

BPA Minimum Required Net Revenues (MRNR) and Revenue Financing

August 15, 2024



Purpose of Revenue Requirement

The purpose of BPA's revenue requirement is to recover the costs of BPA investments in transmission plant and the associated costs of operating and maintaining it (i.e., the costs associated with the transmission of electric power).

1 | **1. INTRODUCTION**

2 |

3 | **1.1 Purpose of the Study**

4 | The purpose of the Transmission Revenue Requirement Study is to establish the revenues

5 | from transmission and ancillary services that are necessary to recover, in accordance with

6 | sound business principles, the Federal Columbia River Transmission System (FCRTS) costs

7 | associated with the transmission of electric power. The FCRTS is part of the Federal

8 | Columbia River Power System (FCRPS), which also includes the multipurpose generation

9 | facilities constructed and operated by the U.S. Army Corps of Engineers (Corps) and the

10 | U.S. Bureau of Reclamation (Reclamation) in the Pacific Northwest. The FCRPS costs that

11 | are not associated with the FCRTS are funded and repaid through the Bonneville Power

12 | Administration's (BPA) power rates. The revenue requirement developed in this study

13 | includes recovery of the Federal investment in transmission and transmission-related

14 | assets; the operations and maintenance (O&M) and other annual expenses associated with

15 | the provision of transmission and ancillary services; the cost of generation inputs for

16 | ancillary services and other inter-business line services necessary for the transmission of

17 | power; and all other transmission-related costs incurred by BPA.

Purpose of Revenue Requirement

BPA uses the Transmission Revenue Requirement Income Statement to derive its Revenue Requirement.

BPA uses the accrual method to recover its costs of capital (line 8), recovering the cost of utility plant over the life of the plant.

BPA recovers 100% of the cost of plant through revenue requirement depreciation

Depreciation & amortization (line 8). Depreciation is the annual capital recovery expense associated with Federal Columbia River Transmission System (FCRTS) plant-in-service. BPA transmission and general plant are depreciated by the straight-line method, using the remaining life technique. Amortization refers to the annual capital recovery expense for deferred transmission assets (also known as regulatory assets). Amortization expense includes a new regulatory asset, the I-5 reinforcement project. See Ch. 3 & 4.

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TABLE 1-1
TRANSMISSION REVENUE REQUIREMENT INCOME STATEMENT
(\$000)

	A	B
	2024	2025
1 OPERATING EXPENSES		
2 TRANSMISSION OPERATIONS	191,615	198,324
3 TRANSMISSION ENGINEERING	60,231	61,194
4 TRANSMISSION MAINTENANCE	193,212	199,230
5 TRANSMISSION ACQUISITION & ANCILLARY SERVICES	117,998	117,998
6 BPA INTERNAL SUPPORT	136,034	139,965
7 OTHER INCOME, EXPENSES & ADJUSTMENTS	-	-
8 DEPRECIATION & AMORTIZATION	<u>357,998</u>	<u>343,958</u>
9 TOTAL OPERATING EXPENSES	1,057,089	1,060,670
10		
11 INTEREST EXPENSE		
12 INTEREST EXPENSE		
13 FEDERAL APPROPRIATIONS	-	-
14 CAPITALIZATION ADJUSTMENT	(18,968)	(18,968)
15 ON LONG-TERM DEBT	123,338	139,964
16 AMORTIZATION OF CAPITALIZED BOND PREMIUMS	559	559
17 DEBT SERVICE REASSIGNMENT INTEREST	843	-
18 NON-FEDERAL INTEREST	61,885	62,050
19 PREMIUMS/DISCOUNTS	-	-
20 AFUDC	(15,100)	(13,934)
21 INTEREST INCOME	<u>(1,804)</u>	<u>(2,575)</u>
22 NET INTEREST EXPENSE	150,752	167,096
23		
24 TOTAL EXPENSES	1,207,841	1,227,766
25		
26 MINIMUM REQUIRED NET REVENUE 1/	54,751	54,723
27 PLANNED NET REVENUES FOR RISK	-	-
28 TOTAL PLANNED NET REVENUE	54,751	54,723
29		
30 TOTAL REVENUE REQUIREMENT	1,262,593	1,282,490

1/ SEE NOTE ON CASH FLOW TABLE.

