



Financial Plan Refresh

Public Workshop
January 26, 2022



Today's Objective & Agenda

Objective: Share initial approach on sustainable capital funding options and begin the dialogue.

Agenda:

- Opening remarks: Finance, Power, and Transmission
- Comments – January 12th Workshop
- Sustainable Capital Funding Approaches
 - Feedback from customers
 - Principles
 - Initial options
 - Open dialogue
 - Next steps
- Customer Presentations

Opening Remarks

Comments Review

January 12th Comments Review

- Two parties submitted comments and questions: WPAG and NIPPC.
- Comments, questions, and requests were generally related to BPA's asset management program.
- Written responses to the comments will available at [bpa.gov](https://www.bpa.gov).

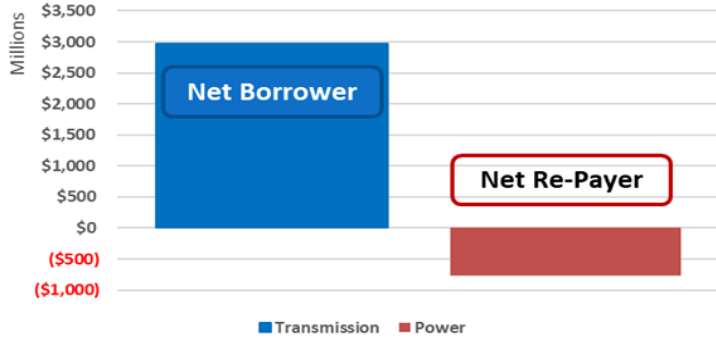
Sustainable Capital Funding

Recap of Why We Are Here

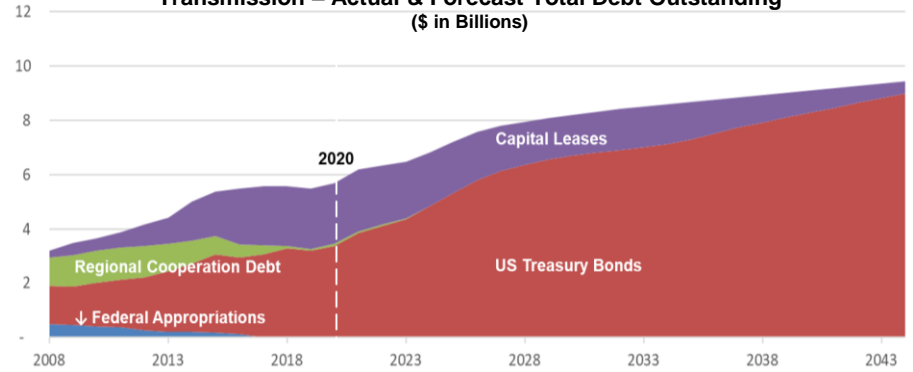
- Ahead of BP-22, BPA shared its debt management and near-term borrowing authority challenges. BPA's initial proposal included revenue financing to begin addressing these challenges.
- The BP-22 settlement included revenue financing. The settlement terms were not precedential and BPA committed to engage with customers after the rate case as we refresh policies, metrics, and targets around our financial health objectives.
- Keeping with this commitment, and the requirements in the Bipartisan Infrastructure Deal (BID), we developed the *Financial Plan Refresh* project to engage with customers on these topics.
- While the BID provided BPA with additional borrowing authority, affording flexibility and future funding certainty, BPA must still focus on prudent debt management and sustainable capital funding practices.
- Today we will focus on sharing our initial thinking on sustainable capital funding approaches.

Recap of Key Issues

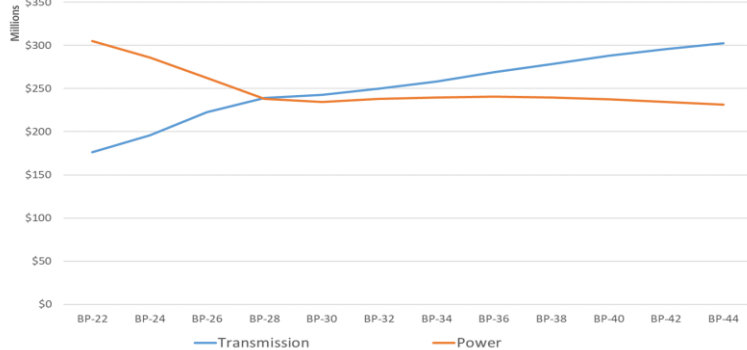
**Net Borrower or Net Re-payer Status
(Total Forecast 2021 – 2040)**



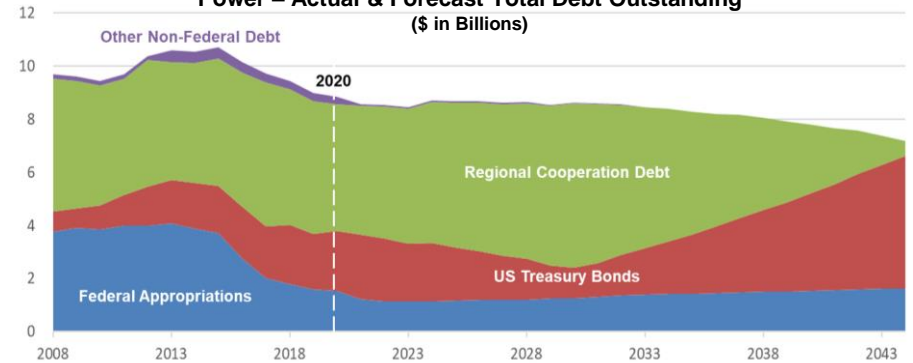
**Transmission – Actual & Forecast Total Debt Outstanding
(\$ in Billions)**



Total Projected Interest Expense



**Power – Actual & Forecast Total Debt Outstanding
(\$ in Billions)**



Key Themes We Heard

- Agreement by some that BPA should develop appropriate sustainable capital funding and debt management practices.
- Sentiment that the recent increase in borrowing authority should influence the trajectory to achieve desired goals.
- Concern about:
 - Rate impacts
 - Rate payer equity
 - Appropriate benchmarks against which BPA should measure itself
 - Credit rating agency metrics

Response to Key Themes

- BPA appreciates the support for exploring ways to move away from our status quo capital financing and debt management approaches, and the acknowledgement that this is warranted even with added borrowing authority.
- BPA recognizes the additional borrowing authority gained through the Bipartisan Infrastructure Deal grants significant flexibility in developing a new approach and have factored this into our thinking.
 - *Without* the added borrowing authority, the severity of the problem likely would have resulted in actions that would have a major and immediate rate impact for both Power and Transmission in BP-24 and beyond.
 - *With* the added borrowing authority, we are able to construct a phase-in approach over a longer timeframe, that has rate impact considerations at the forefront, while still achieving our long-term goals.

Response to Key Themes

- BPA recognizes it has unique features including being a commercially viable, self-financed federal entity.
 - BPA's unique features do not diminish the need to ground in industry and sound business practices, but does allow for flexibility to be closer to the upper ranges of common industry financial health indicators/metrics (see Oct 19th Grounding Package, slide 18).
 - Our goal is not to target metrics associated with high-investment grade entities. Rather, it is to achieve metrics that create financial resiliency, lower future costs, rate equity and rate stability over time.
- BPA considered inter-business line equity by having action responsive to whether each business is meeting certain long-term goals.
- BPA considered intergenerational equity by having a long-term policy, helping to ensure a more consistent debt service level over time.
- We look forward to continued discussion on possible modifications and alternatives.

