

Bonneville Power Administration
Quarterly Business Review Transcript
Date : November 17, 2020

(Break for direction.)

JOHN HAIRSTON: Good morning, everyone, and welcome to the Bonneville Power Administration end-of-year Quarterly Business Review for Fiscal Year 2020.

I'm John Hairston, acting BPA administrator, and I really appreciate you taking the time for today's forum. I want you to feel free to submit questions to the host during the webinar and we will try to answer as many of them as we can at the end of the presentation.

As a reminder, this meeting is being recorded. Let me start off by saying despite the challenging conditions FY2020 had in store for us, Bonneville continued to deliver on its mission and strategic goals. Obviously, implementing a strategic plan would be challenging under even the best conditions, so I'm extremely proud of our workforce and how they performed – especially when you consider the uncertainty and vulnerability we have all felt through this pandemic.

Now, despite most of us working remotely, we have been able to come together to address the economic slowdown and the impacts on our customers. Moreover, when faced with what has been the worst wildfire season on record, we were able to rise to the challenge once again. That's something I'll touch on a little bit later in the presentation.

Here at BPA, we always plan to prepare for a variety of contingencies, and all of that planning and preparation paid off this year. We were ready to respond quickly and effectively to rapidly changing conditions. Most importantly, we also remained responsive to our customers. Over the next hour, you'll hear many examples of our resilience. For example, in the middle of the pandemic, we were able to complete the multi-year, multi-agency Columbia River System Operations Environmental Review. I believe the result will benefit fish, while providing clean, dependable, affordable power to the people of the Northwest.

We also acted quickly to suspend the Financial Reserve Surcharge when our customers asked for rate relief as COVID-19 took hold of our region. We achieved our financial goals, we met our grid modernization milestones, and issued a wildfire mitigation plan as well. Even though many of our transmission projects were put on hold for portions of the year to protect our crews from COVID-19, Transmission Services exceeded its target for number of units installed.

We did all of this while maintaining safe power and transmission services to our customers and the people of the Northwest.

Now, our exceptional performance is reflected on slide three, where you can see we met 11 of our 13 key performance indicators and both of our key strategic initiatives.

Now, throughout the pandemic, the priority for BPA leadership has been to protect the health and safety of our workforce, while preserving our ability to provide critical power and transmission services to the region. Most of our workforce remains on telework status, and will remain so at least through the end of January based on what we're seeing in the recent COVID-19 data and trends, but our field crews have returned to work as of September, and continue to ramp up on projects we first put on hold in March.

We have to emphasize that this is not a race. We are not ramping up, not catching up. We stress the importance of safety, so that way we don't put our employees or our ability to deliver on power in harms' way by trying to move too quickly.

As you can see, we met our safety performance target this year with an injury frequency rate below our ceiling of 0.90, but the reality is too many of our members of our workforce were injured this year. Near the end of the year, we saw an uptick in workplace accidents as field crews returned to work. We remain committed to identifying hazards and correcting or mitigating them to prevent future injuries. That is really consistent with our core value of safety.

Now, I'll share a brief update on our overall agency performance. We met all but two of our KPIs this year – the Federal Hydro Forced Outage Factor and System Average Interruption Duration Index for High-Voltage Lines. Now, the Fed Hydro target is red as a result of an extended forced outage at Grand Coulee and two forced outages at John Day Dam that were originally marked as scheduled outages in error.

Power is working with Corps and Reclamation to assure that the work is being done to bring all of those units back online. Additionally, BPA is continually working with the Corps and Reclamation to improve data quality. These outages do not jeopardize our ability to serve our tier-one load or our preference customers.

The SAIDI – our high-voltage target – is red due to outages that occurred during the winter storm season in Q2, as well as outages in Q4 caused by wildfires, which I'll discuss a little bit more later. The fact that we met all of our other targets, despite the challenges of FY2020 is remarkable. I'm particularly impressed with our Grid Modernization progress. We are green on both of our Grid Modernization strategic initiatives. This means we completed 98% of our project milestones for project and delivery and complete phases. The milestone we missed has already been completed in Fiscal Year 2021.

We are also green on our finance metric for Grid Modernization, with 92% of our IPR expense budget spent for projects in the deliver phase.

