Financial Plan Refresh

Public Workshop
January 12, 2022
Today’s Agenda

- Review customer comments from prior workshop
- Recap of where we are in the process
- Future Workshops -- outline and high-level overview of issues to be addressed, and timeline for:
  - sustainable capital financing options
  - depreciation treatment of revenue financed assets
  - borrowing authority
- Capital investment prioritization process
Nov. 16 Public Comments

- Three parties submitted comments and questions: Powerex, NRU and Puget/PacifiCorp.

- Comments and requests generally fell into one of the following topics:
  - Depreciation and rates, depreciation and revenue financing
  - Revenue requirements and "higher of" forecasted cash flow vs. forecasted accrued expenses
  - Infrastructure Investment and Jobs Act

- Oct. 19 Workshop follow-up:
  - MSR submitted comments to BPA that were not included in the original response document. This has been corrected, the updated BPA response document and original MSR comments can be found on bpa.gov along with the Nov. 19 comments.
Reminder: Public Engagement Process

Sep - Nov 2021
- Project kick-off with external stakeholders:
  - 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

Apr - Jun 2022
- Workshop to review recommended proposal (the basis for the ROD) and recommended Financial Plan updates
  - May 11 or 25
- Formal comment period for recommended proposal and updates
  - Opens: May 11 or 25
  - Closes: Jun 16
Future Workshops: Overview & Timeline
Sustainable Capital Financing: Jan 26

• Focus of this workshop is to begin development of a capital financing policy that creates a more balanced financing structure and improves the balance sheet.

• Initial options shared will focus on principle-based approaches that consider:
  – Financial impacts
  – Simplicity, both in calculation and in explanation
  – Utility practice
  – Implementation -- Backward or forward looking, repeatable, trackable and transparent calculations

• Share thinking on phase-in approaches, starting period, basis of calculation (historical vs. forecast).
Depreciating Revenue Financed Assets: Feb 23

- Discussion centered on the accounting and ratemaking treatment of revenue financing.

- Highlight issues and how this issue connects to other policy objectives:
  - The Transmission revenue requirement is driven by the income statement
  - Reducing depreciation reduces the total revenue requirement
  - Reducing depreciation also reduces cash flows which results in lower Transmission repayment, counter the desire to improve the balance sheet
Borrowing Authority Topics: Mar 03

• Borrowing authority forecast update:
  – Base case
  – Stress tests

• Share a borrowing authority framework that outlines:
  – Borrowing authority forecasting updates – period covered, inputs used, timing
  – Financial Plan framework – clarify purpose, metric, and share framework that outlines do what by when, should a borrowing authority issue arise
## FPR Public Workshop Dates

<table>
<thead>
<tr>
<th>Workshop Dates</th>
<th>Workshop #</th>
<th>Proposed Topic</th>
<th>Comment Period</th>
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</thead>
<tbody>
<tr>
<td>Jan 12, 2022</td>
<td>Workshop 1</td>
<td>Today: Outline of topics (sustainable capital funding options, borrowing authority, double recovery) at upcoming workshops; Capital investment prioritization process</td>
<td>Yes – One week</td>
</tr>
<tr>
<td>Jan 26, 2022</td>
<td>Workshop 2</td>
<td>Debt--sustainable capital funding options</td>
<td>Yes – One week</td>
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<tr>
<td>Feb 9, 2022</td>
<td>Workshop 3</td>
<td>Capital prioritization framework; Carry over debt, as needed</td>
<td>Yes – One week</td>
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<tr>
<td>Feb 23, 2022</td>
<td>Workshop 4</td>
<td>Double recovery; Carry over of prior topics, as needed</td>
<td>Yes – One week</td>
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<tr>
<td>Mar 9, 2022</td>
<td>Workshop 5</td>
<td>Borrowing authority; Capital performance metrics; Carry over of prior topics, as needed</td>
<td>Yes – One week</td>
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<tr>
<td>Mar 23, 2022</td>
<td>Workshop 6</td>
<td>Hold if needed</td>
<td>Yes – One week</td>
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<tr>
<td>May 11, 2022</td>
<td>Workshop 7</td>
<td>Draft policy proposal presentation (basis for ROD development); Draft updates to Financial Plan</td>
<td>Yes – Two weeks to 30 days</td>
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<tr>
<td>May 25, 2022</td>
<td>Workshop 8</td>
<td>Hold for follow-up, as needed</td>
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Capital Investment Prioritization Process
# Capital-Related: Public Workshop Dates