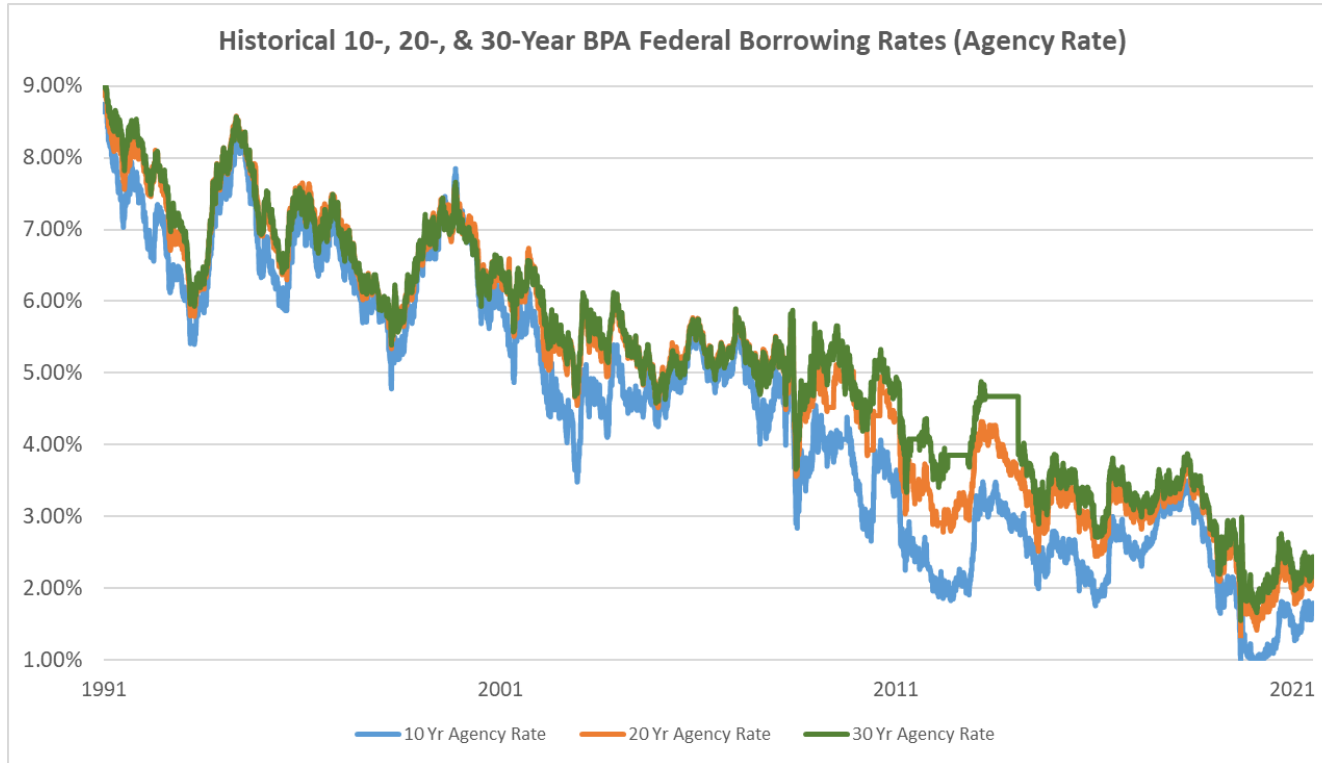
Overarching Goals & Principles

- The 2018 Financial Plan objectives – maintain financial flexibility and reduce interest expense – are still relevant and meaningful. The task is defining how to achieve this and over what period.
- Goals important to BPA:
 - Move away from 100% debt financing by revenue financing a portion of capital.
 - Achieve at least a net neutral borrowing position over a rolling 10 year period.
 - Achieve a leverage ratio no higher than 60% by BP-40.
- Framework principles:
 - Ground in industry practices.
 - Take a long-term view, while maintaining Administrator flexibility to respond to current circumstances.
 - Consider rate impact and competitiveness.
 - Consider simplicity – relatively easy to understand, calculate, implement, and transparent.

Why These Goals Are Important

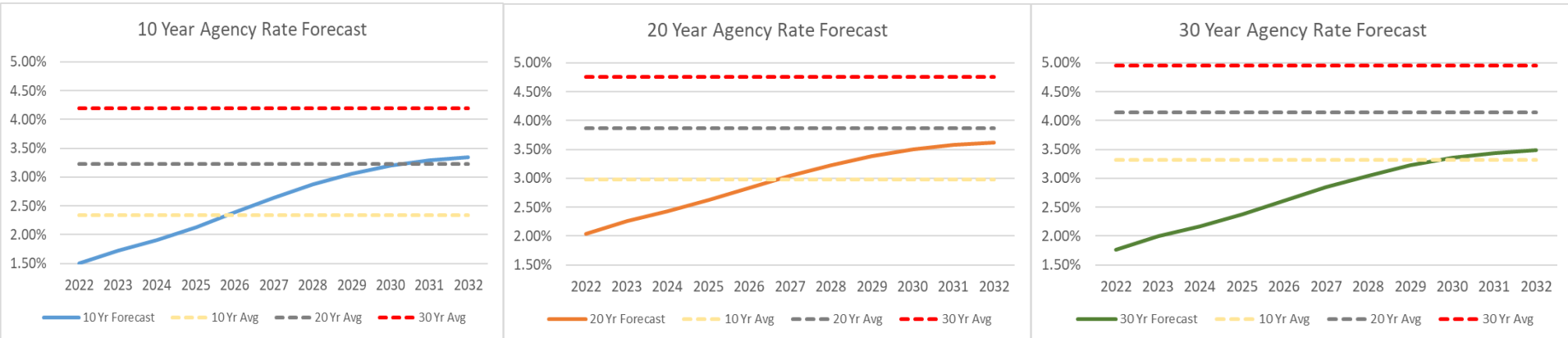
- Moving away from 100% debt financing by revenue financing a portion of capital.
 - Represents a strong step forward in adopting sustainable financing and debt management practices.
 - Grounded in common practice in the utility industry and aligns with sound business principles.
- Achieve at least a net neutral borrowing position over a rolling 10 year period.
 - Represents a posture of not borrowing more than is paid back; ties directly to the overall purpose of maintaining financial resiliency; provides protection against higher likelihood of rising interest rates.
 - Utility business environment has, and is likely to continue to change rapidly; it is prudent to take a conservative approach on debt.
- Achieve a leverage ratio no higher than 60% by BP-40.
 - Clearer articulation of current Financial Plan long-term goal and updated to reflect the level needed to ensure net neutral borrowing position.
 - Drives toward a long-term goal that is closer to industry norms, but is not overly conservative, being at the upper end of the industry range.
 - Lower leverage targets may be desirable over time, particularly considering individual business unit risk profiles.

Why These Goals Are Important – Hedging Risk

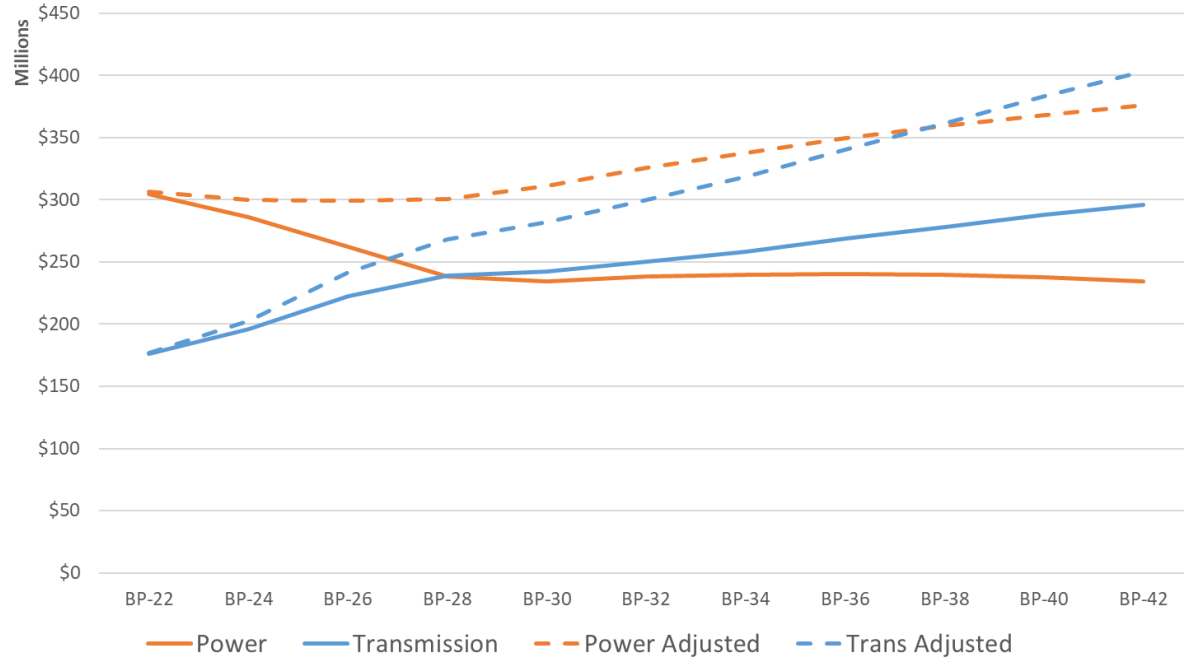


Why are These Goals Important – Hedging Risk

- Charts show forecast 10-, 20- and 30-year BPA federal borrowing rates, from BP-22, compared to historical averages for those terms.
- Forecast interest rates are low compared to historical averages.
- There is more room for rates to increase rather than decrease.



