



Financial Plan Refresh

Public Workshop

May 24, 2022



Objective & Agenda

- Today's Objective: To share and discuss key elements of our draft Sustainable Capital Financing Policy and Financial Plan.
- Agenda
 - Recap of Timeline
 - Review Proposals:
 - Draft sustainable capital financing policy
 - Draft Financial Plan
 - Next Steps

Recap of Financial Plan Refresh Timeline

Sep - Nov 2021

- Project kick-off with external stakeholders:
 - Today, Sep 15
- Public Grounding Sessions:
 - Oct 19
 - Nov 16

Jan - Mar 2022

- Engage external stakeholders in informal workshops
- Present proposals
- One week comment period following each workshop
- Workshop dates:
 - Jan 12 & 26
 - Feb 09 & 23
 - Mar 09 & 23

May - Sep 2022

- May 24: Workshop to review recommended proposal (basis for the ROD) and Financial Plan updates
- May 24: Formal comment period opens
- Jun 16: Formal comment period closes
- Jul 29: Issue ROD
- NLT Sep 30: Issue updated Financial Plan

Draft Sustainable Capital Financing Policy

Policy Overview: Key Points

- Goals: Revenue finance a portion of BPA's annual capital investments and achieve 60% leverage by 2040.
- Approach: Default amounts of revenue financing will be calculated in the IPR.
- Policy Flexibility in Rate Setting: Bonneville may propose or adopt an amount of revenue financing for a given rate period that is less than or greater than the default amount, in response to circumstances.
- Policy Flexibility for Financial Operations Flexibility: Bonneville intends to repurpose revenue financing within an operating year to support business line liquidity in certain circumstances.

Policy Goals

- Goals: Revenue finance a portion of BPA's annual capital investments and achieve 60% leverage by 2040.
- BPA selected these goals for a number of reasons, including:
 - Achieving these goals will improve BPA's financial flexibility and help to ensure a consistent cost of service over the long-term.
 - Our purpose is not to improve BPA's credit rating, although we recognize revenue financing can be viewed as credit supportive.
 - Grounded in industry practices: We have compared and contrasted the practices of other entities that are comparable, yet distinct, to ensure our revenue financing approach is reasonable.
 - Long-term horizon: Driving toward the goal over a 20-year horizon enables development of an approach that puts rate impact considerations at the forefront.
 - Alignment with industry norms: Targeting a debt to asset ratio in the 40% to 60% range is common practice. Our goal of 60% puts us at the upper end of this range, achieved over a 20-year horizon.
 - Prudent debt management: 60% leverage results in significant avoided interest expense, lowering future fixed costs, and is the target needed to flatten Transmission's outstanding debt level over time.

Policy Approach

- Approach: Default amounts of revenue financing will be calculated in the IPR.
- The default amount of revenue financing will be calculated for each business unit prior to each rate case as follows:
 1. The default amount of revenue financing for each business unit will be 10% of the IPR capital spending forecast of BPA-funded capital investments.
 2. However, if 10% revenue financing in step 1 does not result in a business unit achieving, on a forecast basis, a debt-to-asset ratio no greater than 60% by 2040, the default amount of revenue financing will be increased to the lower of:
 - a) 20% of the IPR capital spending forecast of BPA-funded capital investment, or
 - b) Incremental revenue financing (compared to the amount of revenue financing included in the prior rate case) of \$15 million per year for Transmission Services or \$25 million per year for Power Services.

Policy Flexibility in Rate Setting

- Policy Flexibility: Bonneville may propose or adopt an amount of revenue financing for a given rate period that is less than or greater than the default amount, in response to certain circumstances.
- Flexibility is intended to be used in extraordinary circumstances.
- BPA may propose or adopt an amount of revenue financing for a given rate period that is greater than or less than the default amount, in response to circumstances including:
 - Changes in BPA's capital program.
 - Triggering of risk adjustment mechanisms.
 - Rate pressure.
 - Settlement.
 - Whether revenue financing was higher or lower than default amount in a prior rate period.
 - Likelihood of achieving the debt-to-asset ratio Policy goal.