<table>
<thead>
<tr>
<th>Workshop Dates 2021</th>
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<tr>
<td>Sep 15</td>
<td>Project Kickoff</td>
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<td>Oct 19</td>
<td>Grounding Session</td>
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<td>Nov 16</td>
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<tr>
<th>Workshop Dates 2022</th>
<th>Proposed Topic</th>
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<tbody>
<tr>
<td>Jan 12</td>
<td>Debt &amp; Borrowing Authority; <strong>Capital Investment Prioritization</strong></td>
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<tr>
<td>Jan 26</td>
<td>Debt &amp; Borrowing Authority</td>
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<tr>
<td>Feb 9</td>
<td>Debt &amp; Borrowing Authority; <strong>Capital Framework</strong></td>
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<td>Feb 23</td>
<td>Debt &amp; Borrowing Authority</td>
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<tr>
<td>Mar 9</td>
<td>Debt &amp; Borrowing Authority; <strong>Capital Metrics</strong></td>
</tr>
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<td>Mar 23</td>
<td>Debt &amp; Borrowing Authority</td>
</tr>
<tr>
<td>May 11/25</td>
<td>Draft Policy Proposal for ROD Development</td>
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Objective & Agenda

Objective: Overview of BPA’s capital planning and operations processes

• Planning: Overview of BPA’s Capital Process
  1. SAMP’s introduction and maturity level for all six asset categories
  2. Relationship between SAMPs and IPR
  3. Customer feedback opportunities

• Governance:
  1. Asset Plans
  2. Project Approval
  3. Monitoring projects
Relationship Overview

**SAMP Key Points:**
- Detailed explanation of asset strategy
- Ten year forecast but focuses on the first two years
- Updated every two years and is the input to the IPR
- Feeds the Asset Plans

**Asset Plans Key Points:**
- Updated every year and focused on the upcoming year
- Identifies specific projects
- Aligns with the RC SOY Budget

**IPR Key Points:**
- Executive summary of asset strategy
- Uses the SAMP forecast for capital and expenses

**RC SOY Budgets:**
- Aligns with the Rate Case (Final IPR)
Asset Management Strategic Alignment

POLICY (IAM): The intentions and direction of the organization as formally expressed by its top executives.

SAMP (IAM):
- The asset management strategy converts the objectives of the organizational strategic plan and asset management policy into high-level, long-term action plans for the assets and or asset systems, the asset portfolios and/or the asset management system.
- The high level, long-term action plans for the asset and the asset management objectives are normally the outputs of the asset management strategy. The elements together form the basis for developing more specific and detail asset plans.

ASSET PLAN (IAM): Documented information that specifies the activities, resources and timescales required for individual assets, or groupings of assets to achieve the organization’s asset management objectives.
- The grouping of assets may be by asset type, asset class, asset system or asset portfolio.
- The Asset Plan is derived from the SAMP.
- An Asset Plan may be contained in or may be a separate plan from the SAMP.
BPA’s Asset Management Journey

- Asset management a new discipline to BPA.
- BPA historically has managed assets (1931-2017) but now we are doing asset management (2017-2022).
- We are evolving and maturing BPA’s asset management capabilities varies across the enterprise.
BPA’s Asset Management Program

Seven “Asset Categories”

- **COO**
  - Asset Manager
  - **Power**
  - **Transmission**
- **CAO**
  - IT
  - **Facilities**
  - Fleet
  - **Security**

**Policy**
- BPA Policy 460-1, Asset Management
- BPA Policy 460-2, SAMPs and Asset Plans
- BPA Policy 460-3, Capital Authorization
- BPA Policy 460-4, Asset Information Governance

**ISO 55,000**
3.1.18, **policy** intentions and direction of an organization (3.1.13) as formally expressed by its top management (3.1.23)

**Corporate level Asset Management Program**
- Policy (standards)
- SAMPs and Asset Plans development, standardizations, and quality oversight
- Asset Management Council (AMC)
- Data Governance Oversight Team (DGOT)
- Asset Management training program
- Partnership with USACE and Reclamation
- Specific AM capabilities improvements

**Asset Categories**
- Manage their Assets
- Develop SAMPs and Asset Plans
- Organizational specific standards and policy
- Category specific asset management improvements and projects
- Budgeting for AM
Institute of Asset Management (IAM) 
A Leading Practice Based Model

- Execute sustainable and affordable investment strategies where investments are created, selected and executed through a leading practice-based portfolio model and project management practices.
- Institute of Asset Management (IAM) integrates the ISO 55000 series.