Why are These Goals Important – Hedging Risk



- Even modest increases in interest rates will have a significant effect on costs.
- A 1% increase in rates quickly compounds and drives interest expense costs up.

Approach Development

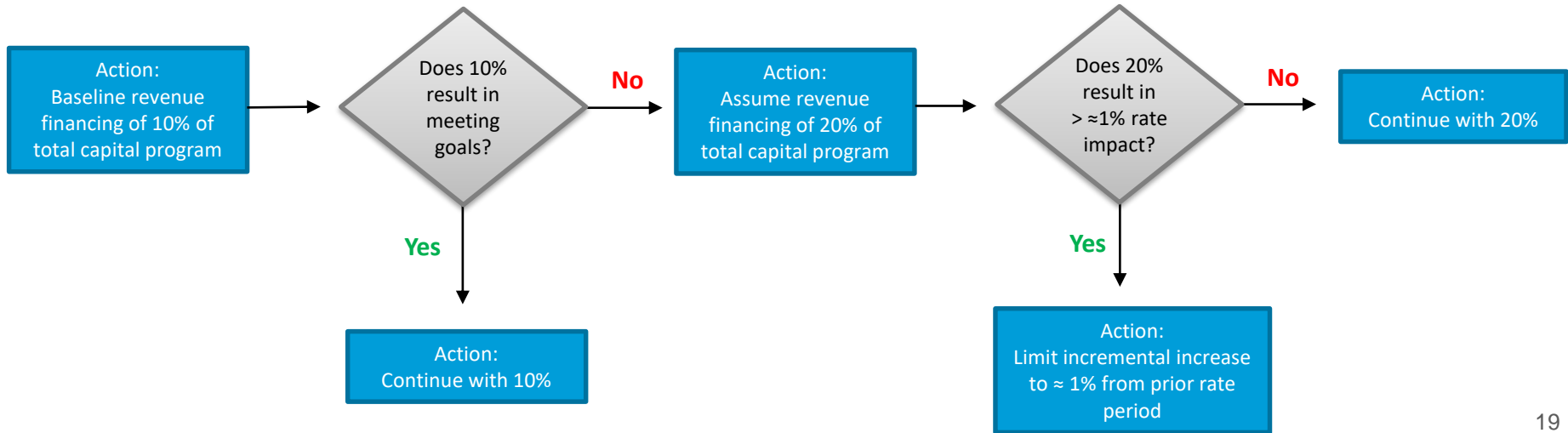
- BPA considered a variety of approaches to reach the stated objectives and folded in customer feedback with the “how” to achieve our desired goals and principles.
- We sought a cohesive Agency-level approach that takes into account how each business unit is making progress toward important goals.
- Today we’ll share our initial thinking. We believe it:
 - Balances customer concerns and feedback while progressing toward the purpose outlined in the financial plan and toward our desired goals.
 - Aligns with the desired goals and principles.
 - Takes into account how each business unit is performing against the goals.
- While our initial approach is intended to be a serious option for implementation, we want to hear about alternative solutions and possible modifications.

Initial Approach for Discussion

- Initial Approach: Revenue finance a fixed percentage of total capital at a level sufficient to arrive at desired goals.
- Baseline: each business unit revenue finances 10% of total capital. If defined objectives are not being met, that business unit revenue finances 20% of total capital.
- As appropriate, the defined phase-in will ensure controlled and modest rate impacts.
- Key elements of this approach:
 - A clear and consistent agency approach, applied uniformly, that results in different revenue financing percentages if a business unit is not meeting defined objectives.
 - A policy aimed at directly addressing capital financing.
 - Includes a phase-in that will mitigate incremental rate impacts, limited to roughly 1%.
 - Calculation is straightforward, simple and predictable, e.g. calculate once in IPR and lock amounts down for rate case.

High-level Overview of Approach

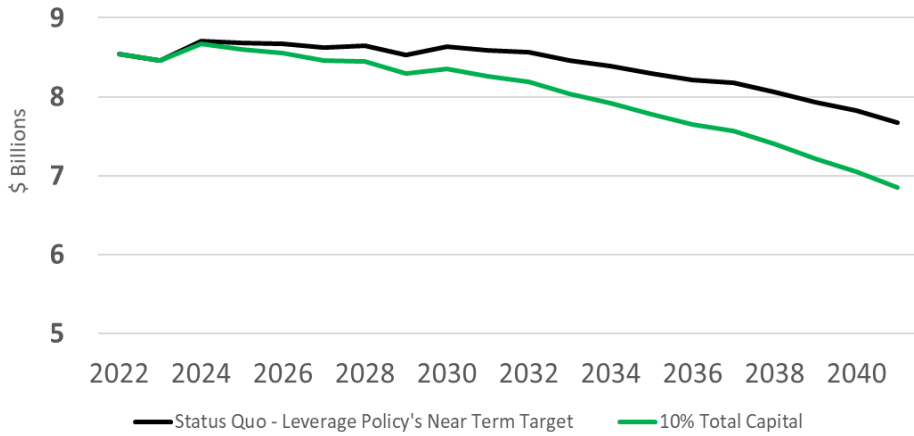
- Tracking progress toward two goals: net neutral borrower (or better) and 60% leverage by BP-40.
- The rate rule of thumb: a change in the revenue requirement of \$10M/year for Transmission or \$20M/year for Power = about 1% rate increase. The incremental rate impact limiter is net of interest savings, which allows for a higher amount of revenue financing.



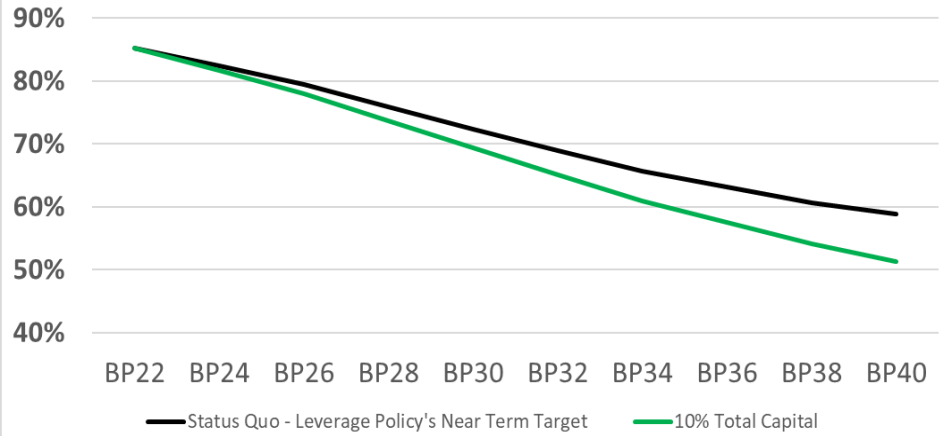
Business Unit Application - Power

- Baseline -- revenue finance 10% of total capital.
- Are other goals achieved are achieved at this level? Yes. With 10% revenue financing, both the leverage and the net neutral goals are met:
 - Leverage: Power is forecast to reach 60% leverage by 2040
 - Net neutral debt status:
 - Under the status quo (no revenue financing), over the next 20 years Power is a net repayer overall; however, in the next 10 years Power is forecast to be a net borrower.
 - With the added baseline revenue financing, Power is a net repayer.

