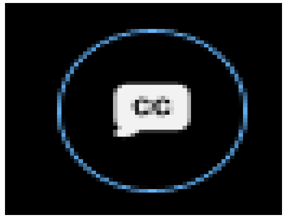
Webex Accessibility tools

To enable Closed Captions

Select the **CC icon** in the lower-left of the WebEx screen



Note: CC is set individually by each person who wants to enable them.

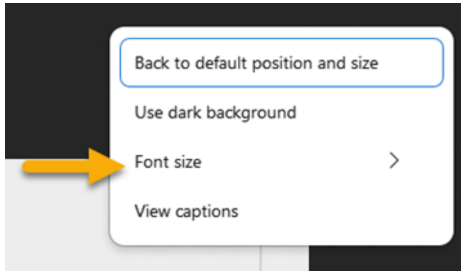
Change font size

Select the **ellipsis** in the lower right

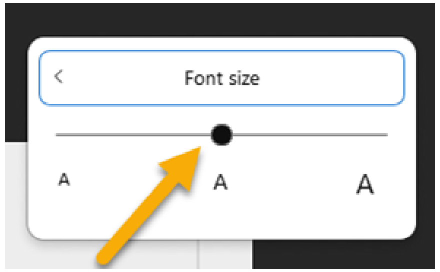
Select **font size**

Use the slider to select the desired size

2



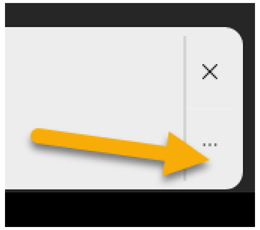
3



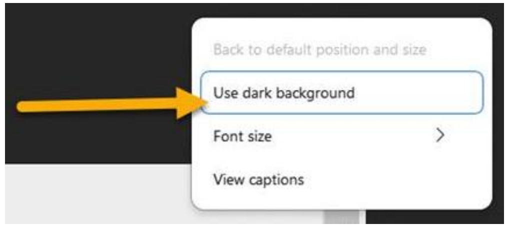
Change background contrast

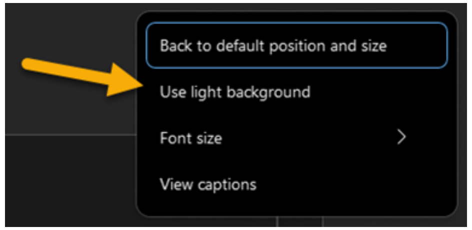
1. Select the **ellipsis** in the lower right
2. Select the **dark or light background**

1



2





Published JAN 2024

B O N N E V I L L E P O W E R A D M I N I S T R A T I O N

2026 Risk Mitigation & Financial Policies Refresh
Kick off & Grounding Workshop

August 20, 2026

Today’s Agenda

Start Time	End Time	Topic	Presenter(s)
9:00 AM	9:15 AM	Welcome, Introduction & Overview	Nadine Coseo, Kyna Alders
9:15 AM	9:20 AM	Workshop Objectives	Nell Burns
9:20 AM	11:30 AM	Grounding: Addressing Sunsetting Cost Management Targets	Zach Mandell
		Grounding: Sustainable Capital Financing Policy (Leverage)	Ethan Postrel
		B R E A K	
		Grounding: Higher Of Methodology	Ryan Newman
11:30 AM	12:30 PM	L U N C H	
12:30 PM	1:30 PM	Grounding: Financial Reserves Policy & Rate Setting Practices for Liquidity Risk	Damen Bleiler
1:30 PM	1:45 PM	B R E A K	
1:45 PM	2:55 PM	Discussion	All
2:55 PM	3:00 PM	Wrap Up	Nell Burns

Note: Start and end times are approximate.

Workshop Objectives

Formally kick off the **Risk Mitigation & Financial Policies Refresh**, establish a collaborative foundation with our customer partners, and level set all attendees on the project's core focus areas, scope, and timeline.

Workshop Roles & Expectations

Bonneville: Provide open and inclusive opportunities for discussion and feedback.

Participants: Provide feedback and share perspectives during workshops.

