FINANCIAL RESERVES POLICY

1. Background and Purpose

The Financial Reserves Policy (Policy) provides a consistent, transparent, and financially prudent method for determining BPA's target ranges for financial reserves available for risk (financial reserves). The Policy establishes upper and lower financial reserves thresholds for Power Services, Transmission Services, and BPA as a whole, which define the target ranges. The Policy also describes the actions BPA will take when financial reserves levels either fall below a lower threshold or exceed an upper threshold. The Policy supports BPA's requirement to establish the lowest possible rates consistent with sound business principles.

Prior to the Policy, BPA did not have a consistent way to establish financial reserves target ranges and upper and lower financial reserves thresholds for each business line and BPA. This is of particular importance because financial reserves levels and financial reserves policies and practices have a direct effect on BPA's credit rating, which is determined at the aggregate BPA level. BPA, however, sets rates to recover costs for each business line individually. The lack of a consistent policy across the business lines and for BPA as a whole allows for *ad hoc* financial reserves decisions and different treatment for each business line.

Establishing prudent financial reserves lower thresholds for the business lines helps to maintain BPA's credit rating, solvency, and rate stability, which is consistent with sound business principles. Establishing prudent financial reserves upper thresholds for the business lines and BPA as a whole ensures that financial reserves do not grow to unnecessarily high levels but rather are prudently distributed to customers as rate reductions.

After several years of implementation, it became evident that the Policy struggled to effectively manage the inherent volatility of the energy industry and left BPA exposed to extreme downside risk. Consecutive years of RDC triggers followed by successive poor water years depleted Power financial reserves, triggering surcharges and highlighting structural Policy shortcomings. Deviations between forecast and actual net revenues limited the ability to recover from multi-year deficits. The Policy did not restore financial reserves in a timely manner.

In 2026, BPA and interested stakeholders collaboratively reviewed and revised the Policy to ensure that its mechanisms are sufficient and prudent for BPA's changing operating environment, that they prevent financial reserves from falling and remaining below the lower thresholds for long periods of time, and that they restore financial reserves to the lower thresholds in a timely manner.

2. Scope of the Financial Reserves Policy

The Policy affects financial reserves attributed to Power Services (Power) and Transmission Services (Transmission).

The Policy establishes lower and upper financial reserves thresholds for Power Services and Transmission Services, and upper financial reserves thresholds for BPA at the ends of fiscal years. The Policy also provides instruction on the actions BPA will take when financial reserves are below established lower threshold levels or above established upper threshold levels at the ends of fiscal years.

The Policy also states BPA's general intent to set rates such that the end-of-rate-period expected value financial reserves for each business line is at or above the applicable lower financial reserves

threshold. The mechanisms to achieve this outcome, and whether circumstances warrant deviating from this intent, will be determined within each rate case.

The Policy does not preclude or hinder in any way the Administrator's authority to use financial reserves for purposes deemed necessary by the Administrator.

The Policy is intended to provide a consistent framework within which BPA can manage its financial reserves. To that end, the Policy will constitute precedent that BPA will adhere to in future rate cases absent a determination by the Administrator that the Policy must be modified to meet BPA's changing operating environment.

3. Financial Reserves Thresholds

3.1 Definitions

Financial reserves available for risk. Financial reserves available for risk (financial reserves) consist of cash, market-based special investments, and deferred borrowing, all of which are highly liquid and unobligated for BPA to use to mitigate financial risk, less any outstanding balance on the Treasury Facility.

Days Cash on Hand Metric. Days cash on hand is the number of days a business can continue to operate using its own cash on hand with no new revenue. Days cash on hand is a common industry liquidity metric measuring the relationship between the amount of cash a business holds and the amount of average daily expenses incurred in operating the business.

Cost Recovery Adjustment Clause (CRAC). The CRAC is a rate mechanism that is established in each rate proceeding. It increases a business line's rates in the fiscal year following a fiscal year in which that business line's financial reserves ends below its lower financial reserves threshold.

Reserves Distribution Clause (RDC). An RDC is a rate mechanism that is established in each rate proceeding. It decreases a business line's rates in the fiscal year following a fiscal year in which that business line's and BPA's financial reserves ends above their respective upper financial reserves thresholds.

3.2 Business Line Financial Reserves Target Ranges

Financial reserves target ranges for each business line shall be calculated independently each rate period, and consist of upper and lower financial reserves thresholds, which define the upper and lower ends of the target ranges.

3.3 Lower Financial Reserves Thresholds

Lower financial reserves thresholds shall be calculated independently for Power and Transmission each rate period based on the greater of: (1) financial reserves equivalent of 60 days cash on hand, and (2) what is necessary to meet the Treasury Payment Probability (TPP) Standard. For each business line, if financial reserves fall below the lower threshold, a CRAC shall trigger the following fiscal year to recover financial reserves, as described in section 4.3.

3.4 Upper Financial Reserves Thresholds

Upper financial reserves thresholds shall be calculated independently for Power and Transmission each rate period and will be the financial reserves' equivalent of 60 days cash on hand above the

lower financial reserves thresholds. The BPA upper threshold is the sum of Power and Transmission's lower thresholds plus 30 days cash on hand for BPA.

If business line financial reserves and BPA financial reserves are above their respective upper thresholds, an RDC shall trigger the following fiscal year to distribute financial reserves to that business line's customers, as described in section 4.4.