Power Total Debt Outstanding

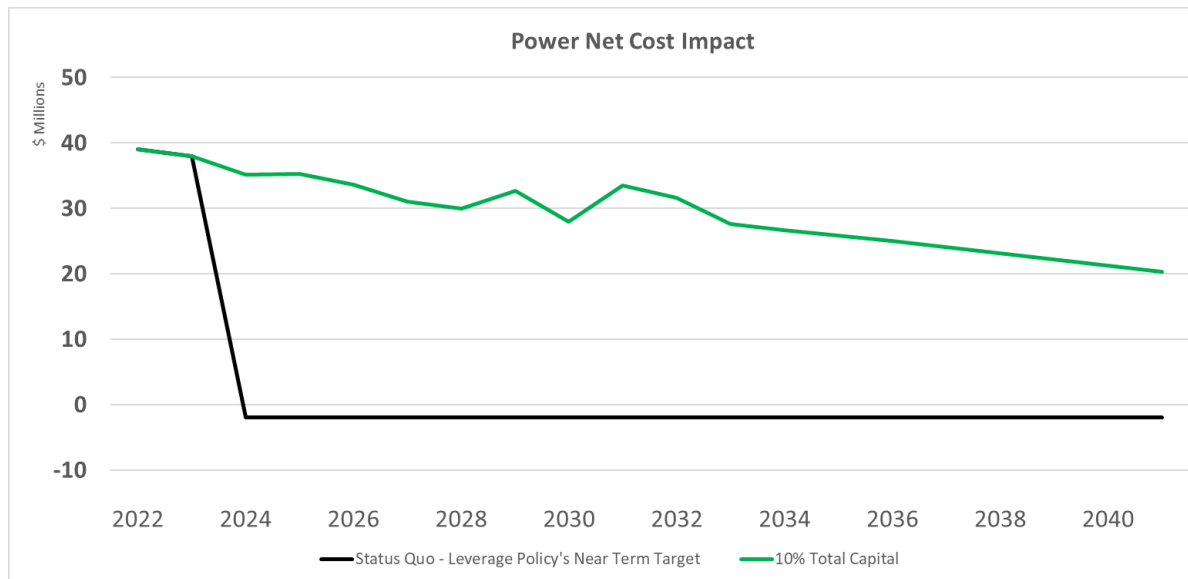


Power Leverage by Rate Period



Power 10% of Total Capital Revenue Financing -- Annual Average Revenue Financing

BP22	BP24	BP26	BP28	BP30	BP32	BP34	BP36	BP38	BP40
40,000	39,399	39,521	41,563	44,177	46,587	46,735	48,572	50,477	52,474



Net Cost & Rate Impact

(Net cost = revenue financing – cumulative foregone interest expense)

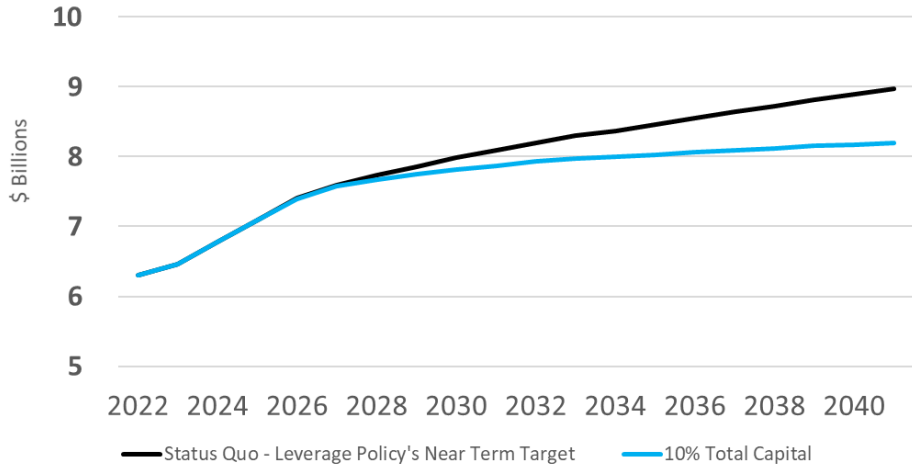
Net Cost Impact	BP22	BP24	BP26	BP28	BP30	BP32	BP34	BP36	BP38	BP40
Revenue Financing	40,000	39,399	39,521	41,563	44,177	46,587	46,735	48,572	50,477	52,474
Foregone Interest	(1,488)	(4,184)	(7,173)	(10,200)	(13,436)	(16,976)	(20,448)	(24,056)	(27,806)	(31,704)
Net Cost	38,512	35,215	32,348	31,362	30,741	29,611	26,287	24,516	22,671	20,771
Change From Prior Rate Period		(3,297)	(2,867)	(986)	(621)	(1,130)	(3,324)	(1,771)	(1,845)	(1,901)
Approximate Rate Impact (\$20m=1%)		-0.2%	-0.1%	0.0%	0.0%	-0.1%	-0.2%	-0.1%	-0.1%	-0.1%

Business Unit Application - Transmission

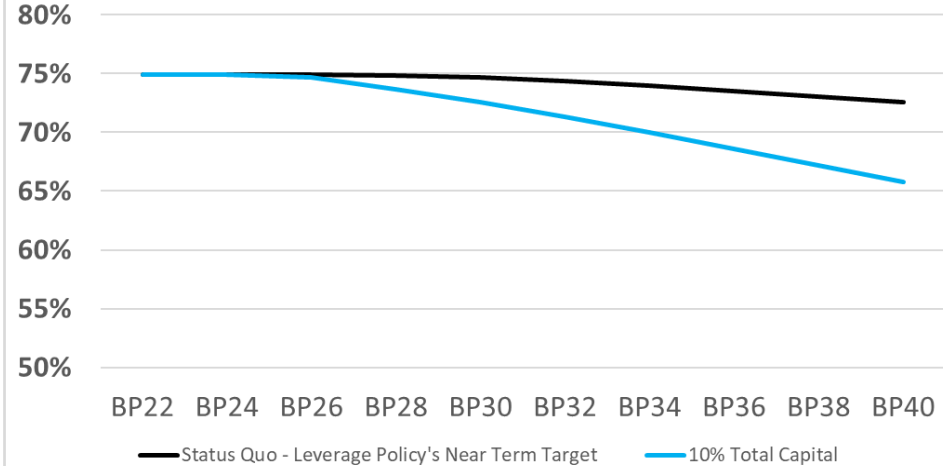
- Baseline -- revenue finance 10% of total capital.
- Are the goals achieved at this level? No.
 - Leverage: Transmission is forecast to reach 66% leverage by 2040
 - Net neutral debt status: Transmission debt continues to grow
- Since defined objectives are not met, revenue financing is increased to 20%, limited by rate impact cap, if applicable.

