**AUG 17 QUARTERLY BUSINESS REVIEW FOLLOW UP**

**Q. Mike Deen (Public Power Council): What is the vintage of market price and hydrological data supporting the Q3 financial forecasts presented in the technical workshop?**

A.: For Q3 the Volume study used was Study 22, which had the January – July volumes at The Dalles Dam at 83.3 MAF.

**Q. Question/Comment: (Henry Tilghman, NIPPC). I think you need to do a more complete written analysis of this issue. A handful of slides isn’t sufficient. Please also address the implications of increasing deferred borrowing vis a vis the other financial policies.**

A.: BPA has provided briefings on the historical Prior Year Funding Adjustment issue at several QBR Technical workshops and a follow up workshop over the past year. The communication dates and key points are outlined at the end of this response.

With regard to policy implications, BPA’s long-standing practice is to utilize adjustments to deferred borrowing for prior year capital funding changes. By adjusting deferred borrowing to address the historical prior year funding issue identified in FY20 BPA has followed its existing policies and practices.

Key items and concepts to bear in mind:

* BPA Reserves = Cash + Investments + Deferred Borrowing.
* Deferred Borrowing represents cash spent on capital expenditures for which BPA has not yet borrowed. It is included in reserves for two key reasons:
  1. BPA borrows for liquidity. Our borrowing practices should not influence reserves triggers; inclusion of deferred borrowing in reserves remedies this issue.
  2. Deferred borrowing is functionally a cash equivalent because it can be converted to cash with very short notice.
* Deferred borrowing also ultimately affects debt outstanding, as it will eventually be converted to debt. As such, BPA’s measurement of debt-to-asset ratio and long term borrowing authority forecasts both include deferred borrowing.
* At the end of FY20, BPA made the adjustment to Transmission Reserves for the historical prior year funding adjustment issue, which impacted the amount of the end of year Reserves Distribution Clause (RDC). The $11.8M true up covered at the Q3 QBR Technical workshop, closes out the historical prior year funding adjustment issue; and is the final adjustment associated with this historical issue.

With this in mind, incrementing or decrementing deferred borrowing to true up the historical prior year funding adjustment means:

* Reserves are restored to where they should have been had we captured the full correction for the historical prior year funding adjustment at the end of FY20.
* The amount of capital spending eligible to be funded with US Treasury bond debt is restored to the appropriate level with this adjustment.
* Ultimate borrowing authority restoration is also impacted. BPA made an additional $79.7M debt payment in March FY21 associated with the FY20 RDC. Incrementing deferred borrowing by $11.8M for the historical prior year funding true up, means that the true borrowing authority restoration impact is $68M, i.e. the net of the two numbers.

See table below for the summary of these points.



Prior year funding adjustment public communication and presentations:

* Aug 18, 2020 QBR Technical Workshop - [FY20 Q3 QBR Technical Workshop Final](https://legacy.bpa.gov/Finance/FinancialPublicProcesses/QuarterlyBusinessReview/qbrdocs/Q3%20QBR%20Tech%20Workshop%20Final%20Presentation%208.18.20.pdf), package informs that BPA is reviewing the prior year funding adjustment issue to determine whether an adjustment is required. Slide 19.
* Nov 19, 2020 QBR Technical Workshop - [FY20 Q4 QBR Technical Workshop Final](https://legacy.bpa.gov/Finance/FinancialPublicProcesses/QuarterlyBusinessReview/qbrdocs/FY20%20QBR%20Tech%20Workshop%20presentation%201.25.pdf), package informs that BPA Finance had completed analysis of the prior year funding adjustment process. Analysis showed that double funding of capital projects occurred when projects changed funding sources from US Treasury funding to Lease Purchase funding. The process to align capital projects to funding was found to be insufficient in that it did not consider all prior year funding. To correct the issue an adjustment of $25.9M to Transmission reserves was made in FY20. Noted BPA Internal Audit would review the analysis, and should their review uncover additional findings or corrections, it would be dealt with as true up in FY21, as additional increments or decrements to deferred borrowing. Slide 14.
* Dec 17, 2020, QBR Technical Follow Up - [Prior Year Funding Adjustment - Detailed Review](https://legacy.bpa.gov/Finance/FinancialPublicProcesses/QuarterlyBusinessReview/qbrdocs/20201217-Lease%20Purchase%20Workshop%20Presentation.pdf), package provides overview of reserves, lays out what the prior year funding adjustment is and provides a specific example of how, if not addressed, it results in double funding of assets in certain situations. Key points:
* The status quo process to align capital projects to the funding source when projects move from US Treasury to Lease Purchase included decrements to deferred borrowing. It simply did not extend back far enough to ensure that all prior year spending was appropriately addressed.
* The analysis performed by Finance showed a reduction to reserves in the amount of $25.9M was needed to correct for the historical issue.
* May 18, 2021, QBR Technical Workshop - [FY21 Q2 QBR Technical Workshop](https://legacy.bpa.gov/Finance/FinancialPublicProcesses/QuarterlyBusinessReview/qbrdocs/FY21%20Q2%20QBR%20Technical%20Workshop%20presentation.pdf), package noted the RDC payment and highlighted the likely increase to Transmission’s deferred borrowing to incorporate BPA Internal Audit findings, stating the details to be shared out at Q3. Slide 18.
* Aug 17, 2021, QBR Technical Workshop - [FY21 Q3 QBR Technical Workshop Final](https://legacy.bpa.gov/Finance/FinancialPublicProcesses/QuarterlyBusinessReview/qbrdocs/FY21%20Q3%20QBR%20Technical%20Workshop%20FINAL.pdf), package walks through BPA Internal Audit findings from the review of the Finance’s prior year funding adjustment analysis. Concludes that $11.8M adjustment to Transmission deferred borrowing is needed to restore Transmission reserves to the appropriate level. Slides 32-34. Key points:
* Incorporating BPA Internal Audit findings shows the FY20 Transmission RDC should have been ~$68M rather than ~$80M, or $11.8M less.
* BPA repaid ~$80M of additional debt in FY21, associated with the RDC, which decreased Transmission reserves by this amount.
* Incrementing deferred borrowing by $11.8M will boost reserves by $11.8M and restore Transmission reserves to the appropriate level. This will fully close out the historical prior year funding adjustment issue from FY20.