All: Respect one another and assume good intentions. Bring a constructive mentality.

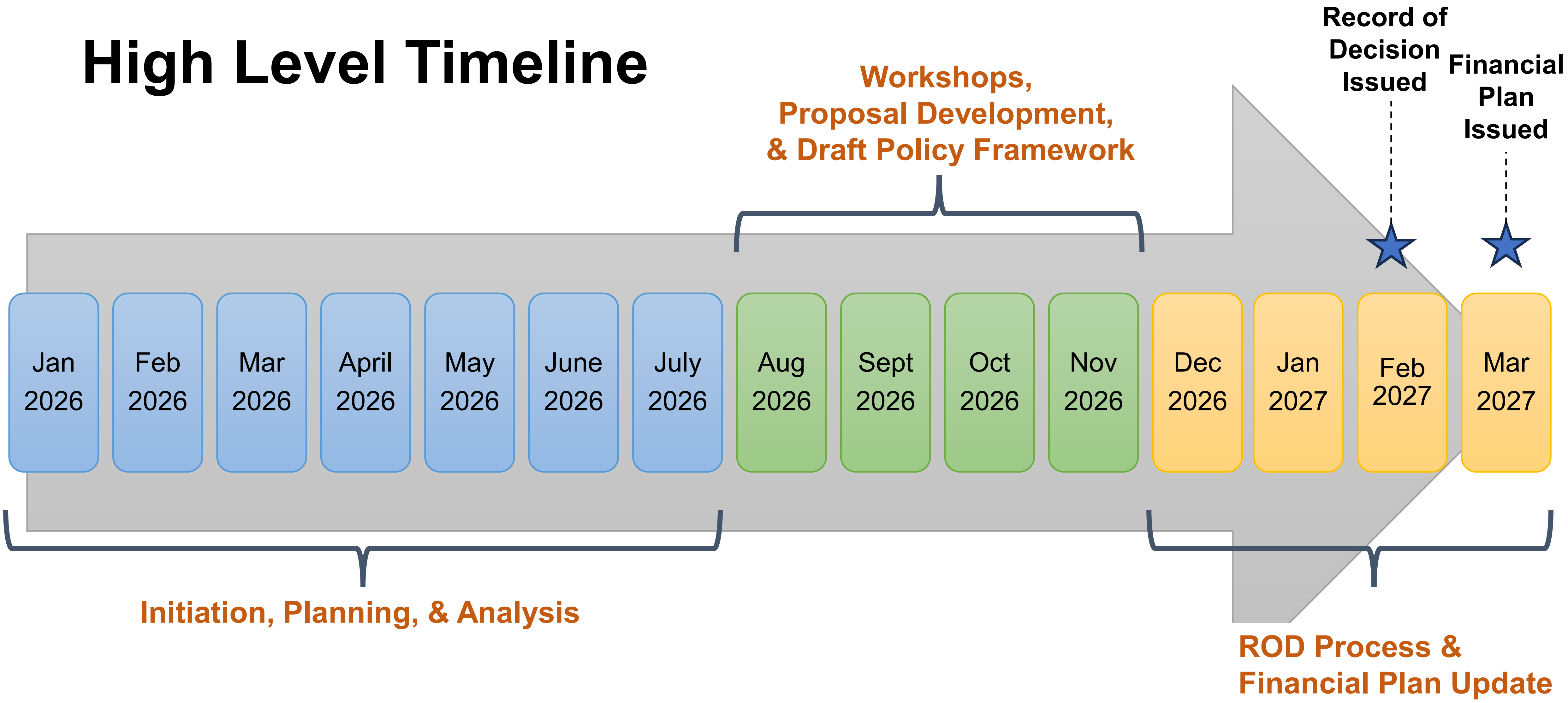
Comments on This Workshop

Please share feedback on this workshop to RMFPR@bpa.gov by 8/31.

Please note that feedback will not be posted and direct responses will not be provided.

Feedback will help inform future workshops.

High Level Timeline



Public Workshop Schedule & Key Project Dates

Today's Workshop Purpose:

To formally kick off the Risk Mitigation & Financial Policies Refresh, establish a **collaborative foundation** with customer partners, and level set all attendees on the project's core **focus areas, scope, and timeline**.