Transmission – 10% Fails

Transmission Total Debt Outstanding



Transmission Leverage by Rate Period

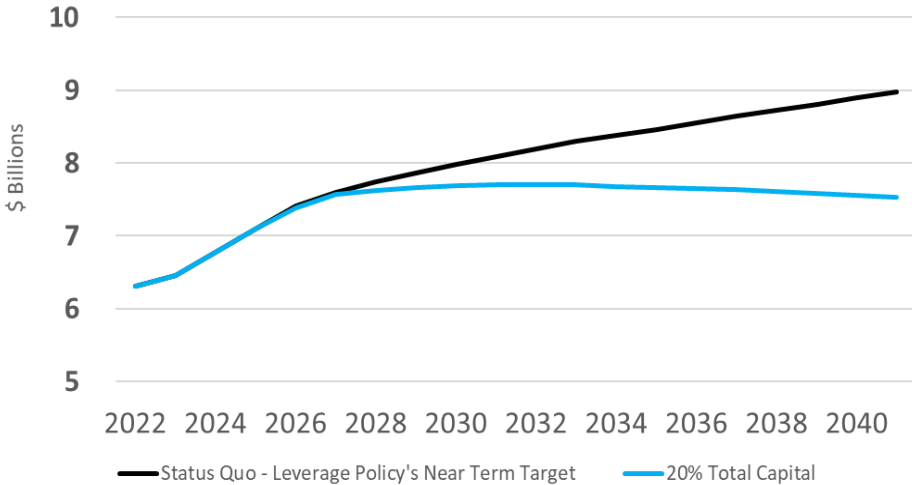


Transmission 10% of Total Capital Revenue Financing -- Annual Average Revenue Financing

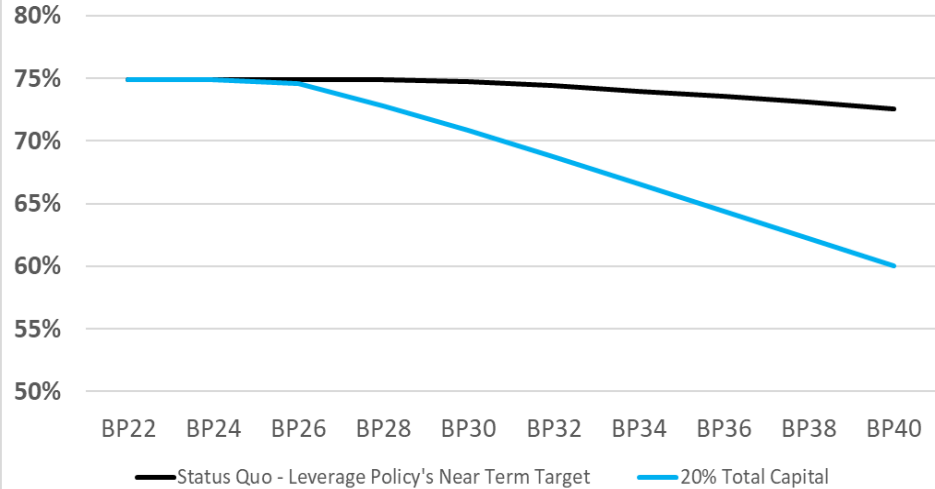
BP22	BP24	BP26	BP28	BP30	BP32	BP34	BP36	BP38	BP40
40,000	65,299	62,195	49,658	50,828	52,234	54,207	56,218	58,270	60,395

Transmission – 20% Passes

Transmission Total Debt Outstanding

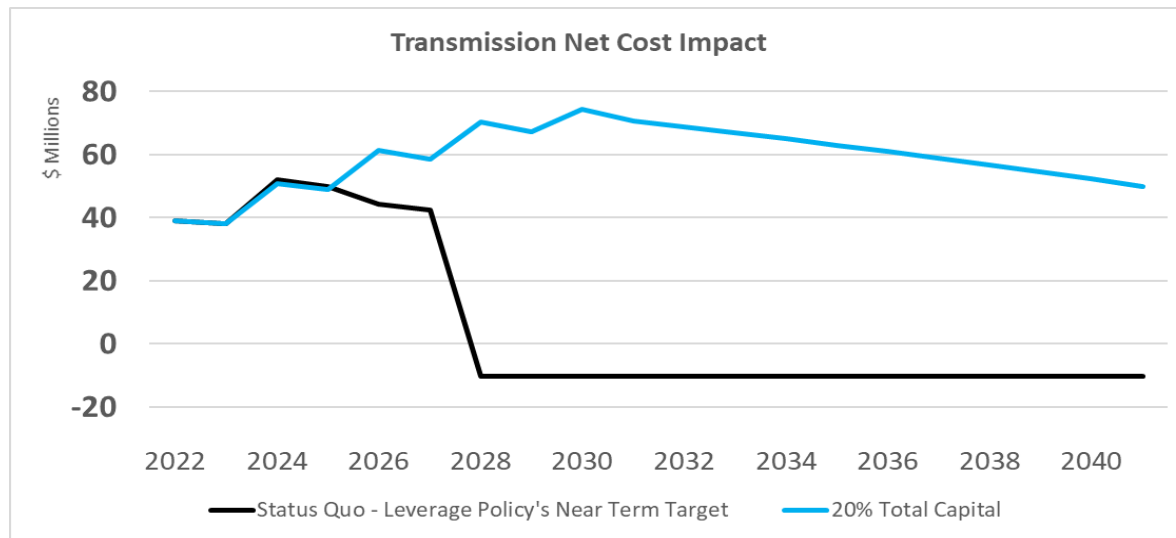


Transmission Leverage by Rate Period



Transmission 20% of Total Capital Revenue Financing -- Annual Average Revenue Financing

BP22	BP24	BP26	BP28	BP30	BP32	BP34	BP36	BP38	BP40
40,000	55,000	70,000	85,000	100,000	104,467	108,413	112,435	116,540	120,789



Net Cost & Rate Impact

(Net cost = revenue financing – cumulative foregone interest expense)

Net Cost Impact	BP22	BP24	BP26	BP28	BP30	BP32	BP34	BP36	BP38	BP40
Revenue Financing	40,000	55,000	70,000	85,000	95,625	98,269	101,981	105,764	109,626	113,623
Interest Reduction	(1,488)	(5,078)	(10,047)	(16,140)	(23,113)	(30,416)	(37,995)	(45,856)	(54,005)	(62,451)
Net Cost	38,512	49,922	59,954	68,860	72,512	67,853	63,986	59,908	55,621	51,171
Change From Prior Rate Period		11,410	10,031	8,906	3,652	(4,659)	(3,866)	(4,078)	(4,287)	(4,449)
Approximate Rate Impact (\$10m=1%)		1.1%	1.0%	0.9%	0.4%	-0.5%	-0.4%	-0.4%	-0.4%	-0.4%

Phase In & Calculation Considerations

- Phase-in considerations:
 - Without a phase-in, revenue financing 20% of Transmission's total capital would mean increasing revenue financing from \$40 million/year in BP-22 to \$131 million/year in BP-24.
 - Limiting increases to approximately 1% rate increase moderates the impact on rates while still meeting the net neutral borrower and 60% leverage targets.
 - For Transmission this is approximately a \$15 million/year increase in revenue financing, net of foregone interest.
- Basis of calculation considerations:
 - Analysis was performed using forecast capital levels.
 - The approach could be developed using actuals, forecast, or some combination of actuals and forecast.

Recap and Feedback

- The approach proposed is an Agency-level option, that includes a baseline level of revenue financing with additional revenue financing requirements if goals are not being met, and includes a phase-in and rate moderating elements.
- We are particularly interested in feedback on:
 - Alternative phase-ins, or ways to shape/ramp.
 - Alternative ways to calculate “total capital program” (historical/forecast).
 - Ways to include flexibility to respond to current circumstances.
 - Alternative solutions.

Next Steps

- Please submit written feedback to communications@bpa.gov by Feb 2nd with “Financial Plan Refresh” in the subject line.
- Next workshop is on Feb 9th. Topics include:
 - Capital Framework.
 - Carry over items from today’s workshop, as needed.

Appendix:

BPA's 2018 Financial Plan

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- The Financial Plan is organized in order of flexibility, beginning with the foundational and least flexible elements, followed by financial polices and practices, and ending with financial health objectives.
- The financial health objectives of debt utilization, debt capacity and liquidity relate to financial resiliency.
- Debt utilization and debt capacity are the prime focus of the “why” today.

