JULY 31 QBR FOLLOW-UP QUESTIONS

-Slide 16 shows that Transmission Reserves Available for Risk were expected to be $405 million in the BP-18 rate case materials, but are now projected to be $472 million, an increase of $67 million.

-Slide 29 shows Transmission expenses are projected to be $7 million higher than projected in the rate case ($1,050 instead of $1,043)

-Slide 30 shows Transmission revenues are projected to be $26 million higher than projected in BP-18 ($1,078 instead of $1,052)

The combined effect of the higher expenses and higher revenues should result in a $19 million increase in net revenues.

The question is, with a $19 million increase in net revenues, how are reserves projected to increase by $67 million?

The largest change from rate case expectations to the third quarter end-of-year forecast is due to better than expected gains in financial reserves in FY 2017. The BP-18 Rate Case assumed Transmission would end FY 2017 with $403 in reserves for risk. However, due to lower expenses and better-than-expected revenues, Transmission ended FY 2017 with $463 million in reserves for risk. The additional $9 million gain in FY 2018 is due to a variety of factors including the higher net revenues identified above being offset by a variety of expenses including a cash payment for a previous year's accrual.

Based on the slides, it appears that BPA allocated this $70 million to reserves not for risk in 2017. Should the $70 million have been counted in reserves for risk then?

No. The $70 million was moved to reserves not for risk in FY 2017 in order to get a more accurate accounting of reserves for risk for calculating the probability of a power cost recovery adjustment clause. This action was taken because it was known that the $70 million would be used in the BP-18 rate period as a one-time credit to non-Slice customers.

Has this $70 million now been moved to reserves for risk, and out of reserves not for risk?

Yes.

Can BPA explain what changes in modeling at the start of FY 2018 led to this discrepancy?

At the start of FY 2018, BPA modelled the $70 million in the reserves forecast as an additional U.S. Treasury payment above and beyond what was currently scheduled to be paid to the Treasury. In the BP18 rate case, the $70 million was modeled as an offset to the base Treasury payment so the customers were not charged for the total scheduled payment. This is the treatment previously agreed upon with customers and described in rate case documentation. BPA has fully and timely met the requirement per the RCD program and is not required to make what would be a duplicate $70 million payment to remain in compliance.

BPA is currently conducting a root cause analysis with its Risk organization to improve our forecasting and to catch potential errors before reserve forecasts are finalized.

Can BPA explain in more detail how non-slice customers were scheduled to get a credit for this amount in the BP-18 case? Was a credit given?

The BP-14 rate period did not include the benefits of the RCD program as it had not yet been fully approved. Consequently, non-Slice customers overpaid $70 million. The non-Slice portion was held in Power Services' reserves available for risk and was used to lower the BP-18 non-Slice customer rates as a one-time credit through the revenue requirement calculation. A more detailed description of how the credit was incorporated in the BP-18 revenue requirement is available in BP-18-E-BPA-14 Power and Transmission Revenue Requirement Testimony on page 22.

Additional details were shared at the May 2017 QBR starting on slide 17.