Project Completion:

Target publishing in Q2 FY27 to prevent spill-over into the BP-29 rate case workshops and implementation of the new POC contracts.

YOU ARE HERE

Date	Milestone
20-Aug	Workshop - Kick-off & Grounding
1-Sept	Workshop - Alternative Discussion
20-Oct	Workshop - Proposal Discussion
13-Nov	Workshop - Draft Policy Framework for ROD Development
13-Dec	Comment Period Closes
16-Feb	Record of Decision Issued
1-Mar	Financial Plan Issued

Project Overview: Why Are We Here?

The 2026 Risk Mitigation and Financial Policies Refresh will meet BP-26 settlement and PRDM Final ROD commitments to **"take a comprehensive look at its financial policies and risk mitigation"** prior to BP-29.

The project aims to:

- Review and strengthen the existing 2022 Financial Plan
- Develop a comprehensive proposal package across all designated focus areas that balances BPA's strategic financial priorities with rate stability and rate pressure implications, while actively driving process simplification
- Refresh the associated metrics and policies resulting from any changes

Addressing Sunsetting Cost Management Targets

Reason for Review

- The Cost Management section of the 2022 Financial Plan includes the language:

  "hold the sum of program costs, by business line, at or below the rate of inflation through 2028."

- The inflation goal **functionally expired** as it applies to BPA's costs through 2028. Those costs were forecast in the BP-26 IPR.
- Leaving expired language in the plan could **create confusion** for the BP-29 Integrated Program Review (IPR) in FY27.
- ***Note:*** Program Costs are not part of BPA's Risk Mitigation and Financial Policies Refresh commitment, but this process is the **best opportunity to discuss the Program Costs section before updating the Financial Plan language.**

Background & Context

What is the Program Costs section of the 2022 Financial Plan?

- "Program Costs" falls under the *Cost Management Discipline* objective in the Financial Plan.
- The section addresses management of costs forecast in the IPR process. BPA's rates are set to recover these forecast costs.
- The section reinforces BPA's commitment to its statutory obligation to establish the **"lowest possible rates…consistent with sound business principles".**

2022 Financial Plan Program Costs Language

Program Costs (FP page 9; see Appendix for full language):

Program costs: Hold the sum of program costs, by business line, at or below the rate of inflation through 2028.

BPA aggressively manages the costs of operating the federal power and transmission systems, consistent with its mission objectives and statutory obligations. To that end, BPA established the management goal of holding the sum of program costs, by business line, at or below the rate of inflation through 2028 from rate period to rate period […]

Cost-Management Discipline Financial Objective (FP page 8):

	PURPOSE	METRIC
Program Costs	Lowest possible rates consistent with sound business principles	Rate period change in program costs
Capital Investments	Maintain asset value and reliability	Actual capital spending vs. rate case planned capital spending Completed capital investments or major milestones vs. planned capital investments

Proposed Revision

Remove the "at or below the rate of inflation" goal and update the narrative to emphasize BPA's continued commitment to cost management and cost transparency.

Why we propose removal of the goal:

- The inflation goal was adopted during a period of low growth, when it was possible to meet BPA's strategic objectives and other business needs while aiming to hold forecast cost increases at or below inflation.
- BPA's current strategy is growth oriented. Inflation only covers the cost to do the same work (approximately). The inflation goal conflicts with BPA's strategy and business needs.

Proposed Revision (Continued)

Why we propose transparency:

BPA remains committed to disciplined cost management and delivering the lowest possible rates consistent with sound business principles. Current business needs require more nuance than the blunt inflation target.

- BPA provides transparency and assurance through public processes:
  - The Integrated Program Review (IPR) provides transparency and opportunity for stakeholders to review and influence BPA's forecast costs before they are included in rates.
  - The Quarterly Business Review (QBR) provides additional opportunities for stakeholders to review costs and spending throughout each year.
- BPA intends to report forecast cost increases relative to inflation for transparency.
  - The inflation metric itself may be useful for evaluating and discussing IPR costs.