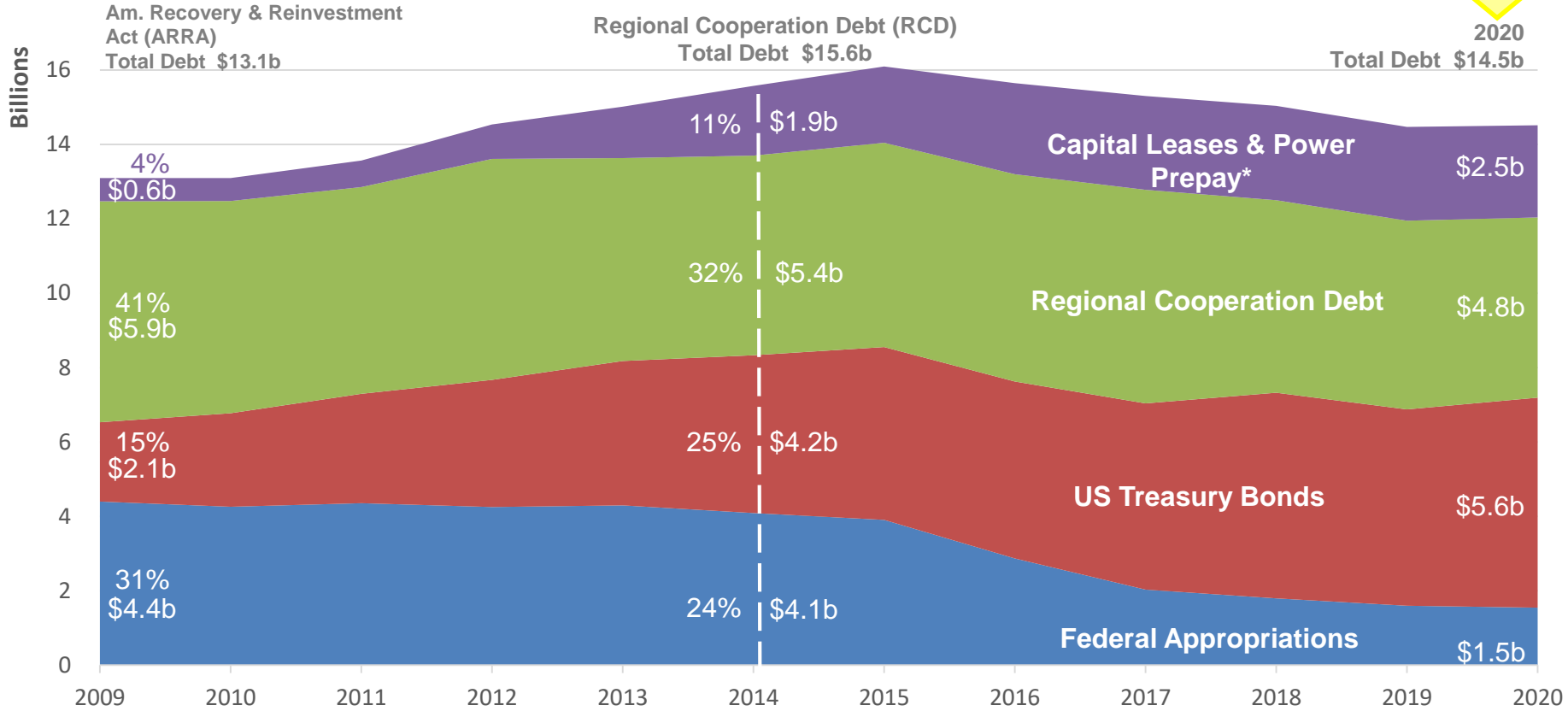
2018 Financial Plan Details



Area	Financial Health Objective & Purpose	Metric	Target
Cost Management	Program Costs: Lowest possible rates	Rate-period change in program costs	Hold the sum of program costs, by business line, at or below the rate of inflation through 2028
	Capital Investments: Maintain value and reliability of assets	Leading industry-standard asset management	Manage the lifecycle cost and value of assets based on industry-leading standards
Financial Resiliency	Liquidity: Maintain financial reserves for solvency and stability	Days cash on hand and TPP	Maintain a minimum of 60 days cash on hand for each business line and a 97.5% annual TPP
	Debt Utilization: Reduce interest expense; maintain financial flexibility	Debt to asset ratio	Achieve a debt to asset ratio of 75% -85% within 10 years and 60% - 70% in the long term
	Debt Capacity: Maintain access to secure and low-cost debt financing	Remaining borrowing authority	Maintain ability to fund capital program on a rolling 10-year basis; preserve \$1.5B of available borrowing authority
Over-arching	Ind. Health Assessment: Maintain high investment-grade credit ratings	Credit rating	Maintain high investment-grade credit ratings from all three rating agencies



Outstanding Agency Debt at 9/30/20

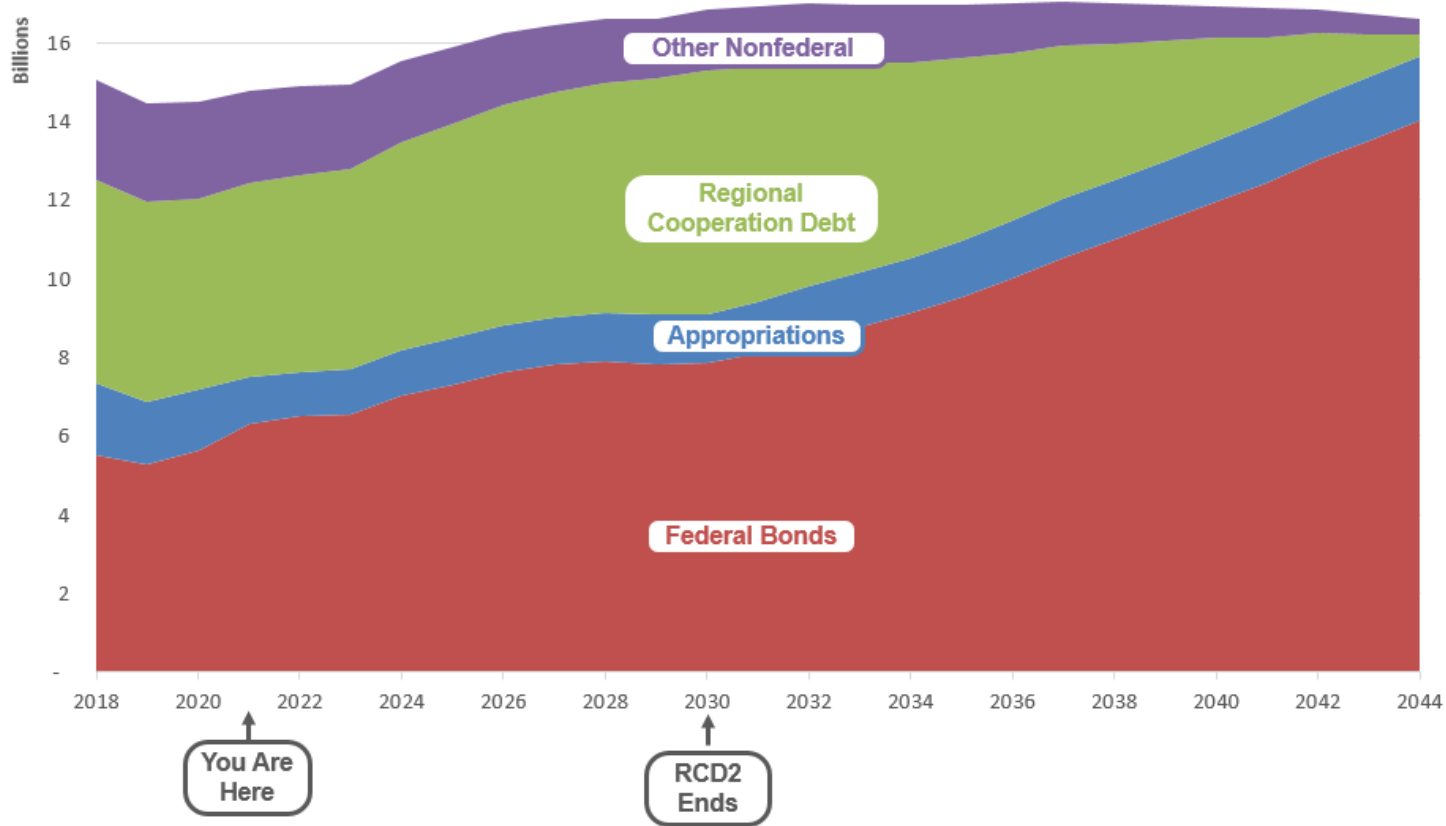


Source: BPA Audited Financial Statements FY 2009-FY2020

* FY14 and prior includes conservation bonds (Tacoma, CARES, and Emerald)

