

2012 Integrated Program Review 2

April 30, 2013
2:30-4:30 p.m.

Rates Hearing Room
1-888-431-3632. Passcode: 7039273#



Agenda

- Introductions
- Explanation/Background on why we're here
- Summary of reshaped Transmission, Federal Hydro and Environment, Fish & Wildlife capital
- Proposed changes in Energy Northwest budget
- Upcoming discussion on Power Debt Management Draft Strategy
- Option that balances near-term and long-term impacts
- Open discussion and Q&A

Background

- During the 2012 IPR BPA committed to remaining open to revisiting program levels in an “IPR2” process if the Agency determined adjustments were necessary.
- For FY 2014 and 2015, the Agency believes adjustments may be prudent for reflecting future expectations based on new information, timing of actual spending and cost management initiatives.
- Possible adjustments include:
 - Reshaping the Federal Hydro, Transmission and Environment, Fish & Wildlife (EF&W) capital programs.
 - Incorporating near-term aspects of Energy Northwest’s updated Long Range Plan (LRP).
 - Shifting capital funding for F&W to expense.
- This process is being expedited to meet internal deadlines. Your engagement and feedback during this abbreviated process is needed and will help inform final program adjustments and policy changes.
- Many of these changes will have small effects on revenue requirements when incorporated into the repayment study.

Summary of Reshaped Capital

- Federal Hydro has reshaped its 10-year CIR/IPR capital forecast to better reflect expected project ramp up and execution. This change reduces capital spending in FY 2014-2015 by \$15 million.
- Transmission has reduced its IPR capital forecast in FY 2014-2015 by approximately \$170 million. These reductions are being driven by a slower than anticipated ramp up to programmatic levels planned in the asset strategies for the System Protection & Control, Power System Control, and System Telecommunications programs, in addition to reshaping of several large Expansion projects.
- Fish & Wildlife (F&W) has reshaped its capital forecast through FY 2015 to reflect project delays in Accord hatchery construction. This change reduces capital spending in FY 2013 by \$7.2 million and increases capital in FY 2014-2015 by \$9.5 million. To maintain program neutrality, unutilized capital spending in FY 2012 of \$2.3 million has been shifted to FY 2015; this shift is consistent with the flexibility offered in the Accord agreements.

Proposed Changes in EN Budget

- Energy Northwest (EN) has provided a modified 2014 Long Range Plan (LRP) due to regulatory mandates, operating experience, equipment reliability and benchmarking. It also benchmarked its capitalization policy and concluded a more aggressive capitalization policy is prudent consistent with other nuclear plants.
- The modified LRP increases Columbia Generating Station's (CGS) capital program over the next ten years. The \$102 million increase in FY 2014-2015 capital increases Non-Federal Debt Service (specifically interest) expense by \$6 million total in FY 2014 and 2015.
- CGS Operation & Maintenance (O&M) expenses in FY 2014-2015 are decreasing \$31.3 million, this is due to expense reclassification and capitalization.
- The net change in FY 2014-2015 is a \$25 million reduction to CGS expenses from the 2012 IPR.
- Long-term analysis indicates rising Non-Federal Debt Service expense supporting higher capital spending will exceed O&M reductions in the future.

Power Debt Management Draft Strategy

- In addition to considering these potential changes in spending levels, BPA has been developing its debt management strategy.
- During the summer of 2013, BPA intends to have more detailed discussions with the region on these topics.
- The following slides reveal results of some preliminary analysis.