Next Steps

Updated draft Program Cost Financial Plan language which will be reviewed during the Proposal Discussion workshop on **October 20th**.

Sustainable Capital Financing Policy (Leverage)

Context – Historical Practice & Why It Matters

BPA finances its capital program through a combination of debt and revenue financing.

Historically, debt financing nearly 100% of BPA's capital program led to very high debt-to-asset (leverage) ratios in the early 2000s.

BPA's leverage is **well above industry standard** based on significant internal and external analyses performed both as part of the 2018 and 2022 Financial Plan processes and now.

Outsized leverage results in several concerns:

- High fixed costs (**interest expense**) must be recovered in rates and limits financial flexibility, in that BPA cannot budget cut its way out of interest payments, and they must be paid at certain times.
- **Threatens high investment grade credit ratings,** which could lead to higher borrowing costs (BPA is currently only one notch above single-A from S&P with a negative outlook).

These are **compounding issues**: more debt leads to both **more interest** and potentially **higher costs of capital**.

Context – Timeline

2018 Leverage Policy

- Near-term: ratio not worsen rate period to rate period
- Mid-term target: 75-85% within 10 years
- Long-term target: 60-70%, no date
- Established Leverage KPI

2022 SCF Policy

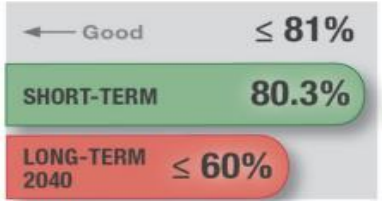
- Specified 60% goal and 2040 as target year
- Policy for including revenue financing in rates
- Refined Leverage KPI

Debt to Asset Ratio

2024 CapEx Increase

- GERP 1+2 = ~$6B
- On top of BP-26 IPR 2026-2035 BPA capital plan of ~$14B
- First sign that long-term target was in trouble

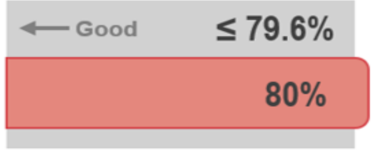
Debt to Asset Ratio



BP-26 Rate Case

- Deviated from default RF amount as allowed by SCFP
- Settlements included commitments

Debt to Asset Ratio



Now

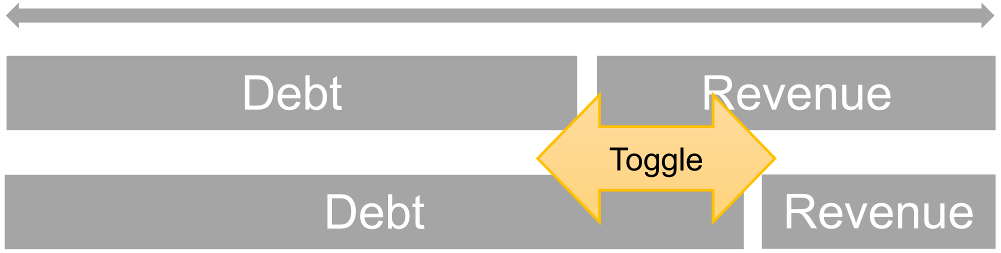
- 2026 Risk Mitigation and Financial Policies Refresh process

FY 2018	FY 2022	FY 2024	FY 2026 Q2 YE Forecast	
95.80%	87.02%	84.86%	83.96%	Power
77.51%	76.22%	75.28%	76.20%	Transmission
88.09%	82.30%	80.39%	80.19%	BPA

Context – Background

Since BPA has no equity investors, **the two ways to change leverage are the two sources of capital financing: debt (*future* rates, including interest) and revenue financing (*current* rates)**.