Now, I'll turn it over to our Chief Financial Officer Michelle Manary, who will cover our financial performance results.

MICHELLE MANARY: Thank you, John. I was just thinking back. Last year at this time, we were actually looking at a dashboard with some red on it due to that weird storm that hit late March, early April when we had to be buying in a very high market. This year is a very different story. As you can see, we are green on all our financial performance indicators and I'll dive into the nuances behind this performance in the following slide.

Despite a year of turbulence and economic uncertainty, we ended with a pretty good financial result.

When we look at the next slide, the agency net revenues, this is our waterfall chart. The left side is the Rate Case, the right side is actuals. You can see we had a pretty good year. The Rate Case target was \$12 million, our end-of-year performance was \$246 million. The drivers of this are shown in the following boxes.

So, the first one, the \$60 million you see there, 60 with the green box, the IPR expenses are \$60 million lower than Rate Case due to delays in Fish & Wildlife project work because of

COVID, lower Fed Hydro spending, and lower energy efficiency expenses – it's all COVID related. Those, as many of you have probably seen in your own utilities, we saw a delay in project work, especially on the ground, from the COVID this year.

However, what we've decided this year is we'll be carrying forward \$27 million in the expense budget into '21, primarily for Fed Hydro and energy efficiency in order to help catch up on the delayed COVID work. We will be taking part of those \$246 million of net revenues, \$27 million of them, and applying them to the '21 budget so those organizations can catch up.

The next box, which is a skinny little red box of \$1 million, that was other expenses. This is primarily made up of variables, non-IPR expenses, and it's \$1 million due to higher power purchases. That was offset by lower third-party GTA Wheeling costs. That actually netted out to about \$1 million.

If you go to the third item, depreciation, amortization, and accretion. It's always hard for me to say for some reason. This is a non-cash cost. It's \$42 million lower than the Rate Case, mainly due to Lower Columbia Generating Station amortization expense and forecasted in the Rate Case.

As we've noted before, remember this was the topic that was connected with significant accounting changes made this fiscal year toward non-federal generation and regulatory assets. These assets, as you recall before, CGS used to swing all over. They are now amortized on a straight-line basis instead of varying every period. We expect to better align Rate Case and actuals in future rate periods. This variance, just to note, will have no impact on reserve levels or our risk adjustment mechanisms like the Reserve Surcharge, Cost Recovery Adjustment Clause, or Reserve Distribution Clause.

This is one that we had to forecast it in the Rate Case before we made the adjustments. We're off a little, and this is the \$42 million difference here.

Go to the next one, net interest expense. I believe like many of you are seeing, net interest expense is about \$4 million less than Rate Case due to lower than expected interest rates.

Then, the fifth one, the granddaddy of them all, the operating revenues are up by \$129 million. This is largely due to Power. Power, the main drivers here are – \$21 million of the Reserve Surcharge, higher demand revenues, and actually the majority of it comes from secondary sales from the summer. I'll get to this as we look at the individual business lines.

However, Transmission actually helped contribute to this as well. They are \$8 million over the Rate Case due to higher point-to-point, short-term, network revenues in the fourth quarter, that was this summer, due to higher hydro prices – hydro and prices – and higher NT loads as the result of a warmer-than-expected summer.

Combining all these core drivers together brings the agency net revenues for the year to \$246 million.

Let's look at the individual business lines. The next slide shows you Power's expenses. If you look here, remember the solid is IPR, the hashed mark is the non-IPR. Power ended the year having \$103 million less in total expenses than the Rate Case into three main areas I've touched on before – energy efficiency, Fish & Wildlife, and generating partners.

Fish & Wildlife had a \$19 all underspend due to delays in project work for COVID and wildfire. \$14 million is due for the generating partners – also COVID work. And then \$7 million from energy efficiency, same reason. So, those are your IPR expenses that were lower. Your non-IPR expenses were the ancillary expenses, third-party GTA Wheeling and lower amortization, which was partially offset by higher power purchases due to higher spill conditions. Power came in with a healthy margin of expenses below the Rate Case.

When we turn to look at revenues, then – Power's revenues – you have the same thing on the other side, you have \$105 million higher than the rate case due to three main areas – the reserve surcharge, secondary sales, and 4h10c credits.

