell you that this is going to be a very, very large amount of change, both internally and externally, and we need to stay very connected on it.

We're also going to be, as I said, aggressively seeking new market opportunities for clean hydro capacity and supporting efforts to fully capture flexible carbon-free power in the regional power market. This is going to serve as a short term hedge against continuing to press wholesale energy prices and open up new long-term sales opportunities post-2028 if we experience significant load loss or customer diversification. Joel and his team, and all of us across Bonneville are going to really have to dig in to look for these new opportunities that's going to be a different experience.

Sixth is a dramatically improved…[clears throat]…customer service experience and lower transaction costs doing business with transmission services organizations. As well as that more flexible, scalable and economically and operationally efficient approach to meeting and requests the new transmission capacity. I want to emphasize, that's different than today. And we expect to be demonstrating that on a continuous basis.

The last couple of items, I mentioned a workforce that feels valued and is motivated and aligned around the fundamental importance and urgency with that sense of accountability for delivering on our public responsibilities for a commercially successful business. And then right back to today, in this meeting, demonstrated in this revised approach to the QBR, you're going to see greater accountability from senior executives for reporting out on BPA's commercial performance, delivering on our strategic objectives and insuring that that sense of accountability is shared across the agency.

So, I'm going to stop there. And, of course, I really hope all of you have a chance, as we all embark together on this strategic plan to read the plan front to back, maybe more than once, really absorb it. And we're going to be spending a lot of time today at our managers' meeting starting to process what this plan needs to BPA. And what it means for all of our managers and for the organization.

SLIDE 14 – INCIDENT FRQUENCY RATE

And I wanted to thank all of you for all of your contributions to helping us develop what I think are the right goals for BPA at this time. So, thank you very much. And I'm going to turn it over…We're going to move into reporting out. And I get the please, before I hand it over to Mary, of reporting out on our safety KPI. And I feel privileged and pleased to note that safety will always be the first thing that we report out to the QBR. It is our number one core value. It's the first starting point for all of our conversations and everyone for our meetings.

And right now the incidence frequency rate, which measures the number of injuries and illnesses per 200,000 hours worked will be the prime target that we report out on. And for this year, although our long term goals, of course, is and has to be zero injuries at BPA, our goal for this year is an incident frequency rate of 1.2. And right now we're in relatively good shape reporting at 1.0 here in the end of January 2018. So with that, I will pass it over to our acting chief financial officer, Mary Hawken.

SLIDE 15 - FINANCE

Mary Hawken: Alright. Thank you Elliot. And good morning. So today I'll be covering the agency's financial position and also the finance KPIs that Elliot has introduced. And then later this morning both Joel and Richard will share some more detailed information on the power and the transmission expenses and revenues.

SLIDE 16 - AGENCY NET REVENUES

So turning to slide 16, this is our first KPI, agency net revenues. And in all of our financial KPIs we're comparing back to BP-18 Rate Case. So on this chart you can see the FCRPS, or Federal Columbia River Power System net revenues. Currently, based on our first quarter forecast we are expecting to end fiscal year 2018 with $297 million in net revenues. And you can see that that's higher than what we had reflected in the rate case. It's $271 million higher than what was in the rate case.

And I'd like to take a moment and explain why our first quarter forecasted net revenues appear higher than the rate case. The rate case net revenues assumed the interest savings from the regional cooperation debt. While actual financial results, and the forecasted results, reflect those savings as well, they also include the non-federal bond transaction. And therefore the resulting higher net revenue shown in the forecast will be used to pay down the higher-interest-rate appropriated debt that we had anticipated in the rate case.

And I'm going to say that one more time just to make sure it's really clear. So, the rate case net revenues did assume the interest savings from the regional cooperation debt. And the forecast column that you see over to the right on this, the $297 million, also reflects those savings and the bond transactions to achieve those savings.

SLIDE 17 - AGENCY FINANCIAL HEALTH

So going to slide 16, this KPI breaks down our agency, or FCRPS net revenues into total revenues and total expenses. So total expenses you see over to the left those are defined as operations and maintenance, fish and wildlife, energy efficiency, depreciation and interest. And as of the first quarter forecast, we expect to end the year with $3 billion 323 million total expenses for the agency that includes both power and transmission. And that's $304 million under what we had in the rate case projection. And again, this is primarily driven by the debt management actions including the regional cooperation debt that I had described earlier.