Total CapEx



> "[Revenue financing is] designed to balance long-term benefits and objectives with near-term rate impact and intergenerational equity."
>
> -SCFP ROD at 67

Goal - find the right **balance** between:

- Lower leverage
- Higher rate pressure now
- Lower rate pressure later (interest)

-And-

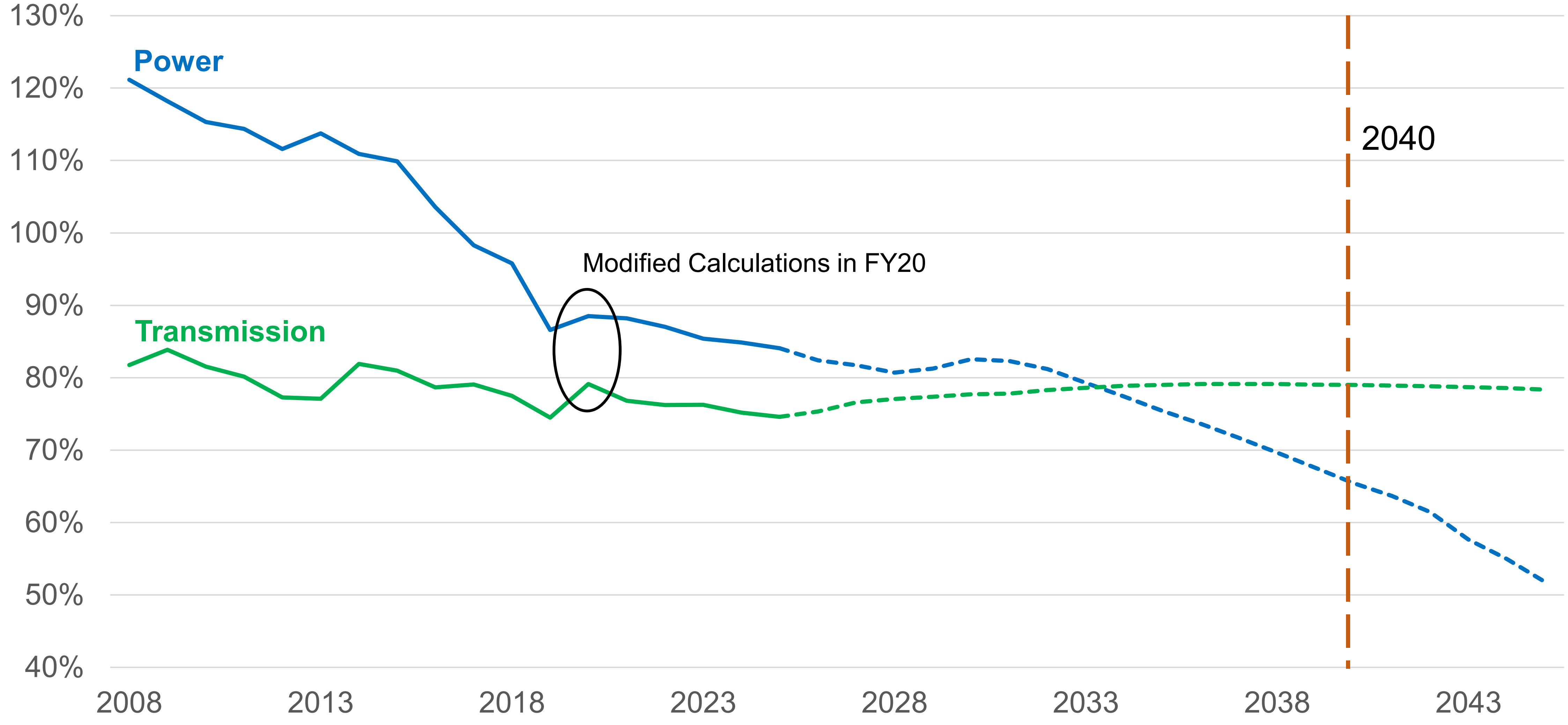
- Higher leverage
- Lower rate pressure now
- Higher rate pressure later (interest)