Context

- Profile of Power Debt Service
 - FY 2012 marked the beginning of service under the Regional Dialogue contracts which extend through FY 2028.
 - These contracts identify the power available for sale at Tier 1 rates as, essentially, the output from the Federal Base System.
 - We believe that power related capital programs have reached a state of maturity, therefore the challenge for the power business will be to maintain a flat or downward trending debt service forecast.
- Credit Rating
 - Moody's has indicated that BPA's large capital program and reliance on debt is a growing concern.
 - Rating agencies do not view regulatory assets as assets when calculating ratios, therefore BPA looks very highly leveraged.
- This analysis was designed to provide a high-level trajectory of long term debt requirements for strategic planning purposes. The following analysis is not a recommendation for program reductions or capitalization policies, rather it is intended to give a scenario that can lead to level or decreasing power debt service

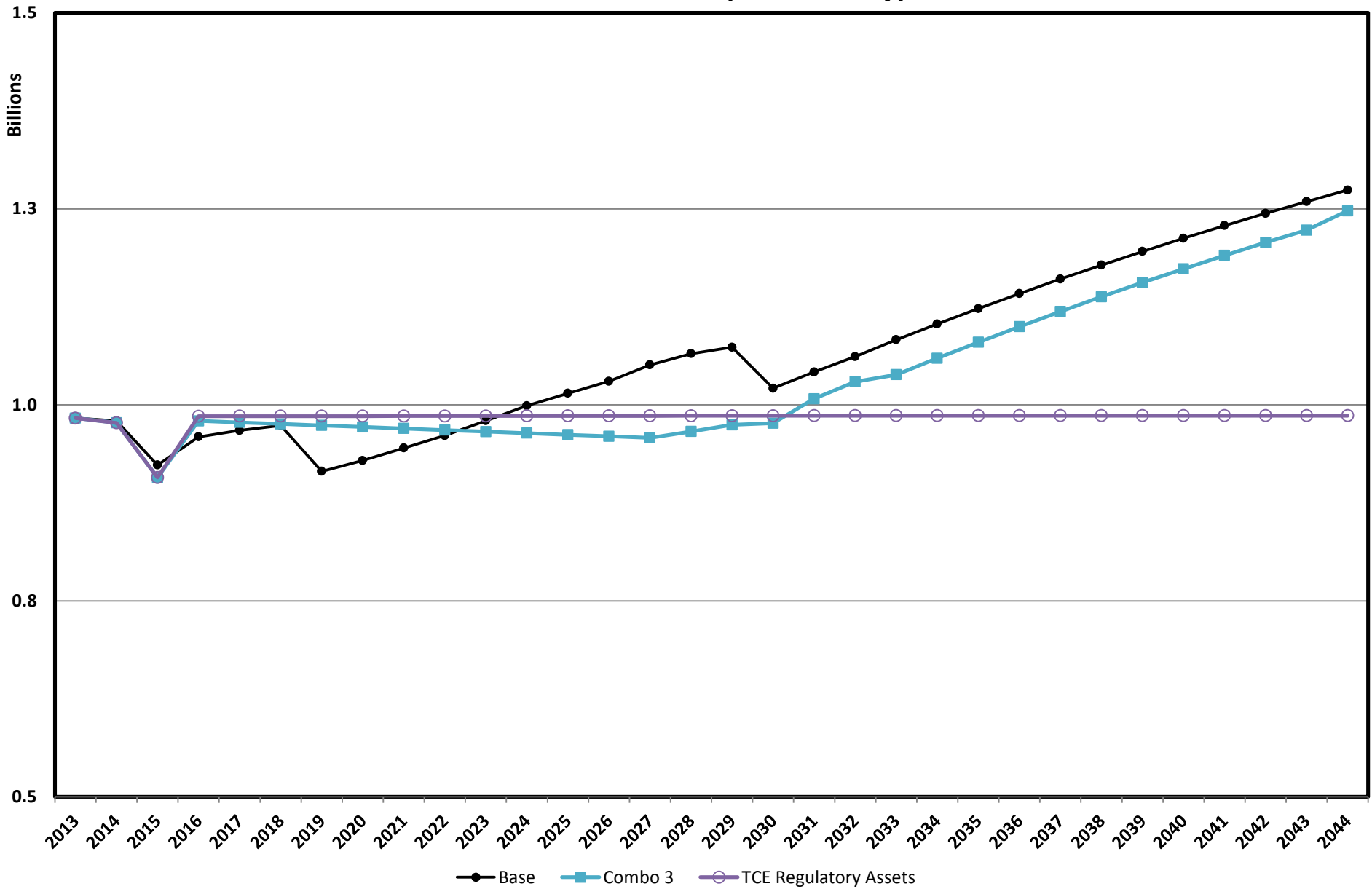
Assumptions

- Does not reflect IPR2 Proposals
- Adjusted Initial Proposal Base
 - 2014-15 Columbia Extension
 - Lewis County PUD – Cowlitz Falls Debt Extension
 - Net of TVA Revenues for uranium transaction
 - No Prepaid Funds
 - Transmission FY 2013 Capital Reduction from First Quarter Review – (borrowing authority chart)
- Adjusted Combination 3
 - Columbia All Years Extension
 - \$346 million in Prepaid Funds
 - 70% Nonfederal Conservation Financing, starting in 2015
 - 50% Lease Financing of Transmission Construction, starting in 2013
 - Ranking gives priority to Federal Bonds repayment
 - Smoothed in the amount of \$2 million (decrease in debt service)
- Transition Capital to Expense Regulatory Assets (TCE)