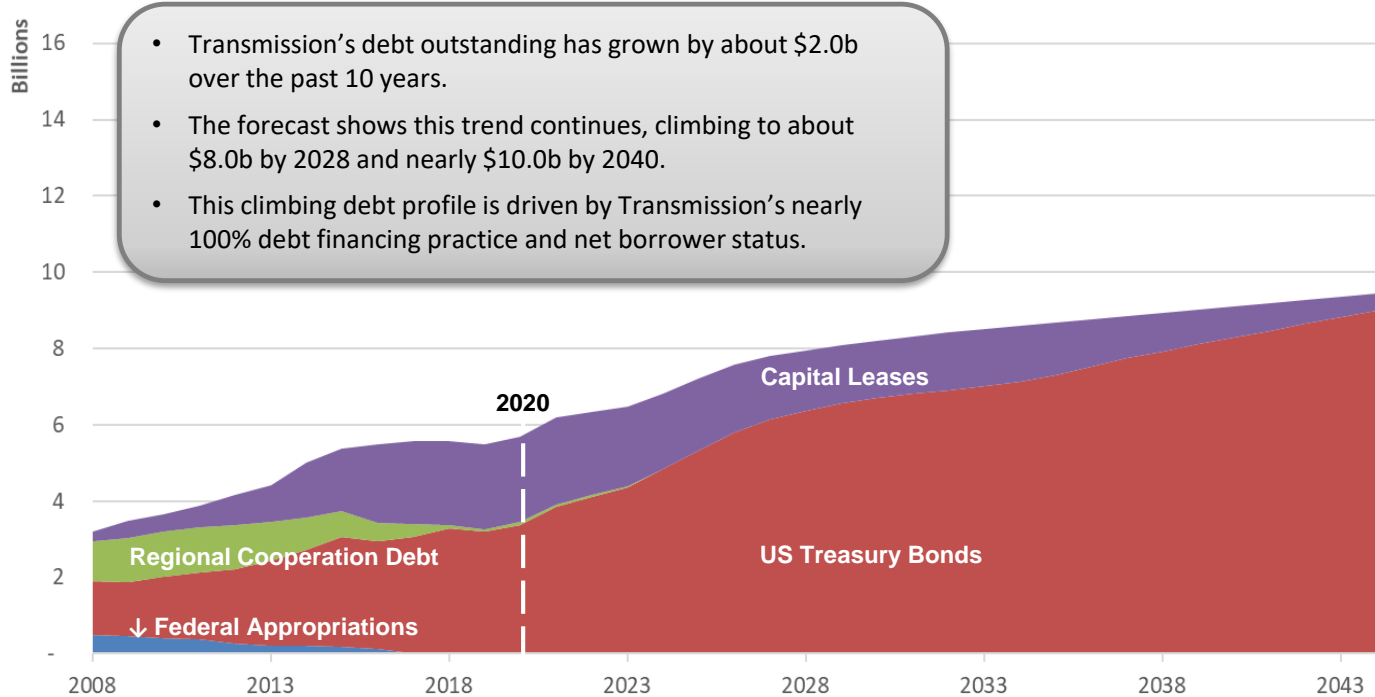
Debt Outstanding - Agency

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- Assumes unlimited Federal financing

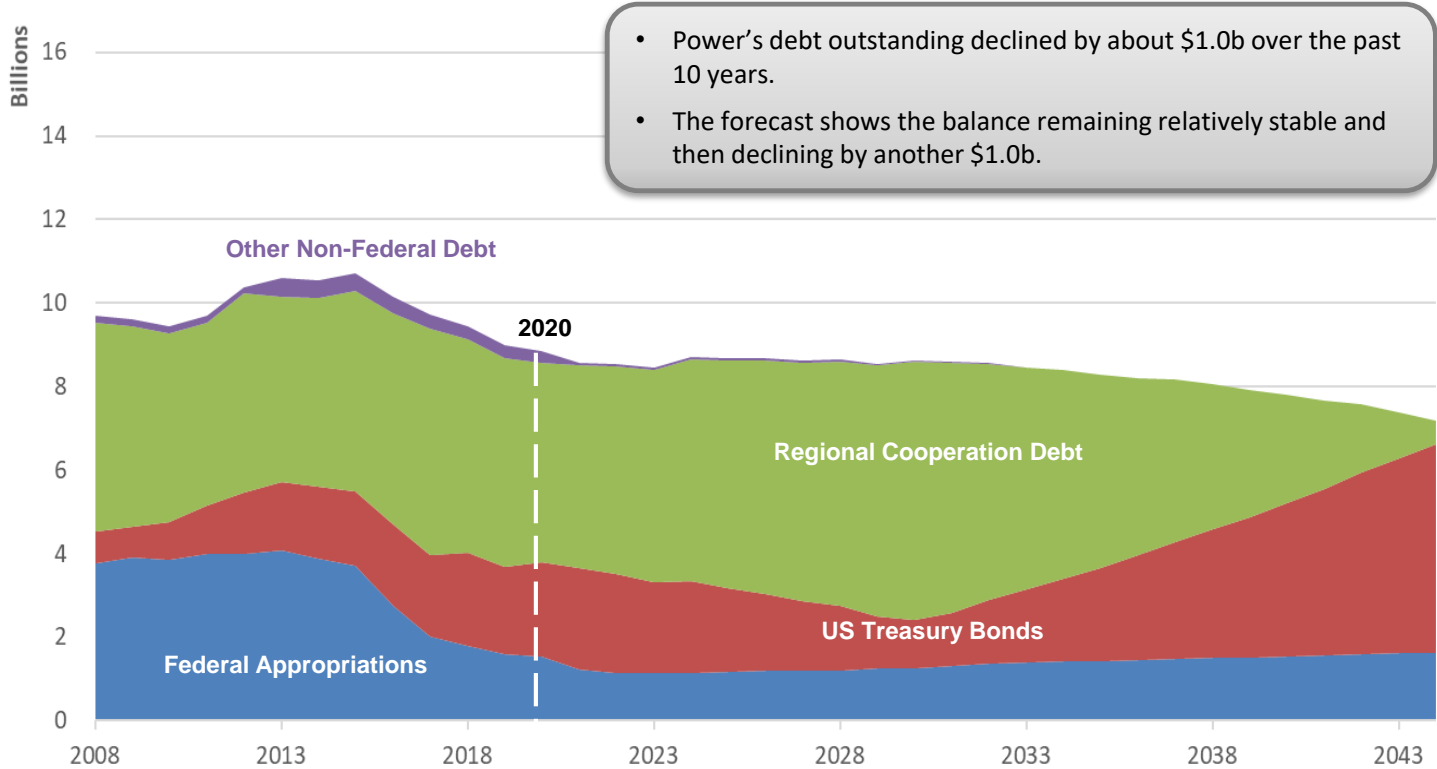
Transmission's Increasing in Debt Profile



Source: BPA Audited Financial Statements FY 2008-FY2020



Power's Flat Debt Profile

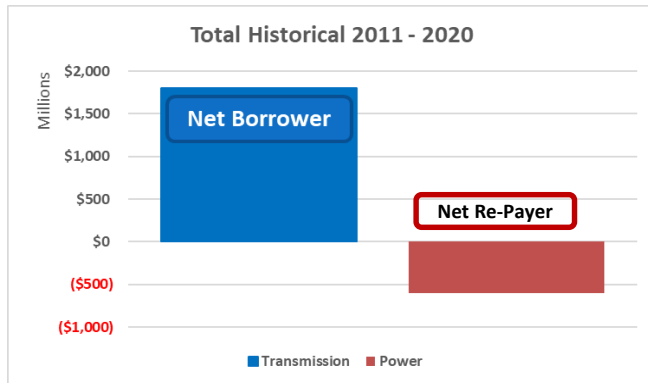


Source: BPA Audited Financial Statements FY 2008-FY2020

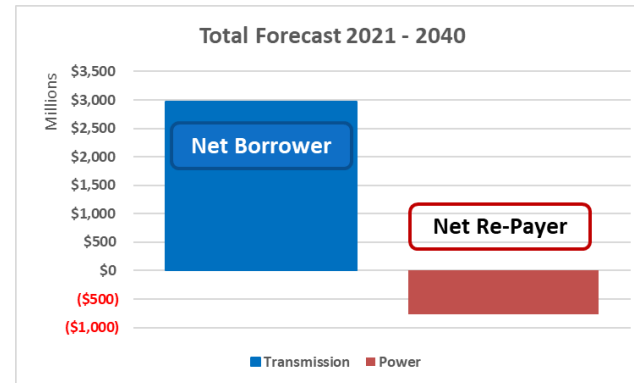
Key Issue: Net Borrowing Position

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- Transmission is and has been a net debt borrower.
 - Net borrowed approximately \$1.8 billion since 2010.
 - Forecast to net borrow approximately \$2.97 billion in the next twenty years.
- Why is this important?
 - Net borrowing takes from BPA's limited borrowing authority that is jointly used by Power and Transmission Services.
 - Net borrowing adds significant future fixed costs (interest expense) that will be recovered through transmission rates.