The second KPI on this page, to the right, is total revenues which is defined as the consolidation of those power and transmission revenues. And we anticipate ending the year $33,000,000 under what was assumed in the BP-18 Rate Case. And this is based on our first quarter forecast. This is primarily driven by Power Services and will be explained later by Joel.

SLIDE 18 - DAYS CASH ON HAND

On the next slide, slide 18, we're showing our new KPI days cash on hand. This indicates the number of days BPA can pay its operating expenses, given the amount of financial reserves available. And days cash on hand is a common industry measure of cash liquidity. Besides the days cash on hand this graph also shows you our current financial reserves outlook. So if you go to the very last column, under agency, the bottom line days cash on hand, you'll see that we are anticipating 60 days cash on hand as of the end of the fiscal year. This is four days less than what we had expected in the rate case. And this is due primarily to better than expected financial reserves for Transmission Services that balance out the lower expected reserves for Power Services.

So as a reminder…[clears throat]…when we establish our Financial Reserves Policy, we set a minimum level of 60 days on cash on hand, and that's what we are now forecasting to be at. The 60 days cash on hand equates to about $300 million for Power and $100 million for Transmission Services.

Now if you look to the fourth column on this chart under power, the forecast, and you go down to the third line you'll see the reserves available for risk. And we're currently forecasting for Power Services that’s the negative $42 million. So the negative $42 million then translates the 72 percent probability of triggering a cost recovery adjustment clause, or CRAC. And that CRAC would then go into effect in fiscal year 2019.

But I want to really stress that BPA will be diligent about expenses. We will continue look for cost management opportunities to offset this potential CRAC. But we may actually have to use this financial tool. Maintaining a minimum level of financial reserves is an important objective outlined in our strategic plan and it's a critical element in supporting our credit rating.

We'll be discussing with you how we can…[clears throat]…excuse me…build and maintain reserves in an upcoming public process this spring.

SLIDE 19 - CURRENT BORROWING POSITION

Slide 19 says our current borrowing authority position, KPI. So this KPI tracks BPA's $7.7 billion borrowing authority cap, less the amount currently outstanding. So as of the end of December 31st, BPA has used $5 million of the $7.7 million borrowing authority, leaving $2.7 available. And based on the projections from our BP-18 rate filing, this will be depleted by 2023.

And so BPA has set a target to maintain sufficient debt capacity on a rolling ten year basis to insure funding for our capital program. This target includes preserving $1.5 billion of borrowing authority for contingencies that may be either operational or capital related. And that $1.5 billion also includes the $750 million treasury notes that serves as a line of credit. And we're committed to hosting a debt management workshop prior to each rate case to discuss and to develop a ten-year capital-financing plan to ensure this objective is met on an ongoing basis.

SLIDE 20 - DEBT-TO-ASSET RATIO

Slide 20 shows a new KPI for us, that's asset ratio. And Elliot had talked about his. The debt-to-asset ratio is a common industry measure of leverage. It's defined in our strategic plan as the proportion of BPA's revenue generating assets that are financed through debt and we are committed to tracking the metrics to the agency and also by business line. So BPA is highly leveraged as of the end of 2017. And you can see from this table our current debt-to-asset ratio for the agency is 90 percent, whereas compared to the industry average, that's 54 percent.

So BPA's high debt-to-asset ration is a result of us using debt to finance all of our capital investments historically. Also on this table you can see that power's debt-to-asset ratio is currently 99 percent. For transmission the ratio is 80 percent.

So, as Elliot had mentioned, this strategic and financial plan set a goal to achieve a debt-to-asset ratio of 75 to 85 percent in ten years and then 60 to 70 percent in the long term. These goals will apply to both agency and at each business line power and transmission. And we're committing to a public process to develop a policy that will guide us on how we will meet these targets.

SLIDE 21 - ENGAGE WITH FINANCE

So going to slide 21, I've talked about several public processes that we have planned for this fiscal year in 2018. These will be focused on maintaining and strengthening BPA's financial health. While we have outlined these commitments in the strategic plan that Elliot has described this morning, we're also committing to them in the 2018 Financial Plan.