Graph Assumptions

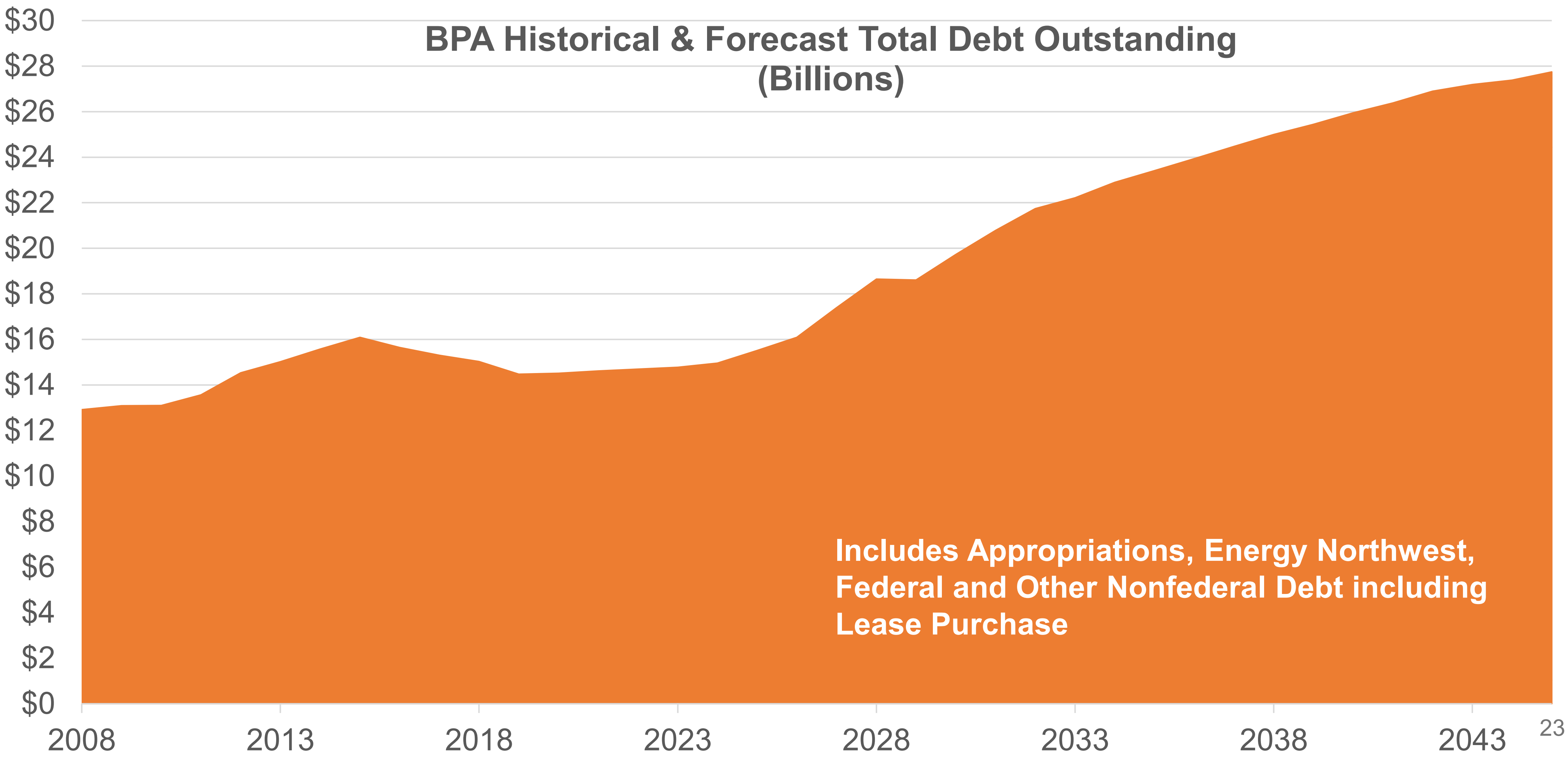
These assumptions apply to the graphs on the following six slides and in the modeling scenarios to follow.