Group 1 - Strategy & Planning
1. Asset Management Policy
2. Asset Management Strategy & Objectives
3. Demand Analysis
4. Strategic Planning
5. Asset Management Planning

Group 2 - Asset Management Decision-Making
6. Capital Investment Decision-Making
7. Operations & Maintenance Decision-Making
8. Lifecycle Value Realisation
9. Resourcing Strategy
10. Shutdowns & Outage Strategy

Group 3 - Life Cycle Delivery
11. Technical Standards & Legislation
12. Asset Creation & Acquisition
13. Systems Engineering
14. Configuration Management
15. Maintenance Delivery
16. Reliability Engineering
17. Asset Operations
18. Resource Management
19. Shutdown & Outage Management
20. Fault & Incident Response
21. Asset Decommissioning & Disposal

Group 4 - Asset Information
22. Asset Information Strategy
23. Asset Information Standards
24. Asset Information Systems
25. Data & Information Management

Group 5 - Organisation & People
26. Procurement & Supply Chain Management
27. Asset Management Leadership
28. Organisational Structure
29. Organisational Culture
30. Competence Management

Group 6 - Risk & Review
31. Risk Assessment & Management
32. Contingency Planning & Resilience Analysis
33. Sustainable Development
34. Management of Change
35. Asset Performance & Health Monitoring
36. Asset Management System Monitoring
37. Management Review, Audit & Assurance
38. Asset Costing & Valuation
39. Stakeholder Engagement

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Summary of Alignment of Strategic Plan: SAMPs and APs and Timeline
Section 1: Planning
Strategic Asset Management Plans (SAMPs)

**SAMP:** Strategic Asset Management Plans convert the objectives of the organizational strategic plan and asset management policy into high-level, long-term action plans for the assets and or asset systems, the asset portfolios and/or the asset management system.

**BPA’s SAMPs:**
- Generally look out five or more years, with a 10 year capital projection
- The focus is on the upcoming rate case / Integrated Program Review (IPR)
- Refreshed every two years
- The Asset Management Council (AMC) applies lessons learned and develops (evolves) a standard format and guidance

ISO 55,000

3.3.2 strategic asset management plan SAMP

documented information (3.1.6) that specifies how organizational objectives (3.1.14) are to be converted into asset management (3.3.1) objectives (3.1.12), the approach for developing asset management plans (3.3.3), and the role of the asset management system (3.4.3) in supporting achievement of the asset management objectives
SAMP Development Timeline

• SAMPs are refreshed every other year and are an input to the Integrated Program Review (IPR process)

• SAMPs take 4 months to complete (usually October - January)
  – SAMP’s are developed by asset categories
  – Several sections are completed each month and go through a 3 tier review process (Corporate Risk, Corporate Asset Management and Corporate Finance)
  – SAMP’s are finalized for IPR input and review by BPA Executives (Usually February)

• Similar to other BPA process, SAMPs are the best estimate of asset needs based on the asset management process, developed 2-3 years in advance of execution on the plan.

• Customer input to the SAMPs is welcome during the IPR process.
SAMP Major Sections and Description

Table of Contents
1. Executive Summary
2. Acknowledgements
3. Strategic Business Context
4. Stakeholders
5. External and Internal Influences
6. Asset Management Capabilities and Systems
7. Asset Criticality
8. Current State
9. Risk Assessment
10. Strategy and Future State
11. Addressing Barriers to Achieving Optimal Performance
12. Definitions

Section 3-5 ties our asset management objectives to our business objectives

Section 6 lays out our AM capabilities, our AM systems and our objectives to improve these capabilities

Sections 7-9 discuss the criticality, health and risk (current state) of our assets category

Section 10 lays our performance objectives for our assets. This explains, at a high level, what we will do and what we will spend to achieve the performance objectives for our assets category
Self Assessment IAM

- Maturity self-assessments are completed as a baseline for AM capabilities and AM program maturity
- Asset categories pull together interested parties and stakeholders to complete
- Assessments are not compared across asset categories but are used to develop long term goals for improvement

<table>
<thead>
<tr>
<th>Maturity Level 0</th>
<th>Maturity Level 1</th>
<th>Maturity Level 2</th>
<th>Maturity Level 3</th>
<th>Beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innocent</td>
<td>Aware</td>
<td>Developing</td>
<td>Competent</td>
<td>Optimising</td>
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</table>

- The organisation has not recognised the need for this requirement and/or there is no evidence of commitment to put it in place.
- The organisation has identified the need for this requirement, and there is evidence of intent to progress it.
- The organisation has identified the means of systematically and consistently achieving the requirements, and can demonstrate that these are being progressed with credible and resourced plans in place.
- The organisation can demonstrate that it systematically and consistently achieves relevant requirements set out in ISO 55001.
- The organisation can demonstrate that it employs the leading practices, and achieves maximum value from the management of its assets, in line with the organisation’s objectives and operating context.
2020 Self Assessment Summary

Fed Hydro

Transmission

Facilities

F&W

Fleet

Information Technology
Section 2: Operations
Asset Plans

**ASSET PLAN:** Documented information that specifies the activities, resources and timescales required for individual assets, or groupings of assets to achieve the organization's asset management objectives (as stated in the SAMP).