The 2018 Financial Plan is a very important companion piece to the strategic plan. And we're going to publish that plan on Tuesday, February 6, so you want to watch for that. It will be on BPA's external website.

In addition, BPA will be kicking off two of the financial public processes on Friday, March 2nd. We're going to start the day with a high-level industry panel that will set the landscape for the detailed workshop discussion. The panel will include a rating agency perspective, capital market, and other industry perspectives.

Also included in this day will be a workshop that will start the discussion on updating the financial reserves policy to determine how best to phase in the lower threshold for power services.

We're going to close out the day with a workshop on a evaluating and establishing debt utilization and debt capacity goals. And additional details are going to be coming out here in the coming weeks on that particular day, March 2nd, and the workshops that are going to occur on that day. So you'll be seeing those come out shortly and we strongly encourage you to attend.

So this concludes my finance overview for today. For those of you who are looking for more detailed financial information, the quarterly financial package, which is similar to the former QBR slide that many of you may remember, that is still available on BPA's financial overview webpage.

SLIDE 22 – POWER SERVICES

Mary Hawken: And now, I'm going to turn it over to Senior Vice President of Power Services Joel Cook, who will provide more details on power services financials, and also their initiatives.

Joel Cook: Thank you Mary. [Clears throat] Good morning everyone.

SLIDE 23 – POWER SERVICES EXPENSE

We are now on slide 23. For our first quarter total operating expenses through December are $41 million lower than the rate case expectation, which was $625 million, due in part to lower spending in several areas. The Corp of Engineers has under-spent $5 million, Bureau of Reclamation $6 million and our non-generating and operations, otherwise known as power's general & administrative expense or our people costs, are under by $7 million.

The largest savings, $23 million, is the result of the benefits of the regional cooperation debt transactions that Mary previously described which lower the cost of our interest expense.

Taking Q1 operating expenses to date into account, our end-of-year forecast, total expenses are currently forecasted to be $133 million lower than the rate case. Most of which is due to the affects of the regional cooperation debt and some additional miscellaneous reductions.

SLIDE 24 – POWER SERVICES REVENUES

Turning to the next slide, our operating revenues through December are $3 million higher than rate case expectations of $671 million, mainly due to higher secondary sales of $11 million dollars, which was largely due to more surplus power and higher water supply. However, that gain was partially offset by lower loads. We also saw an increase in revenues from our industrial power, or DSI customers.

Taking Q1 operating revenues to date into account, our end-of-year forecast of operating revenues is $31 million less than the rate case, as shown in the upper right hand corner of this slide. This is due to lower preference customer loads. Lower loads are the results of updated load requirements from our block customers and some of these reductions are due to economic load loss, and some are based on updated load forecasts. As you would expect, some of the revenue loss from lower preference loads are being offset through higher projected secondary sales.

In summary, although power's actual net revenues through the first quarter are above rate case expectations, the net revenue forecast for the end of year of $300 million is trending lower than the $325 million net revenue target due to lower expected operating expenses.

SLIDE 25 - PERCENTAGE OF ANNUAL RUNOFF

Turning to Slide 25, Power's financial performance is closely tied to the water supply and market expectations. This graphic shows where the water comes from within the basin, and the important areas where precipitation will impact our federal Columbia system. As you go down the river, the percentages indicated on the map are cumulative from the percentages upstream. So for example, at Grand Coulee the 59 percent value there is a weighted average of the flows upstream.

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SLIDE 26 - SNOWPACK CONDITIONS

This next image shows snowpack conditions across the basin. The snowpack map shows the snow/water equivalent percentages for the federal system are slightly above average above Grand Coulee, and above average in Northern Idaho and Western Montana. Snowpack above Coulee is especially important because this is more storage in the form of higher elevation snow and river operation.

Finally, the overall water supply at The Dalles is near average. However, precipitation has materialized in important areas previously mentioned that have bolstered federal generation above rate case expectation. Since the printing of these slides, snowpack levels have increased from the near average levels you see on the slide to a 103 percent of average. The water supply forecast has also increased from the 98 percent you see on the slide to an average of about a 104 percent.

SLIDE 27 - HENRY HUB PRICES

Moving on to market prices, the next two charts indicate how power's rate case market price forecasts have performed against actual market performance and remaining outlook for the fiscal year. Actual natural gas prices are lower than rate case due to winter weather related demands failing to materialize in November and December, as you can see on the chart.

