TSEP Financial Check-In

TLS Customer Meeting

May 5, 2016

Agenda

- Follow-ups from March 30th meeting
- Discussion on Rolled-In Rates Decision Making
- Next Steps

Pre-decisional. For Discussion Purposes Only.

Follow-Ups from March 30

- Discount rate to be used in Rolled-In Rates Analysis – Weighted Average Cost of Capital (WACC)
  - BPA assets are nearly 100% debt financed (incudes treasury borrowing and lease financing, but not Energy Northwest financing)
  - Riskiness of the investment is captured in the cash flows rather than the discount rate
  - Propose using the risk free WACC (ranges from 3-5%)
- Default assumptions in rate pressure analysis for customers without S&P rating
  - Will apply creditworthiness policies to determine what level of default risk a customer possesses
  - Unrated customers that do not supply financial information to BPA will be treated consistent with S&P's risk assessment of non-rated entities
- Evaluation of outage and congestion benefits from proposed investments
  - BPA related network costs and revenues, to the extent they can be quantified, will be reflected in the rates analysis and results
  - Regional related costs and benefits will not be considered in rates analysis, but may be considered when making the rolled-in rate decision

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Proposal for Making Rolled-In Rates Determination

- The BPA team proposes considering upgrades on a case-by-case basis to determine whether it is appropriate to provide service at rolled-in rates
  - Decision would include a regional discussion on customer tolerance for rate increase and risk just as it has in the past
  - New risk-based method will provide estimates of the range of magnitude and likelihood of revenue requirement and rate increases
  - Case-by-case basis acknowledges that BPA and customer risk tolerances may change over time due to a variety of factors

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Considering Benefits in Rolled-In Rate Decision Proposal

- At the last customer meeting had lots of discussion about possible benefits that should be considered when making a rolled-in rates decision
- The team agrees and proposes that the rolled-in rates decision will be made based on a package of information which would include (but is not limited to):
  - Rate pressure analysis including net revenue requirement
  - Societal cost based economic analysis
  - How widely benefits are distributed (concentrated on one customer or region wide?)

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Next Steps

- Any additional considerations for rolled-in rates customers would like to propose?
- Are there outstanding issues regarding TSEP rolled-in rates analysis that customers would like to discuss?
- Please send feedback to techforum@bpa.gov

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