Of that \$105 million, \$21 million was collected from the surcharge, which remember was suspended in July. We collected a bit of higher demand revenues. The majority of it is from higher secondary sales over the summer months. We were very blessed this year to have just the right snowmelt and the management of water, and so we saw a great August where the majority of these came in.

Also just to note, 4h10c credits, as you remember, we started off dry last year at the beginning, so we had about \$9 million of higher 4h10c credits than the Rate Case because of that dry fall due to power purchases in that quarter.

That brings us to net revenues. Next slide. Power's lower expenses, \$100 million in higher revenues result in about \$255 million for the fiscal year, which is \$208 million better than our Rate Case projections.

Now, as what you can see, let's turn to Transmission. Transmission actually also had a good year. Transmission expenses were \$21 million less than our Rate Case projection in total. The decrease in non-IPR cost, which is where the underspend came from, were primarily driven by lower reimbursable expenses about \$4 million, and then \$2 million lower depreciation/amortization, and \$15 million lower in interest expense. Same theme.

On the IPR, as you heard me talk about in third quarter, and I think I might have said it in the second quarter, those were coming in hot due to wildfires and COVID and extra expenses, but as you can see, we ended the year exactly on. So, the IPR expenses exactly equaled the Rate Case projections.

Let's then turn to revenues. Transmission revenues were \$8 million above Rate Case. This is primarily due to – that's for the summer – we saw higher point-to-point, short-term network revenues in the fourth quarter from the higher hydro and prices. And people are moving power. Then, we also had a bit of a higher NT load service as a result of warmer than normal weather this summer.

So, you put them all together, Transmission's lower expenses and revenues resulted in a revenue of -\$7 million for the fiscal year, which is actually \$29 million better than our Rate Case projections. Remember, we were in settlement. We planned on using reserves, and so we used less reserves than we thought.

Both business lines had stellar years, and so that put us in the position we are today.

Let's look at capital. Capital has a little bit of a different story. The Agency Rate Case capital expectation was \$847 million there on the left. Then, you see the waterfall and we ended at

\$609 million. Let me break that down a bit. The Fed Hydro, the \$80 million you see in the first green block – the second block over from the left – is \$80 million below rate case. We started out a bit lower just starting the year, but really got hit by COVID. The Corps really got hit, and so you see lower expenditures by about \$80 million.

If you go to Transmission, the next item. Remember, Transmission includes facilities, IT, security, fleet and environment. We wrap them all together. That is \$158 million below Rate Case due to several factors. The first one I talked about before, where we had the Transmission Sustain and Expand Program prioritization in late FY18, which shifted some of the prioritizations, and so that shifted part of it. Then, in facilities, we had about \$27 million below Rate Case because of reprioritization and we shifted a new maintenance headquarters at Covington and delayed construction to the Roth Technical Services Building. We actually moved some of those items out of '20 into a subsequent year.

Let's go to the next slide. What does this mean for reserves? If we look at our financial reserves threshold, if you look along the bottom, we actually – I'm very happy to say – we have 113 days cash for the agency – bottom left. And if you go across, Power is 95. I am so excited to see them smack dab in that white zone, the no-man's land, the target where we're supposed to land. Power having that wonderful year put them in financial reserve targets by business line, put them in their target zone. Which means that there's no CRAC or RDC trigger on the Power side, and the surcharge has actually been suspended, but as we come through the year, it actually would not have triggered, regardless. Great position Power is ending the year with.

Let's look at Transmission. Same story we've seen before. Transmission is 160 days cash on hand, which means, can you believe this? At this level, the RDC has triggered for about \$80 million. This amount and the planned use for it – remember, this is one where the Administrator has discretion, will be discussed at full at the QBR Technical Workshop this Thursday. So, we will dive into those details.

Going to the next slide. Let me go to talk about some other financial updates before I turn it back over to John. As a reminder, our Annual Report is now available on the bpa.gov website, which puts this all together and talks about our targets and our metrics and detailed results.

We also, as many of you know, are getting ready for the BP-22 and TC-22 Rate Cases. With that, the IPR process was completed and the closeout report was published September 30th and expect to have an IPR-2 in the early spring of '21.