Policy Flexibility for Financial Operations Flexibility

- Policy Flexibility for Financial Operations Flexibility during the Year: Bonneville intends repurpose revenue financing to support business line liquidity in certain circumstances. This flexibility is aimed at within year operational flexibility.
- BPA intends to balance deleveraging goals and liquidity needs. Liquidity will be prioritized as follows:
 - Revenue financing will be repurposed to reduce the amount of an FRP Surcharge or CRAC. BPA would propose to retain the same language as in the BP22 GRSPs.
 - When a business unit's start of year reserves for risk are between 60 and 120 days cash on hand, BPA intends that revenue financing will be reduced to the extent that a business unit's end of year reserves for risk are expected to be lower than the start of year. The reduction is limited to the amount needed to retain the start of year reserves for risk.

Other Key Points

- With the adoption of the new Sustainable Capital Financing Policy, BPA will sunset existing Leverage Policy.
- BPA will not adopt an offset to depreciation for revenue financed assets as part of the Financial Plan Refresh process.
- Post 2028 considerations: While we are not planning a comprehensive financial policy review ahead of the next long-term power sale offering, we understand that the interplay between BPA's financial policies and the post-2028 contract conversation is an important issue and we look forward to continuing the dialogue on this topic.

Draft Financial Plan

2018 Financial Plan Document Sections

- Introduction: Provides an overview of BPA's mission and financial health.
- Statutory Obligations and Authorities: Outlines concepts within BPA's statutes that guide nearly all of BPA's rate-making and financial decisions.
- Financial Policies and Established Practices: Describes financial policies and established practices that provide clarity and consistency around how the agency will operate, make decisions and set power and transmission rates consistent with its organic statutes.
- Financial Health Objectives: Defines key financial health objectives essential for assuring financial health.
- Conclusion: Offers a recap of the Financial Plan.

Proposed Financial Plan Updates by Section

- Introduction: Minor wordsmithing.
- Statutory Obligations and Authorities: Minor wordsmithing.
- Financial Policies and Established Practices: Minor wordsmithing.
- Financial Objectives:
 - Substantial updates that reflect the direction discussed in workshops; relates to goals, metrics, targets, policy, and framework. Primarily focused on: Capital Investments, Debt Utilization and Debt Capacity.
 - Minor edits for clarifications regarding consistency with statutory obligations and IPR as a forecast of projected costs.
- Conclusion: Updates to reflect changes made elsewhere in the document.
- Overall: Removed references to current conditions to make document more durable.

Financial Objective: Capital Investments

- Proposed capital investment updates focus on performance metrics and targets.
- Key new additions:
 - Capital performance tracking:
 - Actual capital spending vs. rate case planned capital spending.
 - A target execution range that provides an expected, upper, and lower execution target.
 - Planned capital investments vs. completed capital investments or major milestones.
 - Outlines that metrics and targets may change with asset management maturity and business environment.

Financial Objective: Debt Capacity

- Proposed debt capacity updates focus on describing, at a high-level, the borrowing authority framework.
- Key new additions– the borrowing authority framework:
 - Approach for monitoring available borrowing authority.
 - Reporting of forecasted remaining borrowing authority.
 - Broadly identifies actions that BPA will take at differing levels of available borrowing authority.

Financial Objective: Debt Utilization

- Proposed debt utilization updates focus on describing leverage goals and updating with current information.
- Key new additions:
 - Goal is updated to reflect our desire to revenue finance a portion of BPA's annual capital investments and achieve a leverage target no greater than 60% by 2040.
 - Outline the reasons for adopting these goals.
 - Highlights that BPA will adopt a policy that includes revenue financing a portion of capital investments and that balances deleveraging goals with rate impact considerations.

Next Steps

- Please review the draft Financial Plan and draft Sustainable Capital Financing Policy, available on the [Financial Plan Refresh webpage](#) of bpa.gov.
- Please submit comments and feedback on these draft documents using the [public comment webpage](#) on bpa.gov.
- The comment period will open today, May 24 and close on June 16.
- BPA will consider your feedback and issue a final ROD for the Sustainable Capital Financing policy in July and will publish the final Financial Plan no later than the end of September.
- Please send questions to communications@bpa.gov with the subject “Financial Plan Refresh”.