Further, L&G exports have not ramped up to expected levels that were assumed in the rate case. Looking forward there's an expectation of continued production growth that will weigh on gas prices throughout 2018. As seen on the chart, January 2018 NYMEX contracts had about 70 cents per MBTU in December with mild start to the winter and production increase more than expected. Additional pipeline capacity has come online sooner than industry and rate case expectations. And they seem to have filled up with new production almost immediately.

SLIDE 28 - MID-C PRICES

Turning now to Slide 28. On peak electric prices at the Mid-C on an annual average basis are trending below rate case expectations, mainly due to changes in water supply and lower natural gas prices. The majority of price variation seen between the rate case 18, or business plan 18 and the forward ICE prices are mainly due to differences in water supply shape. Electric prices are moving higher in May, mainly due to anticipated summer demand and actual water supply changes compared to the eighty year average shape that we use for the rate case.

SLIDE 29 - POWER SERVICES CAPITAL

Moving on now to capital spend, this key performance indicator for capital expenditure tracks power's total capital investment program for the year compared to the start of the year budget. We are developing a different metric that measures capital spend versus percentage of completion for future QBRs.

Total power capital expenditures through December are $50 million with the end of year forecast at $267 million. Budget execution for said hydro is currently at 108 percent of the Q1 target, which is $36 million spent against the rate case of $33 million. This represents about 20 percent total fiscal year budget.

The largest expenditures for our federal hydro in '18 are ICE Harbor turbine runners, McNary space and service replacements, Grand Coulee firehouse, along with work at Grand Coulee on impellers, batters, cores and relines on units 5 and 6. Hydro program spending is forecast to increase to $300 million by 2021, based off the 2016 IPR 2 process.

SLIDE 30 - FEDERAL HYDROPOWER RELIABILITY

The next two slides discuss our plant's reliability. This key performance indicate for fed hydro is the forced outage factor which reflects the percentage of hours the federal system is not available to run due to unplanned events. The target for fiscal year '18 is 5.9 percent, with actual performance through December at 3.6 percent. This is a good result with no new significant forced outages occurring in Q1.

SLIDE 31 - COLUMBIA GENERATING STATION RELIABILITY

The next slide, the key performance indicator for Columbia Generation station is availability factor, which captures the percentage of time PGS if available to serve demand. The target for FY 18 is 94 percent or better. Performance through December is very close to the target at 93.5 percent.

Looking forward, power services main focus in the new strategic plan is to provide competitive products and services. Increasing the value of our clean energy through long term sales is a key component to meeting power's new strategic direction. Recently we signed a significant deal with a regional IOU, to sell capacity and energy over 5 years. We will continue to explore revenue enhancing and cost savings opportunities. And look forward to sharing them with you at future quarterly business reviews.

SLIDE 32 – TRANSMISSION SERVICES

Joel Cook: Now I'd like to turn it over to Richard Shaheen, our senior vice president of Transmission Services, who's going to give you an update on the transmission side.

Richard Shaheen: Thank you, Joel and thank you Elliot as well. And good morning to everyone on our call. Continuing our first quarter business report, I'll cover the transmission business line. I'll start off with a few fiscal slides, move into some reliability slides and then wrap it up with a few topical area updates for transmission.

My slides will be somewhat parallel to those that Joel went over for the power business line by way of their depiction of our fiscal and reliability metrics.

SLIDE 33 - TRANSMISSION SERVCIES EXPENSE

I'll start off moving to Slide 33 for transmission services expense, for fiscal year '18. This is our total expense depiction by month. Our total expense is made up primarily of our internal operating costs, our transmission related BPA costs, as well as our debt service costs.

What you're looking at on the chart on the right hand scale is in millions of dollars. Each month has our BP-18 Rate Case forecast, with the first three months depicting our actuals in the darker bar. For the first quarter of fiscal year 18 we had a total expense of $233 million, which is approximately 22 percent of our full year BP-18 Rate Case figure, which you'll find in the upper right hand box on this slide, $1 billion forty-three million.

Our end of first quarter end-of-year forecast is slightly above that at $1 billion forty-eight million, $5 million above the rate case figure. Although slightly above the rate case figure our projections are that we will come in right or below the target for our total full year expense.

