Issue: Leverage Follow-up, BP-20 Revenue Requirements

Follow-up on Leverage

- At the July 28th workshop, BPA clarified its interpretation of the leverage calculation.
- The Leverage Policy includes a high level description of the calculation:

  (Federal debt + Nonfederal debt) / (Net Utility Plant + Nonfederal generation)

- There are variances between forecast and actuals driven by our interpretation of how assets and debt are categorized, defined and/or calculated.
- BPA proposes to clarify its interpretation of some components of the leverage calculation described in the Leverage Policy.
  - Include deferred borrowing as Federal debt with actuals.
  - Include non-BPA financed capital investments as forecast plant in the calculation of net utility plant in the forecast.
  - Include an estimate of retirements and adjustments to depreciation in the calculation of net utility plant in the forecast.
    - Current thinking = use a 3 year rolling average of actuals.

Illustration

- The following is an illustration of the impact of the causes of variance described in July.
- This is not an effort to create a detailed crosswalk between forecast and actuals for any particular fiscal year. This illustration ignores the typical variances expected in a forecast to actuals comparison. Instead this is simply an illustration of the impact on the leverage calculation of the variables previously discussed.
- This illustration is Transmission specific. As noted in July, the issues described with the interpretation of the calculation do not have a material impact on Power.

Illustration – Calculation of Debt

		Debt	Actuals	Forecast
1	+	Starting Non-federal debt	2,100,000	2,100,000
2	-	Debt repayment	(50,000)	(50,000)
3	+	Debt issuance	-	-
4				
5	+	Starting Capital leases	100,000	100,000
6	-	Lease repayment	(10,000)	(10,000)
7	+	Lease issuance	-	-
8				
9	+	Starting Prepaid power purchases	NA	NA
10	-	Prepay amortization	-	-
11				
12	+	Starting Federal debt	3,200,000	3,200,000
13	-	Bond/approp. repayment	(150,000)	(150,000)
14	+	Bond/approp. issuance	250,000	400,000
15	+	Approp not yet scheduled	-	-
16				
17	=	Total Debt	5,440,000	5,590,000
18				

The forecast assumed borrowing matched spending. Actuals increased deferred borrowing by $150 million.

Illustration – Calculation of Asset

19				
20		**Assets**	**Actuals**	**Forecast**
21	+	Starting Property, Plant & Equipment	10,300,000	10,300,000
22	+	Plant additions	400,000	400,000
23	-	Period retirements	(100,000)	not forecast
24	+/-	Other adjustments	-	not forecast
25				
26	-	Starting Accumulated Depreciation	(3,550,000)	(3,550,000)
27	+	Depreciation expense	(300,000)	(300,000)
28	-	Asset retirements	100,000	not forecast
29	-	Cost of Removal	25,000	not forecast
30	+	Proceeds from sales	(15,000)	not forecast
31	+/-	Sale of land	-	not forecast
32	+/-	Salvage value	20,000	not forecast
33	+/-	Other adjustments	(2,000)	not forecast
34				
35	+	Construction Work in Progress	300,000	300,000
36				
37	+	Starting Non-Federal Generation	NA	NA
38	+	Investments	-	-
39	-	Accumulated amortization	-	-
40				
41	=	Total Assets	7,178,000	7,150,000

The forecast simplifies the change in plant and depreciation. Actuals are more complex.

Illustration – End Result

- In this illustration, the forecast overstates debt and understates the asset balance.
- The result is that the forecast of the ratio is higher than actuals.

	Actuals	Forecast
Total Debt	5,440,000	5,590,000
Total Assets	7,178,000	7,150,000
Leverage = Total Debt / Total Assets	75.79%	78.18%