 - Built on top of Combination 3
 - Ranking gives priority to Federal Bonds
 - Smoothed to level Debt Service

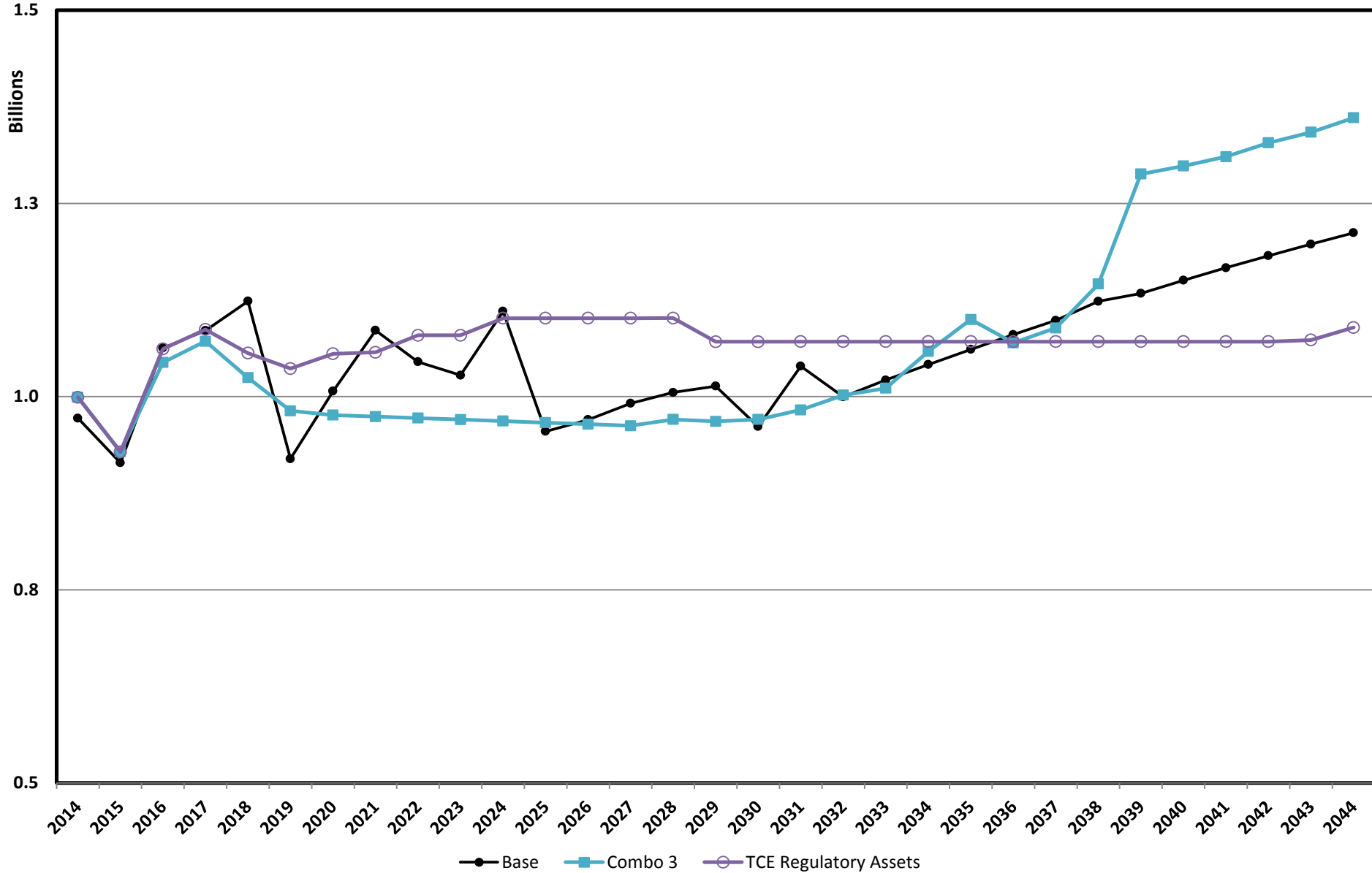
Scenario	Smoothed Amount	Power Capital	Non-Debt Financed 2013-44 (millions)	Debt Financed 2013-44 (millions)
Adjusted Initial Proposal (Base)	None	Direct Funding	0	\$7,678
		Regulatory Assets*	0	\$4,784
		Columbia River Fish Mitigation	0	\$1,506
		IT	0	\$620
		CGS	0	\$2,246
		Total	0	\$16,834
Adjusted Access to Capital Combination 3 (Combo 3)	\$2m	Direct Funding	0	\$7,317
		Regulatory Assets*	0	\$4,784
		Columbia River Fish Mitigation	0	\$1,506
		IT	0	\$626
		CGS	0	\$2,246
		Total	0	\$16,479
Transition Capital to Expense Regulatory Assets (TCE Regulatory Assets)	level	Direct Funding	0	\$7,317
		Regulatory Assets*	\$2,733	\$2,051
		Columbia River Fish Mitigation	0	\$1,506
		IT	0	\$626
		CGS	0	\$2,246
		Total	\$2,733	\$13,746