SLIDE 34 - TRANSMISSION SERVCIES REVENUES

Moving on to the next slide, slide 34. This is a depiction of our transmission services fiscal year '18 total revenues. Again, on the right hand scale showing millions of dollars, with each month showing a projection for our full year. The darker bars show our actuals for the first three months of the year. And they sum to $262 million dollars, which is approximately 25 percent of our BP-18 Rate Case full year figure which again you'll find in the right hand corner box, of $1 billion fifty-two million for the full year.

Our end-of-year forecast, at the end of the first quarter is one billion fifty-four million against that rate case figure. Which puts us approximately right at the rate case figure. And we expect revenues to trend along the way throughout the year towards that figure.

SLIDE 35 - TRANSMISSION SERVICES CAPITAL

Moving on to the next slide. This is our Transmission Services capital. And there's actually two things that are depicted in this slide. One is our capital spend and one is a units installed, which essentially described our work plan for the year.

First let me go over the capital spend, which is on the left hand side of this chart in hundred of millions of dollars. For the first three months of this year, we are at $103 million dollars total spend. Which is approximately 23 percent of our full year plan of $441 million spend. So at 25 percent of the year we have a 23 percent spend.

Moving to the right side of the chart, it shows our work plan progress. A total of 419 units comprise our plan. And as we said at the end of the first quarter, we have completed 125 of those units. So we're about 30 percent complete with our full year plan, with 25 percent of the year behind us and a spend of 23 percent to the full year budget. This puts us on target for meeting our obligation both in work plan as well as capital spend.

SLIDE 36 - TRANSMISSION RELIABILTY - SAIDI

Moving on to the next side, and the couple of slides, are performance metrics for transmission reliability. The first one, SAIDI, which is industry standard measure, is our system average interruption duration index. This is a measure of average minutes per outage. For our transmission grid at BPA, we track this in two parts of our grid. The low voltage, less than 200 kV, and the high voltage, greater than 200 kV.

We also have on this chart dashed lines which depict warning levels. These are based on historical performance within the transmission BPA grid and they are not to exceed levels. Down is good on this chart.

For the end of the first quarter, we only have one data point. This index, as well as the next, are measured on a quarterly basis. As we progress through the year, and as we carry these QBRs forward, we'll add quarterly results and these dots will then turn into line charts so you can see trending throughout the year.

For our low voltage we are at 150 minutes and for our high voltage we're at 129 minutes. Both results better than our warning limits and we expect that trend to continue throughout the remainder of the year.

SLIDE 37 - TRANSMISSION RELIABILTY - SAIFI

Moving on to the next slide, alide 37, we have our other main reliability metric, which is SAIFI. Again, an industry standard measure, standing for system average interruption frequency index. This is the average number of outages throughout the year. Unplanned outages. Again, we track it in two forms, both in low voltage less than 200 kV, part of the grid, and high voltage greater than 200 kV part of the grid. And as before we have dash lines showing out warning levels, based on historical performance for both measures.

For our high voltage you can see we came in at 0.27. However, our low voltage is slightly above our warning limit at 0.74, with the warning limit being at 0.66. While this is currently above our warning limit, we expect the ups and downs through the year to level out and put underneath our warning limit delivering a performance better than our historical expectations.

We had some pretty nasty weather in ice and wind in December. But it's still early in the year and we expect the recovery of this to achieve the performance levels that we expect in reliability.

SLIDE 38 - ENGAGE WITH TRANSMISSION

Moving into my final slide, I want to give an update on a few key topical areas within transmission. First, let me speak of reliability coordination. I'll provide a brief overview and on each of these four. Starting with reliability coordination, FERC requires that all utilities functioning as a balancing authority, or as a transmission operator, obtain reliability coordination services. Currently BPA partially funds and receives and these services from peak reliability.

On January 2nd, the California Independent System Operator, CISO, announced that it would withdraw as a funding party for liability coordinator services from Peak by September of 2019. CAISO also announced it would begin offering its own reliability coordinator services within its balancing authority area in May of 2019 and to other balancing authorities and transmission operators in September of 2019.