3.5 Calculation of Lower and Upper Financial Reserves Thresholds

3.5.1 - Power Services		
Power lower financial reserves threshold	=	The greater of: (1) 60 days * (Power operating expenses / 365 days), and (2) the threshold needed to achieve a 95% TPP.
Power upper financial reserves threshold	=	Power lower financial reserves threshold plus 60 days * (Power operating expenses / 365 days)
Where:		
Power operating expenses	=	Power total expenses – (Power depreciation and amortization + Power net interest expense + Power non-federal debt service + Power purchases)

3.5.2 - Transmission Services		
Transmission lower financial reserves threshold	=	The greater of: (1) 60 days * (Transmission operating expenses / 365 days), and (2) the threshold needed to achieve a 95% TPP.
Transmission upper financial reserves threshold	=	Transmission lower financial reserves threshold plus 60 days * (Transmission operating expenses / 365 days)
Where:		
Transmission operating expenses	=	Transmission total expenses – (Transmission depreciation & amortization + Transmission net interest expense)

3.5.3 – BPA		
BPA upper financial reserves threshold	=	The sum of the Power lower financial reserves threshold and the Transmission lower financial reserves threshold plus 30 days cash on hand for BPA
Where:		
30 days cash on hand for BPA	=	30 days * (BPA operating expenses / 365 days)
BPA operating expenses	=	Power operating expenses + Transmission operating expenses

4. Implementation

4.1 Overview

The Policy will be implemented each rate period through the Power and Transmission rate schedules and GRSPs. The lower and upper financial reserves thresholds for each business line will be recalculated each time BPA establishes new Power and Transmission rates. Lower and upper financial reserves thresholds will remain constant throughout each rate period. Lower and upper financial reserves thresholds will be computed using forecast average operating expenses from the Power and Transmission revised revenue tests conducted in the applicable 7(i) Rate Case process.

Implementation shall include parallel CRAC mechanisms for each business line each rate period that will trigger if financial reserves are below the lower financial reserves thresholds. Implementation shall also include parallel RDC mechanisms for each business line each rate period that will trigger if financial reserves are above upper financial reserves thresholds.

4.2 Setting Rates Relative to the Lower Financial Reserves Thresholds

BPA's general intent is to set Power and Transmission rates such that the end-of-rate-period expected value financial reserves for each business line is at or above the applicable lower financial reserves threshold. The mechanisms to achieve this outcome, and whether circumstances warrant deviating from this intent, will be determined within each rate case.

BPA intends to maintain the Treasury Payment Probability (TPP) standard for liquidity, which utilizes the revenue test in the applicable 7(i) Rate Case in order to model BPA's ability to meet its Treasury payment at the end of each year of the rate period. BPA may consider additional financial requirements tied to end-of-rate-period expected financial reserves within each rate case.

4.3 Provisions for Increasing Financial Reserves

The methodology for increasing financial reserves is described below. The specific rate mechanism to achieve this section 4.3 will be determined in the applicable rate proceeding.

BPA will propose in each rate case a CRAC mechanism to increase financial reserves attributable to a business line when they fall below each respective lower threshold. Such CRAC mechanism will be implemented mechanically and include the following parameters:

(1) When financial reserves are below the lower threshold for Power Services, BPA will recover in each year of the rate period the first $100 million of the shortfall dollar-for-dollar. BPA will recover fifty cents on the dollar for any amounts greater than $100 million. This provision will be limited to an annual cap of $300 million; and

(2) When financial reserves are below the lower threshold for Transmission Services, BPA will recover in each year of the rate period the first $100 million of the shortfall dollar-for-dollar. This provision will be limited to an annual cap of $100 million.

Implementation of the methodology described above, including the timing of when the calculations in (1) and (2) will be performed, will be determined each rate period through the Power and Transmission rate schedules and GRSPs. Such implementation may include *de minimis* thresholds.

4.4 Provisions for Distributing Financial Reserves

BPA will propose in each rate case an RDC mechanism to distribute financial reserves attributable to each business line when they end the year above its respective upper threshold, provided that BPA agency reserves are also above the upper threshold. The mechanism will distribute financial reserves to that business line's customers in the following fiscal year. The RDC will be implemented mechanically and will include the following parameters:

(1) For Power Services, the reserves distribution will be the lowest of (i) $80 million; (ii) Power financial reserves minus the Power RDC Threshold; and (iii) BPA financial reserves minus the BPA RDC Threshold; and

(2) For Transmission Services, the reserves distribution will be the lowest of (i) $60 million; (ii) Transmission financial reserves minus the Transmission RDC Threshold; and (iii) BPA financial reserves minus the BPA RDC Threshold.

Financial reserves above the upper threshold in excess of the annual cap will remain in financial reserves and will be reassessed at the end of the following fiscal year. Implementation of the methodology described above, including the timing of the calculations, will be determined each rate period through the Power and Transmission rate schedules and GRSPs. Such implementation may include *de minimis* thresholds.

4.5 Repurposing Forecast Revenue Financing

The Administrator retains the discretion to repurpose revenue financing that was forecasted and included in the rate case revenue requirement to instead support business-line liquidity needs. BPA intends to repurpose revenue financing at the end of the fiscal year when reserves are projected to end below the lower threshold to attempt to avoid or reduce the magnitude of CRAC rate increases.

4.6 Effective Date

The revisions to the Policy adopted in 2027 will be implemented beginning with the BP-29 rate period [FY 2029]. This Policy revision does not revise the rate mechanisms established in BP-26 rate schedules and GRSPs.

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