Nov. 7 QBR FOLLOW-UP QUESTIONS

On slides 12 and 13, BPA presented charts with information pertaining to FCRPS net revenues. Could BPA confirm that the higher than forecast net revenues ($445 million) reported on Slide 12 were a result of reduced expenses ($387 million), and higher than forecast revenue ($57 million), reported on Slide 13?

The end of year net revenues values listed above are correct but may not add up due to rounding.

If possible, could BPA please provide more details regarding the causes behind the actual, lower expenses of $387 million reported on Slide 13.

Lower expenses were primarily driven by two major factors, Regional Cooperation Debt refinancing and cost management. The lower expenses were largely the result of Regional Cooperation Debt refinancing transactions which refinanced a significant portion of low-interest rate nonfederal debt service to pay off higher-interest rate federal appropriated debt. Regional Cooperation Debt refinancing primarily impacts nonfederal debt service, interest expense and other income and expenses. The actual variance of decreased expenses of these three RCD expense categories compared to the rate case is approximately $311 million. The remaining $76 million variance from rate case is largely due to cost management efforts across the agency.

Slide 14 summarizes that for FY 2018:

- **Power system expenses were $52 million less than expected**
- **Power system revenue was $35 million higher than expected**
- **Transmission system expenses were $19 million less than expected**
- **Transmission system revenues were $38 million higher than expected**

Could BPA please clarify the difference between the information on revenues and expenses presented on Slide 13 and the difference between forecasts and actuals that can be calculated from the information on Slide 14, as the change in expenses and revenues are not the same across the two slides.

More specifically, Slide 13 reports that Agency system total expense was $387 million lower than forecast, but the numbers on the difference between forecasts and actuals for system expense reported in Slide 14 adds up to $71 million lower than expected. Likewise, Slide 13 reports Agency system total revenue was $57 million higher, but the information on Slide 14 adds up to $73 million higher than expected.

The Power expense summaries on slide 14 exclude the impact of Regional Cooperation Debt refinancing – instead putting the focus on the cost-management efforts BPA undertook in FY 2018.

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The information on slide 13 shows BPA's financial information from a combined Federal Columbia River Power System perspective. This perspective excludes any revenues and expenses that are between the Power and Transmission business lines. In the Financial Overview package, the inter-business unit revenues and most of the acquisitions and ancillary services expenses are eliminated (for Power see slide 3 and for Transmission see slide 10 of the detailed financial statements). The other large difference, as mentioned in response to question 2, is due to Regional Cooperation Debt service expense which was forecast in the rate case and refinanced in FY 2018. This variance in Regional Cooperation Debt service expense is reflected in the actuals-to-rate case comparison on slide 13 but has been adjusted for in the comparisons on slide 14.

Slide 17 indicates that Transmission End of Year Financial Reserves are up $180 million over BP- 18 estimates.

Could BPA please reconcile the increase of $180 million in Transmission financial reserves with the reported $57 million increase in Transmission net revenues resulting from reduced expenses and increased revenues for FY18 (Slide 14). In other words, what was the cause(s) of the additional $123 million collected for Transmission Financial reserves?

The main drivers for higher Transmission reserves include:

- Higher-than-expected revenues in FY 2017 and FY 2018 ($28 million + $57 million = $85million),
- Timing differences/end-of-year cash adjustments ($23 million),
- Higher non-cash, also known as depreciation, expense ($13 million),
- And an increase in funds on deposit, or reserves not for risk ($47 million).

In the BPA Administrator's Record of Decision for the "Financial Leverage Policy", the Administrator indicated that Transmission FY18 debt-to-asset ratio would be ~83% (Figure 1, page 7). The materials presented in the Financial Leverage Workshop on March 20th indicate FY18 debt-to-asset ratio of 80.58% (Slide 6) based on the BP18 Transmission Final Proposal.

Slide 15 of the Nov. 7 QBR presentation indicates that Transmission's EOY 2018 debt-to-asset ratio came in at 78%.

Could BPA please provide an explanation on what caused the Transmission's FY18 debt-to- asset ratio to come in lower than expected.

BPA is currently analyzing the reason Transmission's debt-to-asset ratio to come in lower than expected. BPA will provide an update at a future QBR when information becomes available.