High-level public process for BP and TC-22 schedules. December is the initial proposal is published. March is the close of comment, June is the draft ROD and July is the final ROD. That's the high level of things that we're going to be looking at.

Also, I want to give a plug for the QBR Technical Workshop this Thursday. I'm going to tell you a few of the topics. We're going to be doing a deeper dive into the financial performance of the businesses and the agency. We're going to talk about the RDC trigger analysis, so we'll go through that calculation and the proposed use, which will start a two-week comment period on the proposed use.

We also will talk about IPR-2, budget carryover, and then FY21 outlook. We will hit a high-level strategic cost management initiative, what it is, and what's launching there. Then, we will also, of course, talk about our Grid Modernization project.

Given those exciting events, I will turn it back over to John.

JOHN HAIRSTON: Thanks a lot, Michelle, for a really great financial presentation and some strong results this year. Well done by you and your team.

I'd like to talk about a number of other big stories that have taken place within our organization during 2020. I'd like to start off with what we've been doing around Grid Modernization – our key strategic initiative.

As you know, we are halfway through the Grid Modernization key strategic initiative. As I said earlier, we ended the year with both metrics green thanks to, I really feel, great portfolio and project management that we've put in place for this effort.

The progress is especially impressive, given the unique challenges the projects have faced due to COVID and extended telework.

Construction stand-downs and limited access to control centers, impacted project schedules, and have delayed implementation of some systems. We've also had to create new processes to safely onboard Grid Modernization vendors during our extended telework to ensure Grid Mod projects could continue to deliver.

Despite these challenges, we kicked off five new Grid Modernization projects to enable our participation in the Western Energy Imbalance Market. These projects successfully moved through the scoping into the deliver phase in the last year. We also completed five projects and met more than 50 major milestones this year.

The portfolio management and executive oversight have allowed us to prioritize deliverables and ensure project teams have the resources they need to really succeed on this project.

And, I would say our grid modernization project teams have found innovative ways to make sure that they're delivering this important initiative on time and on budget for the region, while ensuring the health and safety of our staff.

We continue to move forward on our EIM policies and implementation. We wrapped up our phase-three policy discussion in September and issued a subset of our final EIM policy decisions in the phase-three decision document. Our next phase is the Rate and Tariff proceedings that are expected to start in December. In these proceedings, we will finalize the remaining EIM policy decisions that will impact the rates and tariffs.

Phase four is an important step for us before making the final decision if we should join the EIM. We also kicked off our EIM implementation outreach. This covers issues on how BPA is implementing the EIM that is not determined in the Rate and Tariff process, such as systems and tools BPA is adding and how BPA is joining the EIM as a whole.

We look forward to the future engagements on our EIM implementation efforts as we continue to make progress on this important goal.

I'd also like to note that BPA has not made a final decision on the EIM. We are about a year away from making that significant decision and will require a lot more discussion among all parties affected and serious consideration over the next several months. Just want to make note of that. We are still going through the progressions of making a final decision.

We also know governance is extremely important and BPA is actively involved in the review of the EIM's governance through our involvement on the Governance Review Committee. This is an important foundation for BPA's participation and the addition of market functions in the future. The bottom line is, I want all of you to know that I'm fully committed to ensuring whatever decision we make is in the customer's best interest. It will be transparent, and we will weigh a number of factors to make sure that we make a decision that is certainly in the best interest of our customers.

I'd also add that we do not expect to change our overall approach to the ISO markets, given the recent California capacity shortages this summer. However, we do believe that market design flaws that we discovered based on recent events will inform our position on market design elements. That's also something that's very important to note that we're learning as we move forward.

We are also working closely with other EIM entities on evaluating the ISO's EDAM market initiative, which would extend the ISO's day-ahead market to EIM entities. We're exploring if EDAM could provide value for our clean, carbon-free capacity and ensure our transmission system is appropriately compensated.

We submitted joint comments with EIM entities in the ISO stakeholder process on November 12th, along with our own set of supplemental comments. No firm dates have been set thus far for the future of this process, due to the focus on the impact of the summer heatwave and other ongoing ISO stakeholder processes. Several analytical efforts are underway, and the results will inform our position on potential market elements. We intend to continue collaboration with EIM entities and our customers and stakeholders on all of this work.