BPA Transmission Revenue Requirement Statement of Cash Flows

BPA creates the Transmission Revenue Requirement Statement of Cash Flows to calculate cash flows from capital activities (financing, investing, recovery) to ensure cash inflows cover cash outflows

The Revenue Requirement Statement of Cash Flows shows the cash that will be used in the current period for investment in utility plant as well as the financing to cover the investment build. It also shows cash that will be used to repay debt that financed investment build in prior periods as well as recovery of prior period investment build costs (depreciation) (BPA’s current process is to include revenue financed plant in depreciation).

BPA Capital Investment Cash Flow Lifecycle (BP-24-FS-BPA-06A)			
financing section, line 21	Borrow/Increase in LT debt	\$ in	\$ 518,492
operating section, line 4	revenue financing	\$ in	\$ 55,000
investment section, line 17	investment in utility plant	\$ out	\$ (573,492)
	Total financing and investment		\$ -
operating section, line 6	Recovery, depreciation	\$ in	\$ 573,492
financing section, line 2	Repayment of debt	\$ out	\$ (518,492)
	over(under) recovery		\$ 55,000

TABLE 1-2
TRANSMISSION REVENUE REQUIREMENT STATEMENT OF CASH FLOWS
(\$000)

	A	B
	2024	2025
1 CASH FROM CURRENT OPERATIONS:		
2 TOTAL MINIMUM REQUIRED NET REVENUE	54,751	54,723
3 CASH FLOW	(249)	(277)
4 REVENUE FINANCING MINIMUM REQUIRED NET REVENUE	55,000	55,000
5 EXPENSES NOT REQUIRING CASH:		
6 DEPRECIATION & AMORTIZATION	357,998	343,958
7 TRANSMISSION CREDIT PROJECTS NET INTEREST	3,656	2,918
8 AMORTIZATION OF CAPITALIZED BOND PREMIUMS	559	559
9 CAPITALIZATION ADJUSTMENT	(18,968)	(18,968)
10 NON-CASH REVENUES/ACCRUAL REVENUES		
11 LGIA	(24,112)	(26,502)
12 AC INTERTIE CO/FIBER	(3,791)	(3,524)
13 CASH PROVIDED BY CURRENT OPERATIONS	370,093	353,164
14		
15 CASH USED FOR CAPITAL INVESTMENTS:		
16 INVESTMENT IN:		
17 UTILITY PLANT	(573,492)	(557,985)
18 CASH USED FOR CAPITAL INVESTMENTS	(573,492)	(557,985)
19		
20 CASH FROM TREASURY BORROWING AND APPROPRIATIONS:		
21 INCREASE IN LONG-TERM DEBT	518,492	502,985
22 DEBT SERVICE REASSIGNMENT PRINCIPAL	(17,640)	-
23 REPAYMENT OF CAPITAL LEASES	(92,441)	(110,726)
24 REPAYMENT OF LONG-TERM DEBT	(205,012)	(187,438)
25 REPAYMENT OF CAPITAL APPROPRIATIONS	-	-
26 CASH FROM TREASURY BORROWING AND APPROPRIATIONS	203,399	204,821
27		
28 ANNUAL INCREASE (DECREASE) IN CASH ^{1/}	-	-
29		
30 PLANNED NET REVENUE FOR RISK	-	-
31		
32 TOTAL ANNUAL INCREASE (DECREASE) IN CASH	-	-

BPA Recovers All Its Capital Costs Through Depreciation

Even though BPA recovers all its capital costs through depreciation, timing difference between recovery (transmission depreciation around 50 years) and debt repayment (Treasury due around 35 years) creates cash flow discrepancies.

