Risk Management Committee Report

Risk Management Meeting, March 14, 2019

Agenda:
- Cost of Services Analysis (COSA) – Presentation by EES Consulting
- BEC Financial Forecast – Presentation by Teri Wallis, TERILYNCONSULTING
- Other Business

COSA and Rate Design. The COSA presentation focused on the COSA approach and content. COSA analysis deals with rate issues (not directly with rate design alternatives) – how customer classes are paying for services. Rate design issues will surface and may be examined as the COSA process goes forward. Both the data confirmed for the analysis and the resulting COSA report will provide information for a rate design analysis. The committee continues to locate and engage sources to bolster the information base for the board’s evaluation of rate design. Analysis of possible rate design alternatives will follow the COSA.

Delivered by Gail Tabone and Gary Saleba (titles) the presentation followed up on points Saleba and Tabone made in the December presentation to the committee and board and addressed BEC concerns and questions relating to how to proceed with the COSA. Tabone noted three steps for the COSA rate study (not rate design): set the rate study initial year and define data, calculate costs for the customer classes, look at how the rate design delivers revenue to meet the costs.

There was significant discussion of classes and agreement to perform the COSA using existing classes. The primary criterion for defining a class is similar use of power reflected in load shape/load factor. Load data drives classes.

Specific committee issues were discussed and resolved:
- Budget/Forecast Year – 2020 data will reflect full TWACS impact
- Allocation of distribution costs, 100% demand or minimum system? – will use both, 50% demand, 50% customer data to complete the COSA. Discussion about identifying the relevant minimum system items will continue as the COSA report goes forward.
- Process for allocation of A&G and General Plant Costs – Allocation of A&G and General Plant Costs is a fundamental basis for calculating cost of service. General Manager Owens and Brad Prophet will go through the budget and forecast numbers and assign percentage allocations for line items to each category and forward to EES.
• Method for Allocating Demand Costs, -- the COSA will use Non-Coincident Peak (NCP) data for distribution costs (transformers, poles, wires, etc.). BEC has hourly system demand data. The NCP is traditionally used for allocating demand-related distribution costs. This approach is used because local distribution facilities are planned for and sized to meet the maximum demand levels in localized areas. The utility must have local distribution facilities nearby and ready to meet that maximum demand level for each and every customer. The NCP represents the localized load levels as it included the maximum demands of individual customers added together regardless of when they occur.

BEC Financial Forecast. Terri Wallis led the committee and board members through a line-by-line examination of the forecast, answered questions and responded to comments. The forecast states assumptions driving calculated results for 2019-2023 and, separately, for 2024-2027. The forecast shows fixed-price power supply through 2027, no additional long-term debt and annual retirement of 5% of allocated capital credits. Highlighting an area for attention the committee noted that assumptions for increases in expenses slightly exceed forecasted increases in revenue growth. When the final forecast is approved the forecast model can be used to run what-if evaluations of potential remedial actions to address the revenue impacts.

The purpose of the walk-through forecast review is to inform the committee and board and to check the numbers and assumptions for accuracy and applicability. The group identified needed changes to complete the forecast accurately.

Recommendations: We expect to have the changes completed By Teri Wallis with input from Brad Prophet and reviewed by the risk management sub-committee before the March 26 board meeting so that he committee can recommend acceptance of the forecast results.

The changes identified in the meeting include:

Statement of Operations
• Line 10 Admin & General Expense – In 2022 the total expense dropped $123,859 from the 2021 level. Then in 2023 it increased by $173,150 over 2022. The significant drop in 2022 could not be explained and Brad will look into it.
• Line 15 Interest Expense – Although there is no new long-term debt after 2018 in the forecast model, interest expense increases during the first four years of the forecast and then remains constant at the 2022 number for the next six years. Long-term debt starts out in 2019 at $9,901,718 and ends up in 2027 at $6,474,905, a reduction of $3,426,813 during the forecast period. Interest expense has to be going down as long-term debt is being retired.

Balance Sheet
• Line 2 Distribution Plant Additions – Forecast shows a negative number for 2018 when we know something like $1M was invested in meters and other plant
additions. After discussion by the committee it was determined that the write-off of the meters being replaced was also included on line 2. This write-off will be removed from line 2 and shown on line 6, Plant Retirements. The total utility plant ending balance will not change, but after this correction one can see what actually happened.

- Line 22 Payment of all Other Principal – This line for 2018 looks strange. Totals are 2018 $1,374,388; 2019 $545,243; 202 $437,431. Brad is looking into this.

Cash Flow Statement
Line 3 Net Changes in Working Capital – The number for 2018 is a negative $1,544,433. This number seems strange and is being looked into.

Frank Willett and Teri Wallis will assess whether additions or changes to the Forecast Model presentation content/format would improve its usefulness. Frank will report to the committee at the April risk management meeting.

Attached is the schedule for identified risk management activity for 2019 prepared by Bill Pascoe. It will be updated regularly as it is high level and the dates can (and will) move around as we proceed.

Risk Management Committee member Walter Clapp reported on the Space Weather Workshop 2019, co-sponsored by the NOAA Space Weather Prediction Center, the NSF Division of Atmospheric and Geospace Sciences, and the NASA Heliophysics Division. Walter volunteered to attend the event to learn more about catastrophic risk work being done and information regarding potential impacts on electric utilities. The group agreed that discussing this at the board meeting would give board members time to review the potential value of attending the event. The cost to BEC would be $300, as Walter would pay his expenses for travel and accommodations.

Arleen Boyd, Co-chair Risk Management Committee