Turning our attention to resource adequacy. It's been a really hot topic throughout the West in 2020, and BPA will continue to engage in the Northwest Power Pool Resource Adequacy Program to help develop a detailed plan. The need to continue these discussions was highlighted this summer with the heatwave and blackouts in California. A robust Resource Adequacy Program in the Northwest will support reliability as we transition into a cleaner regional energy portfolio.

We also are participating in the interim program and have provided energy to another entity when called upon. We look forward to continuing to engage in this program development.

Also, for several years, a key issue for BPA – particularly Power Services – has been the multi-agency Columbia River Operations Environmental Review. Now, we concluded this effort in September with the CRSO Joint Record of Decision. I really believe that the result is a product that will benefit fish, while providing clean, dependable, affordable power to the people of the Northwest.

This new operation demonstrates the type of trade-offs and balance necessary to enhance the operations of the system for both Fish and Power, and our analyses show that if we continue to manage our cost and leverage additional revenue opportunities, we can limit or avoid financial impacts for rate payers as a whole.

Related to this, BPA will be holding a second integrated program review in early 2021 to address CRSO impact as well as any changing economic conditions due to the pandemic.

Now, as we implement the CRSO operation, we are faced with the prospect of litigation. We are disappointed with this development, but we remain committed to working with our federal, state, tribal, and other non-governmental partners to mitigate the impact of the system on fish and wildlife in the region.

As we communicated throughout the CRSO effort, we never intended this release of the EIS to end the regional conversation. Now, the states of Washington, Oregon, Idaho, Montana are engaged in a process with the goal of taking a broader, more collaborative view on regional solutions that can, perhaps, improve conditions for fish and wildlife. So, we're interested in exploring solutions with the states, our tribal partners, customers, and others who are invested in fish and wildlife recovery and mitigation efforts, and we believe that we have valuable expertise to share on that topic.

At this stage, though, there's a lot more we need to understand and consider before we know what our role might be. We should know more in the upcoming weeks and months as that develops.

Now, as you may recall in FY2020, we completed our first virtual integrated program review. With our customers' input, we published final spending levels for the next rate period in line with our Strategic Goal to keep spending levels at or below the rate of inflation. These IPR spending levels will be key inputs into the Rate Case and we'll be kicking that off in December with the initial rate proposal. That's currently scheduled for early December.

For Power, BPA has presented the possibility of about anywhere between a 0% to 1% average rate increase, coupled with options for revenue financing or reducing BPA's dependence on secondary revenue or cost recovery.

Now, BPA is refining our approach for addressing secondary revenues in preparation for the initial proposal – retaining focus on balance of long-term and short-term interests, customer input to minimize local rate impact, and needing to address emergent borrowing authority challenges that we're facing. As well as opportunities to improve Power's leverage position. So, we're taking all of those things in consideration as we enter into those discussions.

I will also note that improvements in BPA's cash position have reduced the probability for the Financial Reserves Policy Surcharge triggering during the rate period.

Our current long-term power contracts will expire in 2028. Understandably, our power customers are particularly interested in the Provider of Choice Initiative, through which we will develop the policies and contracts BPA will offer beyond 2028.

In October, we released a summary of customers' views to date on post-2028 contracts and rate structure. We plan to work with customers through the remainder of the calendar year – 2020 – to further hone in on key Provider of Choice themes and interests. In early 2021, the focus will turn toward the development of a concept paper which will also consist of extensive outreach and partnering with our customers.

As always, we look forward to thoughtful conversations, collaboration, and healthy policy debates in the coming years as the region advances toward what is the next phase of BPA's policy and contracts – extending the Northwest's rich history of providing low-cost, reliable, and low-carbon public power for the region.

Now, I'll turn my attention toward the topic of BP-22 Rate Case for a moment and update you on where we're at on the transmission rates.

As we shared at our workshop in September, we are facing the possibility of an 8% rate increase for transmission. At that time, we also shared our concern about Transmission's net borrowing position. Transmission's business is capital intensive and needs access to capital to continue to invest in the grid and ensure it remains a reliable, valuable asset for the region. It's important to take steps now so that we avoid future negative impact. Any revenue financing that we include in rates will help us toward solving that capital access issue, but it won't be the only solution.