To account for this timing difference, BPA has created a Transmission Revenue Requirement Statement of Cash Flows

Other utilities who also recover all their capital costs through depreciation compensate for the cash flows discrepancy in their cash flows financing section or financial reserves.

Other Utility Capital Investment Cash Flow Lifecycle, \$100M investment			
financing section, line 21	Borrow/Increase in LT debt (equity and security)	\$ in	100,000
investment section, line 17	investment in utility plant	\$ out	(100,000)
operating section, line 6	Recovery, depreciation	\$ in	100,000
financing section, line 2	Repayment of debt (equity and security)	\$out	(100,000)
	over(under) recovery		-

**TABLE 1-2
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32 TOTAL ANNUAL INCREASE (DECREASE) IN CASH	-	-

1/ Line 24 must be greater than or equal to zero, otherwise net revenues will be added so that there are no negative cash flows for the year.

MRNR Is An Over-Recovery of Capital Costs From Customers

BPA's current process for capital cash discrepancies is Minimum Required Net Revenues (MRNR) which results in cash flows above the cost of capital.

BPA receives a full recovery of capital costs through revenue requirement depreciation, thus any **additional** cash flows from customers for MRNR is an over-recovery by BPA unless the MRNR is credited back to customers

Minimum Required Net Revenue (MRNR) (line 2). BPA determines whether MRNR is necessary by evaluating the annual cash inflows and outflows shown on the Statement of Cash Flows. MRNR may be necessary to ensure that the cash provided by current operations (line 11) will be sufficient to cover the planned amortization payments (the difference between lines 16 and 24) without causing the annual increase (decrease) in cash (line 26) to be negative. The MRNR determined in the Statement of Cash Flows is incorporated in the Income Statement (Table 1-1, line 26).

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BPA Capital Investment Cash Flow Lifecycle (BP-24-FS-BPA-06A)

financing section, line 21	Borrow/Increase in LT debt	\$ in	\$ 518,492
operating section, line 4	revenue financing	\$ in	\$ 55,000
investment section, line 17	investment in utility plant	\$ out	\$ (573,492)
	Total financing and investment	\$	-
operating section, line 6	Recovery, depreciation	\$ in	\$ 573,492
financing section, line 2	Repayment of debt	\$ out	\$ (518,492)
	over(under) recovery	\$	\$ 55,000

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1/ Line 24 must be greater than or equal to zero, otherwise net revenues will be added so that there are no negative cash flows for the year.

Increased Use of Revenue Financing Is Harming Customers

BPA is steadily increasing its use of revenue financing to cover the costs of Investment in Utility Plant

Customers prepaying for Utility Plant construction projects and upgrades

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>Total</u>
Revenue Financing	\$ 55,000	\$ 55,000	\$ 40,000	\$ 40,000	\$ 26,442	\$ 26,442	\$ 242,884
	BP-24-FS-BPA-06A		BP-22-FS-BPA-09A		BP-20-FS-BPA-09A		

BPA’s current process is to include utility plant financed by revenue financing, or customer prepayment, in revenue requirement depreciation to “recover” the cost of utility plant thereby double charging customers for the revenue financed portion of utility plant.

financing section, line 21	Borrow/Increase in LT debt	\$ in	\$ 518,492
operating section, line 4	revenue financing	\$ in	\$ 55,000
investment section, line 17	investment in utility plant	\$ out	\$ (573,492)
	Total financing and investment		\$ -
operating section, line 6	Recovery, depreciation	\$ in	\$ 573,492
financing section, line 2	Repayment of debt	\$ out	\$ (518,492)
	over(under) recovery		\$ 55,000

Revenue Financing Is Customer Prepayment for Plant, No Cost for BPA To Recover

TABLE 1-2

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30 PLANNED NET REVENUE FOR RISK	-	-
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32 TOTAL ANNUAL INCREASE (DECREASE) IN CASH	-	-

1/ Line 24 must be greater than or equal to zero, otherwise net revenues will be added so that there are no negative cash flows for the year.