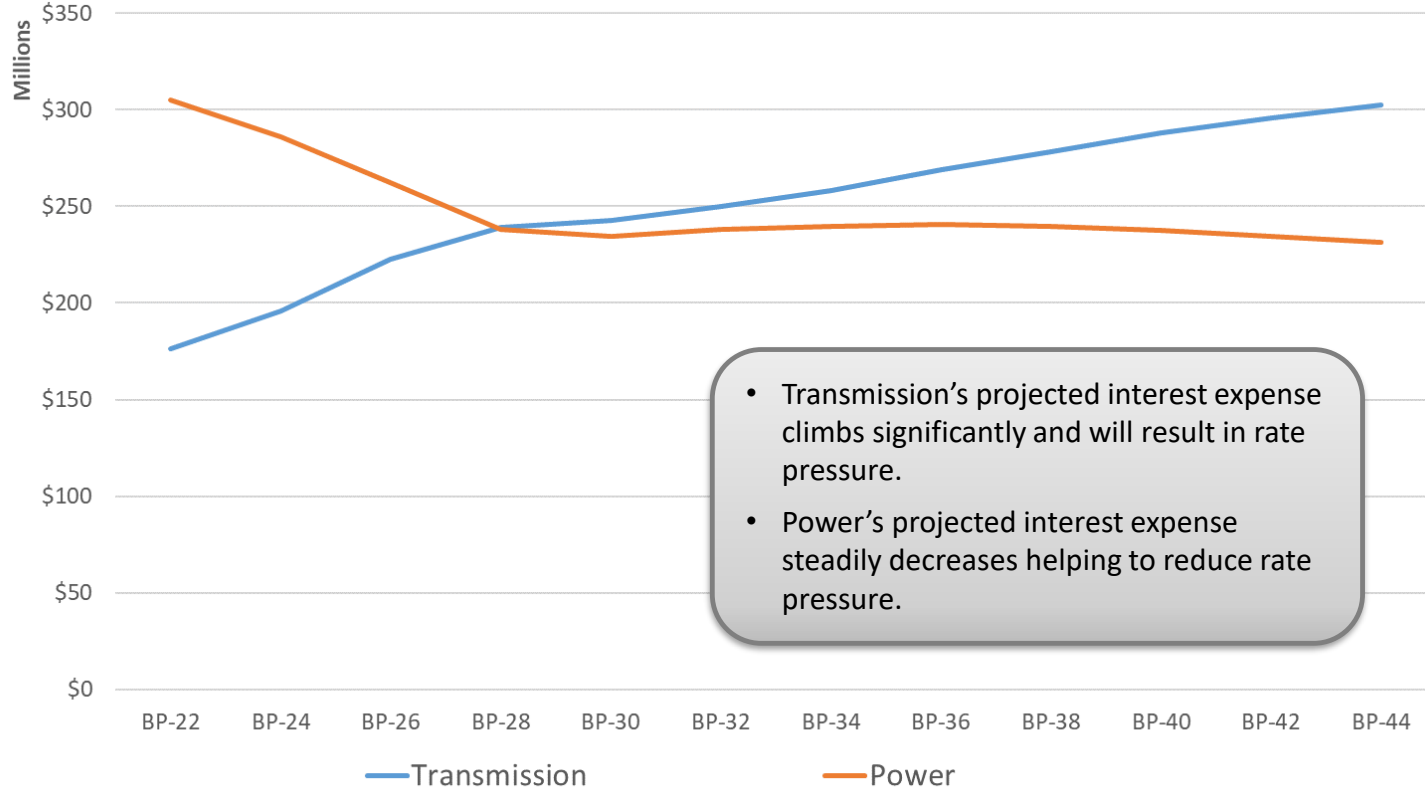
Source: Based on FCRPS audited financial statements



Source: Based on BP-22 FP

Total Projected Interest Expense

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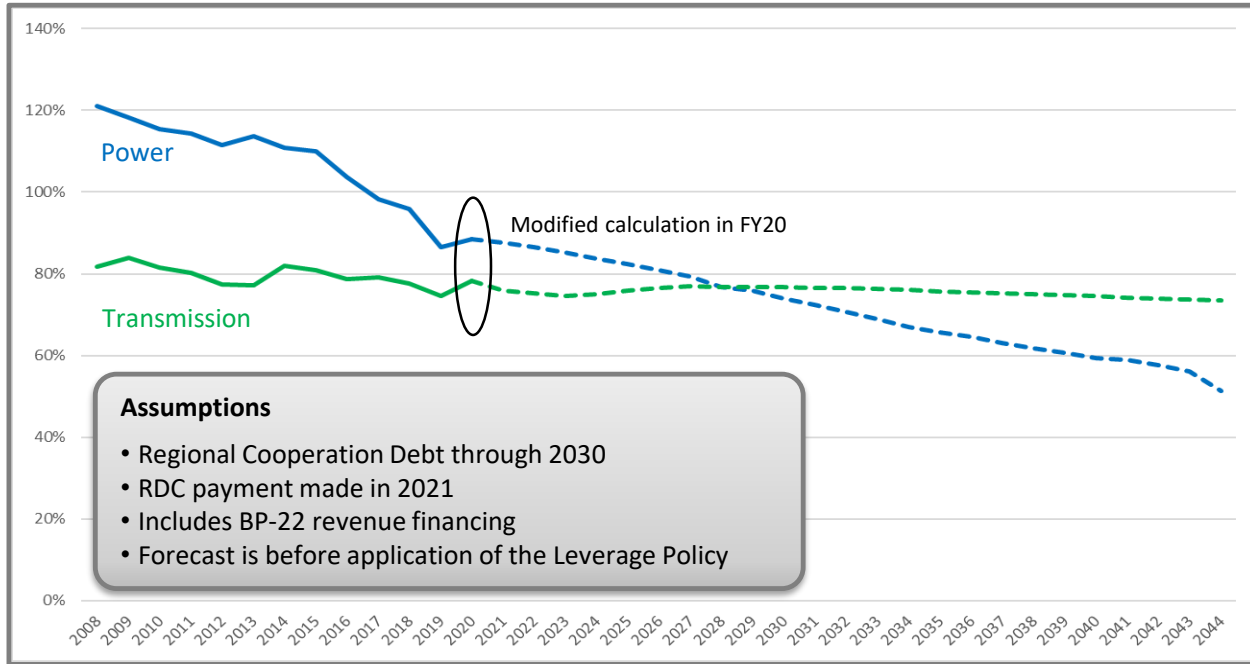


- Transmission’s projected interest expense climbs significantly and will result in rate pressure.
- Power’s projected interest expense steadily decreases helping to reduce rate pressure.

Source: BP-22 FP

Debt to Asset Ratio Historical & Projected

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- Total debt (plus deferred borrowing) divided by total assets (plus construction work in progress)
- Modified formula to include deferred borrowing as debt starting in FY 2020