Reliability is a key component of Bonneville's mission. How we proceed will impact how we serve our customers. BPA will coordinate with other funding parties, and Peak, during CAISO's withdrawal process to help insure that the interconnected grid reliability and systems security remain a principle focus and priority for the western interconnection.

BPA will also work with key stakeholders and customers to determine what options make sense for BPA going forward to deliver continued reliability and focus on the greatest benefits and value to our customers and the region. We held a customer meeting last week to discuss BPA's objectives and options. There was good participation and dialogue that will help BPA as we navigate forward.

Meeting transmission customer needs includes maintaining reliability, which was the highest objective as BPA considers possible alternatives moving forward.

Next let me touch on the next topical area of transmission tariff engagement. BPA has been implementing our new transmission business model. Elliot alluded to this as our transmission of tomorrow, under which we will offer standardized products and services that are aligned with the pro forma tariff and industry standards. BPA is determined that seeking FERC approval for changes to our tariff is no longer a tenable approach, particularly as we look to modernize operations and better meet customer's needs.

We recently announced a couple of weeks ago in early January we would conduct a public process to set terms and conditions for transmission service aligned with the goals of our transmission business model. We will use a hearing under the Section 212 of the Federal Power Act, which is unique to BPA. The 212 hearing follows the same process that BPA uses to establish rates. BPA will run the hearing concurrently with the next rate case, which will begin in fall of 2018.

Next, pro forma gap analysis also a component of the transmission business model. We ran a series of customer workshops last year to get feedback on a number of areas that we want to feed into the tariff effort. We'll be announcing an updated schedule of customer meetings to provide update and share progress with customers through this summer. Those meeting will be on the BPA calendar and the transmission business model website.

And lastly, the last topical area to touch on, the transmission study and expansion process, the TSEP. Being responsive to request for long term service across our network continues to be a challenge in a time of limited transmission capacity and limited capital budget. We will be moving forward with the engineering and environmental phases of the 2016 TSEP, as well as setting the stage for the 2018 TSEP. That concludes my update, as well as today's update from the business lines. Transmission is committed, as it states in the strategy and Elliot stated earlier to be…continuing to be and approving up being a dependable and responsive business partner to the region. And we look forward to the collaborative efforts moving forward.

SLIDE 39 – SPILL SURCHARGE

Richard Shaheen: Now I'd like to turn it over to our Deputy Administrator Dan James, who is going to provide a brief update on the spill surcharge. Dan?

Dan James: Good morning everyone. And thank you for bearing with us. We have just a few minutes left to go.

SLIDE 40 – SPILL SURCHARGE

We're now on Slide 40. I'm able to give you a very brief update on the spill surcharge. It's an important unresolved issue related to the BP-18 Rate Case. BPA incorporated the spill surcharge into BP-18 to recover the costs associated with an increase in fish passage spill as a result of the spring 2017 spill injunction ruling by the U.S. District Court of Oregon. As you know, the court ordered increased spill at eight FCRPS dams on the lover Columbia and Snake Rivers for the 2018 spring fish passage season.

The cost implications of this ruling were not known at the time we set the rates in July 2017. So, BPA adopted the surcharge. The spill surcharge adjusts non-slice power rates to recover the cost, or lost revenue, associated with the increased spill and lost generation relative to the spill assumptions used when setting rates.

The federal agencies appealed the District Court's spill ruling to the Ninth Circuit. The appeals court agreed to review this case on an expedited basis and is expected to hold a hearing before spring season begins. Unfortunately, we're not at liberty to discuss the spill surcharge further at this time due to active litigation.

We are committed to keeping the region informed. And as we have developments that could be shared, we will use this forum and other public processes. We appreciate your patience and understanding.

SLIDE 41 - CRSO EIS

Moving to slide 41, I'd like to give a brief update on the CRSO EIS. As most of you know, BPA is working with the other actions agencies, which are the U.S. Army Corp of Engineers and the Bureau of Reclamation on the Columbia River System Operation, or CRSO, environmental impact statement. We're in the alternatives development phase, which will lead up to the development of a draft EIS in 2021.

We expect to publish a CRSO newsletter in early February and some updates on the progress of developing the EIS. Stay tuned for more opportunities for public engagement throughout the year.

And, I would encourage you to go the website that is on your screen, crso.info, for more information and to sign up to receive updates.