*Includes Conservation and Fish & Wildlife

Total Debt Service (Power only)

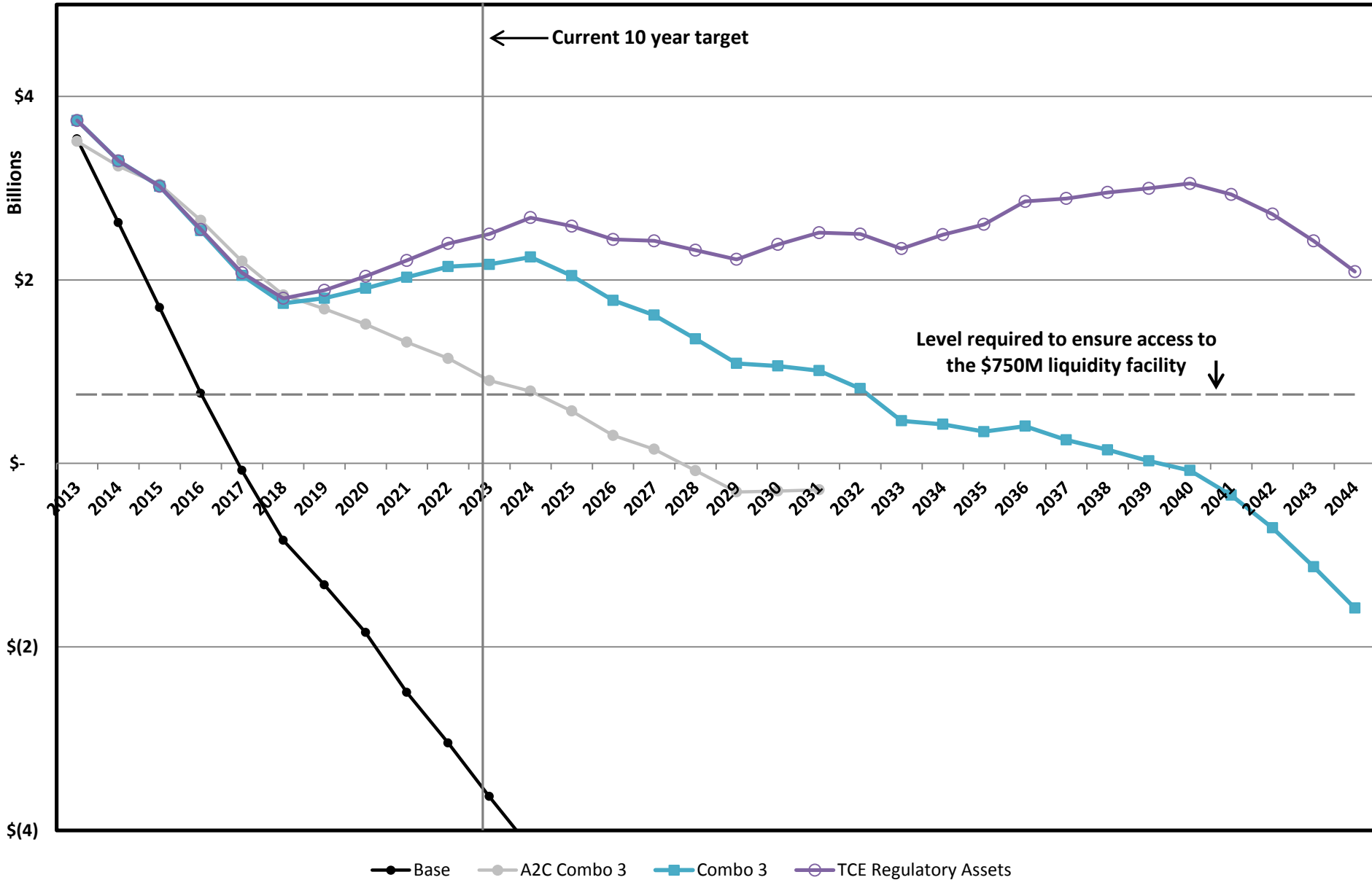


Revenue Requirement Forecast* (Power only)



* Only reflects capital related costs and expense programs effected by the strategies.

Remaining Borrowing Authority (EOY)



Considerations

- Level or decreasing Debt Service is possible by borrowing for less capital and strategically placing any new borrowed amounts to smooth debt service levels.
- Through strategies that augment capital financing alternatives, it is possible to develop a policy that provides a sustainable level of Borrowing Authority on a continuing basis.
- We have an opportunity to significantly reduce the level of regulatory assets as Energy Northwest's Plants 1 & 3 are repaid. We can be more proactive and strategic on our use of regulatory assets.
- We are on the cusp of being able to optimize borrowing authority, revenue requirement impacts, and regulatory asset management simultaneously.
- This strategy could provide significant enduring value to the region.

Near-term / Long-term Impacts

- In response to EN's modified LRP along with initial thoughts on a power debt management strategy, BPA is considering moderating the long-term effects of EN's LRP for CGS, particularly related to the shift from expense to capital.
- BPA is considering offsetting that shift by changing \$25 million of F&W spending from capital to expense. Taking into account reshaping of the program this reduces F&W's capital spending in FY 2014-2015 by \$16 million from IPR levels but does not change the total program spending.
- Altering the accounting treatment and funding of Regulatory Assets from capital to expense is one of the options being carefully considered to help achieve BPA's long-term objective to maintain a sustainable level of Borrowing Authority on a continuous basis, as well as potentially adopting a goal of flat or decreasing debt service.
- These objectives along with others will be discussed in detail during the Access to Capital public process taking place this Summer.