After the Rate Case concludes, our Finance Group will continue to lead discussions on options on how we can solve this issue for the foreseeable future.

In terms of our Transmission projects, social distancing protocols, along with two separate construction stoppages due to the pandemic in the middle of our construction season hampered our efforts. We also experienced major fires that drew heavily on our available resources. Despite these challenges, we ended up the year at 255 major units installed – above our transmission target for the year.

On capital spend, we came in at \$371 million, meeting our transmission target. We accomplished this work while remaining below our safety targets, coming in with an incident frequency rate of 1.1 per 100,000 hours of work in Transmission. Our annual ceiling is 1.3.

Now, I'd like to touch a little bit on wildfires. The intensity and the scale and devastation of this year's wildfire season was unlike anything we've ever seen – like I said, once in a generation. These devastating events impacted many of our customers and the communities – some of whom are still repairing and rebuilding.

Fortunately, we were able to maintain service to most of our customers and repair our damaged equipment sooner than what we really expected. Most importantly, we were able to perform that restoration work safely and without injuries to our crews. Transmission equipment in seven of BPA's 13 Transmission Maintenance Districts were impacted by fires. BPA had 38 lines out of service over the course of the fires. Some of these outages were due to fire damage, others were removed from service so that firefighters could do work on or near BPA right-of-ways or to allow BPA crews to safely work on some of the lines and around the right-of-ways.

Back in June, we had released our very timely Wildfire Mitigation Plan with concerns about the increasing frequency and severity of wildfires. We developed this multi-pronged plan that leverages what we feel are leading veg management programs and elevates wildfire mitigation and our asset planning strategy.

The goal of the plan is to ensure we continue to serve our utility customers safely and effectively when wildfires threaten BPA lines or substations as well as to reduce the likelihood of BPA equipment being a source of ignition. While it served us well during the challenging and intense wildfire season, we continued to apply the lessons that we learned during the wildfire season to further strengthen an already sound Wildfire Mitigation Plan.

Now, that wraps up the state of the business review. Before I close, I want to draw your attention to our FY2020 Annual Report, which was just released yesterday. I also encourage you to take a look at our Strategic Plan Progress Update published last month. Notably, in this

midpoint review, BPA has reassessed and reaffirmed our Strategic Goals and Objectives and feel that they are the right ones to ensure we succeed in our vision.

It highlights accomplishments over the last couple of years, some of which you've heard about today, but it also discusses some of the focus areas that will be important to many of you in the years ahead.

I'd like to also close by just really communicating how humbling it is to have the opportunity to lead Bonneville during this time. As an agency, we're eager to move forward and excited to see what will happen in FY2021, but we also look forward to partnering with the region and continuing to meet the challenges of this rapidly changing landscape. It's an honor and privilege to lead such a professional and engaged workforce. As you can see, they are doing a tremendous job in achieving results for all of our customers in the region.

That concludes our end-of-year review. I'd like to see if we have any questions that we can answer.

QUESTION: Hi, John, so far just one question has come in. It's for Michelle. Michelle, the question was: What are the topics that will be discussed during the IPR-2?

MICHELLE MANARY: This Thursday, Jessie Kintz will roll out a draft, topics and schedule. Right now, the topics we have are CRSO EIS, any impacts from that, any COVID – we said we'd further answer anything with the regional economy, any COVID impacts we see going into '21. As well as we heard loud and clear from last week's workshop – capital. Capital not only expense but some of the capital forecasts, especially on the transmission side.

That's what we have so far. On Thursday, we'll be talking through what we've seen so far and get feedback on that plan.

QUESTION: So far, there are no other questions. Thank you, Michelle, for giving that answer. Thank you, everybody else, for joining the meeting.

JOHN HAIRSTON: All right, thanks a lot.

MICHELLE MANARY: With that, I wanted to give a final plug for this Thursday's technical workshop. We will have SMEs as well as I will be there as well in the virtual realm to answer a lot of these questions and get your feedback.

With that, the dates are up there, have a great day. Thank you.

JOHN HAIRSTON: Thank you.

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