SLIDE 42 - PUBLIC PROCESSES

Now I'll turn it back over to our colleague Scott Simms, Director of Communications at BPA.

SLIDE 43 - PUBLIC PROCESSES

Scott Simms: Thank you very much, Dan. Before we take questions we wanted to make sure that we get a few reminders out about the upcoming opportunities to engage with Bonneville. Certainly you've heard about some of those today and we know that it can be tough to keep up with all that's happening here at BPA. You can track all of our public processes at bpa.gov but we will go ahead and give you a roundup of what's coming in the days, weeks and months ahead.

First, transmission is hosting a workshop February 2nd to discuss weighing real power loss return obligations during oversupply conditions.

BPA is revising its rules of procedure for the upcoming BP-20 rate case and tariff proceeding that will take place on the same schedule.

And Richard had already mentioned the TSEP close out on February 22nd.

Mary also mentioned the strengthening financial health public process workshops on March 2nd.

As well, Elliot mentioned the revamped Integrated Program Review, or IPR. The save the date for the IPR workshop is June 18-22.

As we have more information about the schedule, we'll share those details.

SLIDE 44 – COMMENT PERIODS

For the Mary's Peak communication site upgrade, Bonneville has come back to the communities of Corvallis and Philomath, Oregon with some new alternatives based on feedback we received during the first round of scoping. The comment closes February 21.

We're also accepting comments on a wildlife habitat stewardship and restoration agreement for Albeni Falls Dam in Idaho through February 23rd.

BPA is proposing to fund a lower Columbia estuary partnership, a proposal to restore floodplain connective for the Columbia River. This is within the Steigerwald Lake National Wildlife Refuge in Clark County Washington. We've published a draft environmental assessment and are accepting comments through February 26.

SLIDE 45 - QUESTION AND ANSWER

So that concludes the presentation portion of today's QBR. We'll now begin taking your questions. We will be reading the questions from individuals who have submitted them today during this forum. As a reminder, you can still submit questions by clicking the chat button on the upper right hand part of your screen if you're part of the WebEx presentation. Enter your question and press send.

As well, we cannot answer questions on the spill surcharge at this time because the spill injunction is currently in litigation.

So let's start with our first question. Our first question came in on the topic of finance for Mary Hawken and the question is from Ron asking, has BPA officially changed the Treasury payment probability target from 95 percent to 97.5 percent?

Mary Hawken: BPA has not changed our Treasury payment probability target. So the very short answer is no. And to explain a little further, the 95 percent probability target is over two consecutive years. And then that 95 percent translates into a 97.5 percent for one year. But we have not changed our target.

Scott Simms: Great. Thank you very much, Mary. The next question comes on the topic of power. Can Joel discuss what BPA is doing to hedge forward to capture the June through August variances, in the Mid-C prices?

Joel Cook: Thanks Scott. I won't discuss specific transactions. However, we are currently working through a process internally to identify and propose changes to our risk management policy. One of the objectives of this is to increase our ability to hedge financially out three and possibly as much as five years consistent with our business plan. Currently we are limited to six months. This, among other changes will be important to managing the price volatility within our secondary sales.

Scott Simms: Great. Thank you very much, Joel. Our next question comes on the topic of transmission for Richard Shaheen. The question is does the stated capital expenditure include customer financial projects?

Richard Shaheen: Thanks Scott. Yeah, so slide 35 noted that we had spent $103 million in the first quarter of the year versus a total capital plan of $441 million. Those figures do not include the customer finance projects. Those customer finance projects while work internal through our own resources and oversight and plan of action with engineering and construction, the numbers depicted in our capital metric do not include those dollars from the customers that finance those projects.

Scott Simms: Great. Thank you, Richard. Another question from the WebEx is does BPA anticipate another run to privatize?

Elliot Mainzer: This is Elliot. I assume I'll take that question Scott. Certainly I think in the current political environment we continue to see proposals to potentially monetize or sell off our transmission assets. This is something…a proposal that we've seen over the years, I think it's probably the third or fourth time. At this point we're watching a proposal carefully, engaging when asked, but not taking any other specific actions at this point to respond to it.

Scott Simms: Great. Thank you very much, Elliot. The next question we have is for Joel Cook. And this is, is the under-spend by the Corps and the Bureau that you mentioned expected to persist to the end of the year, or is it transi…transitory, excuse me?