BPA Capital Investment Cash Flow Lifecycle (BP-24-FS-BPA-06A)

financing section, line 21	Borrow/Increase in LT debt	\$ in	\$ 518,492
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investment section, line 17	investment in utility plant	\$ out	\$ (573,492)
Total financing and investment			\$ -
operating section, line 6	Recovery, depreciation	\$ in	\$ 573,492
financing section, line 2	Repayment of debt	\$ out	\$ (518,492)
over(under) recovery			\$ 55,000

In the operating section of the Transmission Revenue Requirement Statement of Cash Flows, customers prepay for transmission plant (line 4) in the current rate year and pay for the plant again in subsequent rate years over the recovery period of the plant (line 6).

Since customers prepaid the investment in utility plant, BPA already received the costs of the plant from customers and there are no BPA costs to recover.

Remedy Option: Create a Regulatory Liability or Deferred Liability

TABLE 1-2
TRANSMISSION REVENUE REQUIREMENT STATEMENT OF CASH FLOWS
(\$000)

	<u>A</u>	<u>B</u>
	<u>2024</u>	<u>2025</u>
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A remedy option is to create a Regulatory Liability (or Deferred Liability) for the amount of the revenue financing and amortize over a determined period; thus, the customer prepayment of transmission plant will offset depreciation because BPA does not need recovery of costs prepaid by customers.

New line for a Regulatory Liability Amortization to offset depreciation (operating section)

Adjusted Cash From Current Operations using Regulatory Liability method

5	Expenses Not Requiring Cash	
6	Depreciation & Amortization	357,998
7	Amortization Regulatory Liability Revenue Financing	(4,858)
8	Transmission Credit Projects Net Interest	3,656
9	Amortization of Capitalized Bond Premiums	559
10	Capitalization Adjustment	(18,968)
11	Non-Cash Revenues/Accrual Revenues	
12	LGIA	(24,112)
13	AC Intertie CO/Fiber	(3,791)
14	Cash Provided by Current Operations	365,235

1/ Line 24 must be greater than or equal to zero, otherwise net revenues will be added so that there are no negative cash flows for the year.

Remedy Option: Create a Regulatory Liability or Deferred Liability (cont.)

TABLE 1-2
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(\$000)

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31		
32 TOTAL ANNUAL INCREASE (DECREASE) IN CASH	-	-

Regulatory Liability Amortization to offset depreciation (operating section)

BPA cash flows using the regulatory liability option

BPA Capital Investment Cash Flow Lifecycle (BP-24-FS-BPA-06A)			
financing section, line 21	Borrow/Increase in LT debt	\$ in	\$ 518,492
operating section, line 4	revenue financing	\$ in	\$ 55,000
investment section, line 17	investment in utility plant	\$ out	\$ (573,492)
Total financing and investment			\$ -
operating section, line 6	Recovery, depreciation	\$ in	\$ 573,492
operating section	Regulatory Liability Amort (revenue financing)	-	\$ (55,000)
financing section, line 2	Repayment of debt	\$ out	\$ (518,492)
over(under) recovery			\$ -

1/ Line 24 must be greater than or equal to zero, otherwise net revenues will be added so that there are no negative cash flows for the year.

Correct or Eliminate The MRNR Over-Recovery Process

BPA's current over-recovery process is a growing burden on its transmission customers.

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>Total</u>
Revenue Financing	\$ 55,000	\$ 55,000	\$ 40,000	\$ 40,000	\$ 26,442	\$ 26,442	\$ 242,884
	BP-24-FS-BPA-06A		BP-22-FS-BPA-09A		BP-20-FS-BPA-09A		

BPA needs to correct or eliminate the MRNR over-recovery and revenue financing processes. Further, BPA should credit customers the \$242.8 million prepaid on transmission plant through revenue financing and relieve customers of BPA's current double charging process of "recovering" the cost of plant again.

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	<u>over(under) recovery</u>		\$ 55,000

Questions?