- Limiting Capital Expenditure (CapEx) is not used as a tool to achieve leverage goals.
- Rate pressure calculation is based on current rates “rule of thumb” and could change over time. The actual impact won't be known until the rate proceeding.
- A leverage "floor" is being used; if either Business Line's leverage ratio exceeds 60%, revenue financing (RF) continues as currently modeled; otherwise, RF is removed for that year since the BL is at or below the target. We acknowledge this is not sustainable and we will need to set a minimum level of RF to maintain the leverage goals and will revisit as we get closer to the goal.
- Continues Regional Cooperation Debt (RCD) through 2030
- Excludes Lease Purchase Extensions
- Includes Revenue Financing per 2022 SCFP, with 1% rate limiter
- Power CapEx: Based on BP-26 Record of Decision
- Transmission CapEx: BP-26 *plus* ~$4B of GERP; excludes ~$2B of GERP

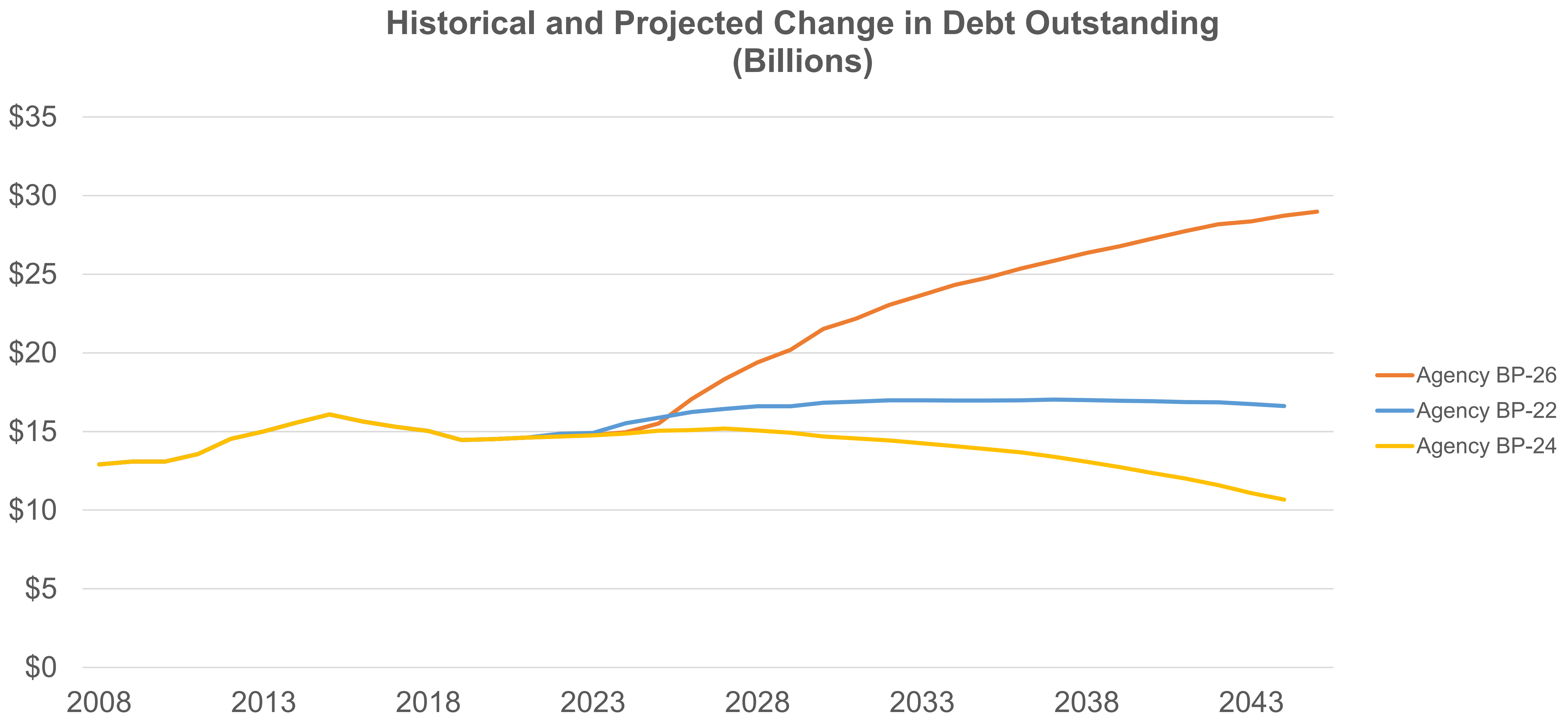
Debt to Asset Ratio Historical & Forecast