Spending Level Changes 2012 IPR to 2012 IPR2

(\$ millions)

	2013 Forecast			2014 Rate Case Forecast			2015 Rate Case Forecast		
	A	B	C	D	E	F	G	H	I
	IPR	IPR2	Delta	IPR	IPR2	Delta	IPR	IPR2	Delta
BPA Capital Programs									
1 Hydro	\$ 248	\$ 238	\$ (10)	250	241	(9)	\$ 245	\$ 239	\$ (6)
2 Transmission ^{1/}	\$ 688	\$ 531	\$ (157)	740	658	(82)	\$ 730	\$ 641	\$ (89)
3 Fish & Wildlife	\$ 67	\$ 60	\$ (7)	60	48	(13)	\$ 42	\$ 39	\$ (3)
4 Other ^{2/}	\$ 167	\$ 167	\$ -	169	169	0	\$ 168	\$ 168	\$ -
5 Sub-Total (unlapsed)	\$ 1,170	\$ 996	\$ (174)	\$ 1,219	\$ 1,116	\$ (104)	\$ 1,185	\$ 1,087	\$ (98)
6 Lapse Factor	\$ (85)	\$ (69)	\$ 16	\$ (52)	\$ (47)	\$ 5	\$ (51)	\$ (46)	\$ 5
7 Total (lapsed)	\$ 1,085	\$ 927	\$ (158)	\$ 1,167	\$ 1,069	\$ (99)	\$ 1,134	\$ 1,041	\$ (93)
Columbia Generating Station (BPA Fiscal Year)									
8 Operations & Maintenance ^{3/}	\$ 338	\$ 335	\$ (3)	\$ 313	\$ 299	(14)	\$ 356	\$ 339	\$ (17)
9 Non-Federal Debt Service	\$ 542	\$ 542	\$ -	\$ 516	\$ 518	\$ 2	\$ 439	\$ 443	\$ 4
10 Total CGS	\$ 880	\$ 877	\$ (3)	\$ 829	\$ 817	\$ (12)	\$ 795	\$ 782	\$ (13)
BPA Expense Programs									
11 Fish and Wildlife ^{4/}	\$ 276	\$ 276	\$ -	\$ 285	\$ 298	13	\$ 292	\$ 305	\$ 13
12 Total Program Expenses	\$ 276	\$ 276	\$ -	\$ 285	\$ 298	\$ 13	\$ 292	\$ 305	\$ 13
13 Total Capital & Expense (row 7+10+12)	\$ 2,241	\$ 2,080	\$ (161)	\$ 2,281	\$ 2,183	\$ (98)	\$ 2,221	\$ 2,128	\$ (94)

1/ Includes AFUDC and Overheads. FY 2013 IPR2 Forecast based on Q2.
 2/ Includes Energy Efficiency, Information Technology, Facilities and Security.
 3/ Includes NEIL Insurance and Decommissioning Trust Fund Contributions. FY 2013 IPR2 Forecast based on Q2.
 4/ Includes USF&W, Planning Council, Environmental Requirements.

Columbia Generating Station Capital Investment Levels (BPA Fiscal Year)

	2013 Forecast			2014 Rate Case Forecast			2015 Rate Case Forecast		
	A	B	C	D	E	F	G	H	I
	IPR	IPR2	Delta	IPR	IPR2	Delta	IPR	IPR2	Delta
CGS Capital Levels	\$ 53	\$ 53	\$ -	\$ 62	\$ 111	\$ 49	\$ 62	\$ 115	\$ 53

Next Steps

Comments can be sent to:

- Participants have an opportunity to submit comments on today's discussion during a one week public comment period beginning April 30, 2013 and concluding May 7, 2013. Comments can be submitted [online](#); by email; or by mail to: BPA, P.O. Box 14428, Portland, OR 97293-4428.

Please send questions to:

- BPAFinance@BPA.gov

Thank you

Financial Disclosure

- This information has been made publicly available by BPA on April 29, 2013 and contains information not reported in agency financial statements.