Joel Cook: So, my expectation was will it be transitory? However, if you look at our past history we tend to underspend a little bit by the time we complete the year. But we tend to get a little bit of a slower start. So, I would expect it to be close to expectations, but slightly under.

Scott Simms: Great. Thank you very much, Joel. Next questions is, just a quick reminder or a restate on the CRAC threshold for power. Mary, do you want to take that?

Mary Hawken: Yeah. The CRAC threshold is based on the accumulated calibrated net revenue calculation from rates. And roughly, you can look at these reserves for risk for power and when it reaches zero or below zero that would be an indication of the CRAC triggering.

Scott Simms: Okay. Thank you, Mary. This one is one that a couple of folks here at the table can answer. And that is, can you comment on the status of BPA's effort to develop new flexibility products to increase revenues? Do you want to start off with that Elliot, or do you want Joel?

Elliot Mainzer: I'm going to let Joel take it. He's right in the middle of it.

Joel Cook: So our…a big part of our focus has been to try to find opportunities to increase the value of the capacity that our federal system has and can deliver to the region. Most recently we spent time working on day-ahead capacity type products. And, we believe that will be a continuing opportunity to add additional revenue in the foreseeable future.

Elliot Mainzer: I will just add one thing on top of that. Something that has been particularly interesting is we know that late last year the California Independent System Operator has advanced a proposal for establishing a day-ahead flexible capacity product that would ultimately allow for generators to be compensated, but providing the reliability and flexibility to help California with it's duck curve issue. And address some of the missing money and capacity issues at play in the West. So that's something that we'll also stay very engaged with other players in the Northwest on and I'm quite encouraged to see that, so….

Scott Simms: Great. Thank you very much, Gentlemen. Next question is, why are power reserves down from last year when expenses are down by $133 million and revenues are only down by $31 million from the rate case? And I believe Mary Hawken is going to answer this.

Mary Hawken: The majority of the reduction in power expenses is due to the debt management actions that I had described earlier. The regional cooperation debt and the reserves generated from those debt management actions will be used to pay down higher-interest appropriated debt and that will generate interest savings that will appear on the power income statement consistent with our rate case forecast. So the reduction in power reserves that you're seeing is mostly due to the reduction on the revenue side that Joel has described.

Scott Simms: Great. Thank you very much, Mary. We currently do not have any additional questions in the queue. We'll wait just a brief moment for any others to queue up before we determine the call…close out the call. [Short pause]

Okay, we have one additional question. One all of the above strategy on debt capacity, slide 8, does that include revenue financing?

Mary Hawken: That is part of the all of the above strategy that Elliot had described and you'll see described in the strategic plan. Yes.

SLIDE 46 – THANK YOU

Scott Simms: Great. Thank you very much. So I think we're going to go ahead and wrap up the question and answer section today. We really appreciate all the questions that were asked into the forum. If you were unable to get your question in today, please send it to communications@bpa.gov. Again, that's communications@bpa.gov.

Questions already submitted via today's WebEx do not need to be resubmitted. We will be posting follow-up answers to all these question on the QBR webpage in the coming weeks, along with a recording of today's meeting. And now for a final word from Elliot.

Elliot Mainzer: Well, first, again I'd just like to thank everybody who is involved in pulling this session together and then all of the customers who participated, and others. Really do appreciate your time. I'll certainly look forward to your feedback on the format and effectiveness of the meeting. Of course, we're always committed to continue some improvement here at Bonneville and certainly hope this is a good starting point.

I just wanted to leave all of you with one final thought. And this is something that we note on page eight of plan. And that is that while we're embarking on this five-year strategic plan in a very focused and purposeful manner, we're going to also continue to engage our customers in the region on the longer term issues facing Bonneville, including legal, environmental, economic and power supply risks. BPA is definitely going to need the collaboration and support of a broad range of contributors to sustain its role as an engine of the Northwest economic prosperity and the environmental sustainability. And I just wanted to assure you all that you have a great partner here and collaborator in working together on these really important issues. So, thanks again for your time. And we look forward to seeing you all at the next one. Cheers.

Scott Simms: Thanks everyone.

SLIDE 47 - FINANCIAL DISCLOSURE

[End of QBR]