**BPA's Asset Plans:**
- Generally look out two to three years or more
- Focus is on the upcoming fiscal year
- Refreshed every year aligned with Rate Case fiscal year budget
- The Asset Management Council (AMC) applies lessons learned and develops (evolves) a standard format and guidance

ISO 55,000
3.3.3 asset management plan
*documented information* (3.1.6) that specifies the activities, resources and timescales required for an individual *asset* (3.2.1), or a grouping of assets, to achieve the *organization's* (3.1.13) *asset management* (3.3.1) *objectives* (3.1.12)
Asset Plan Development Timeline

• Asset Plans are refreshed every year and are a tactical document that describe projects and activities to implement the objectives of the SAMP

• Asset Plans focus on the next 2-3 years and also feed into the start of year budgets

• Asset Plans take 4 months to develop (usually March - June)

• Asset Plans are developed by asset categories with a 3 tier review process (Corporate Risk, Corporate Asset Management and Corporate Finance)

• Asset Plans are approved by the Finance Committee in September, prior to the start of the fiscal year they are planned.
Asset Plans Sections and Description

Table of Contents

1. Executive Summary
2. Acknowledgements
3. Scope
4. Plan Development
5. Planned Capital and Maintenance Activities
6. Managing Execution Risk
7. Performance Management
8. Reference and Supporting Documents
9. Project Appendices

Section 4 supports the objectives in the SAMP related to improvement of asset management capabilities.

Section 5 Supports the capital and expense project objectives outlined in the SAMP.

Section 6 Addresses Execution risks and mitigation plans.
Project Approval

• BPA Capital Project Authorization Policy provides set limits for capital approval.

• All Capital projects require a business case and are approved by business unit executives or designee.
  – Major capital projects above certain dollar thresholds are also required to be approved through various agency committees depending on the project estimate.

• Business cases are an in-depth review of the project and benefits that also look at:
  – Alignment with Strategic Asset Management Plan, Asset Plan, and budgets
  – Objectives and performance metrics
  – Proposed investment and alternatives
  – Risks

• Finance does annual spot checks on the business cases that are under the threshold for review by various agency committees to ensure policy requirements are being met.
Monitoring

• BPA management reviews capital projects’ scope, timeline and budget on a quarterly basis. This allows an opportunity for management to intervene if an issue arises.
  – Projects are tracked and updated each quarter.
  – Increases to project cost and schedule delays are flagged.

• Capital performance is reported out publically at the Quarterly Business Review Technical workshops. In the future, BPA intends to use this forum to report out on capital metrics.
  – Capital project reports are available on BPA’s external website at the following link: https://www.bpa.gov/Finance/AssetMgmt/Pages/default.aspx.
Summary

- SAMPs (Strategic Asset Management Plan) are developed during rate case years and describe the long term strategy for each asset category.

- SAMPs are a direct input into the IPR: 1) Capital: direct relationship (dollar for dollar); and 2) Expense: indirect relationship (subset of the IPR expense).

- Asset Plans are developed every year and are a tactical document that describe projects and activities to implement the overall SAMP.

- Asset Plans line up with the rate case fiscal year forecast for that particular year.

- Projects and programs are not approved for construction until they provide a business case that is approved by an agency committee. Committee depends on the project estimate.

- During construction, BPA executives continue to monitor construction for schedule and cost changes throughout the project construction.

- BPA is currently in the process of developing SAMPs for BP-24 (v3). Will add security SAMP in FY22 (v3) for BP-24.
Next Steps

• Please submit written feedback to communications@bpa.gov by Jan 21st with “Financial Plan Refresh” in the subject line.

• Next workshop: January 26 Sustainable Capital Financing Options

• Next capital-related workshops:
  – February 9 Capital Framework: Objective: (1) How we measure asset health (2) How we use that information (3) Capital Forecasts
  – March 9 Capital Metrics: Objective: Meeting focused on metrics for execution, and impacts of under
Appendix
Quick Links: Related Financial Information

The existing Financial Plan and related policies, program costs, and other reference materials, can be found on bpa.gov and at the links below.

2018 Financial Plan
Financial Reserves Policy
Leverage Policy
2020 IPR Closeout Report
2020 IPR 2 Closeout Report
Business Case Template