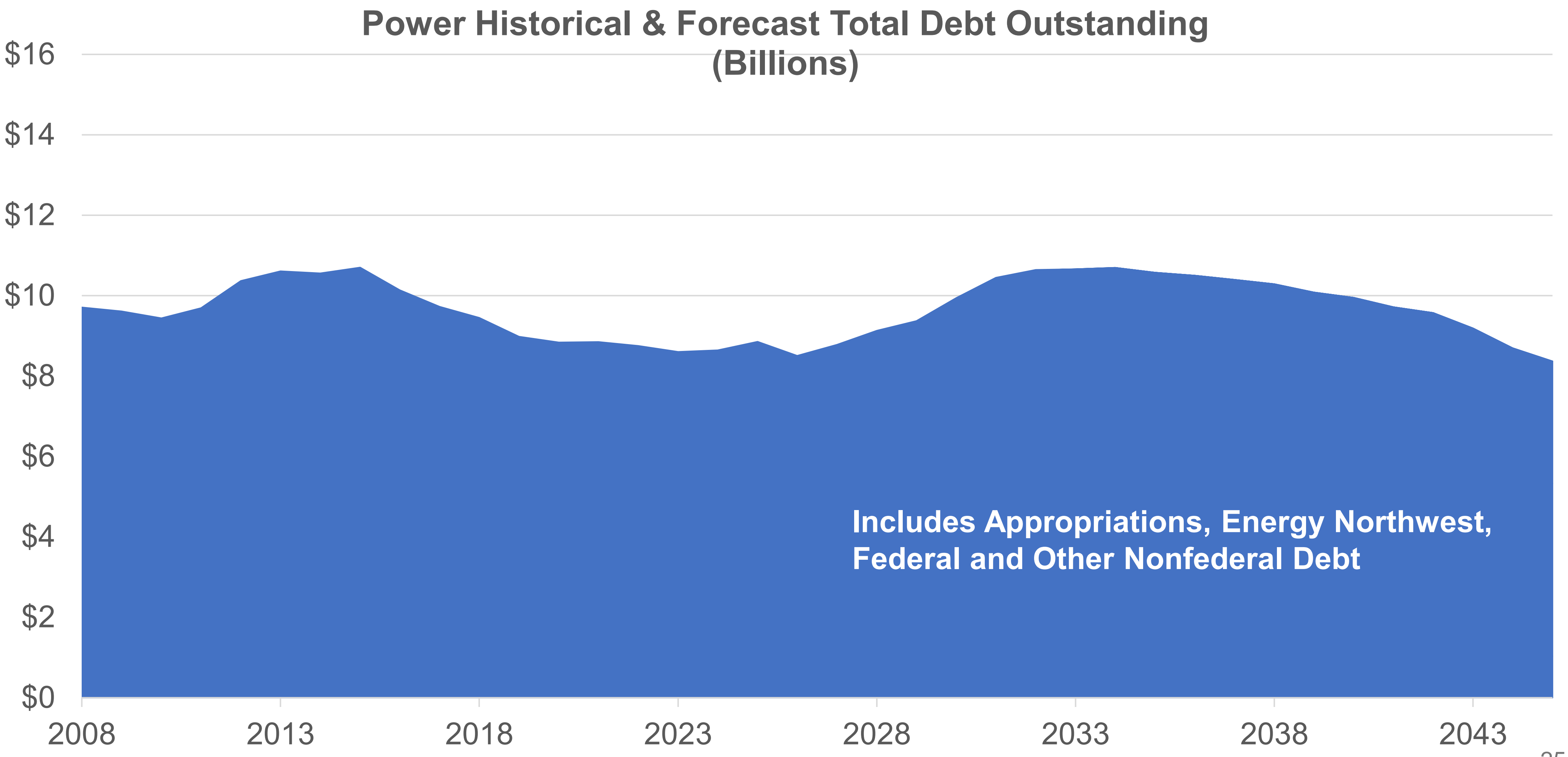
BPA Debt Profile



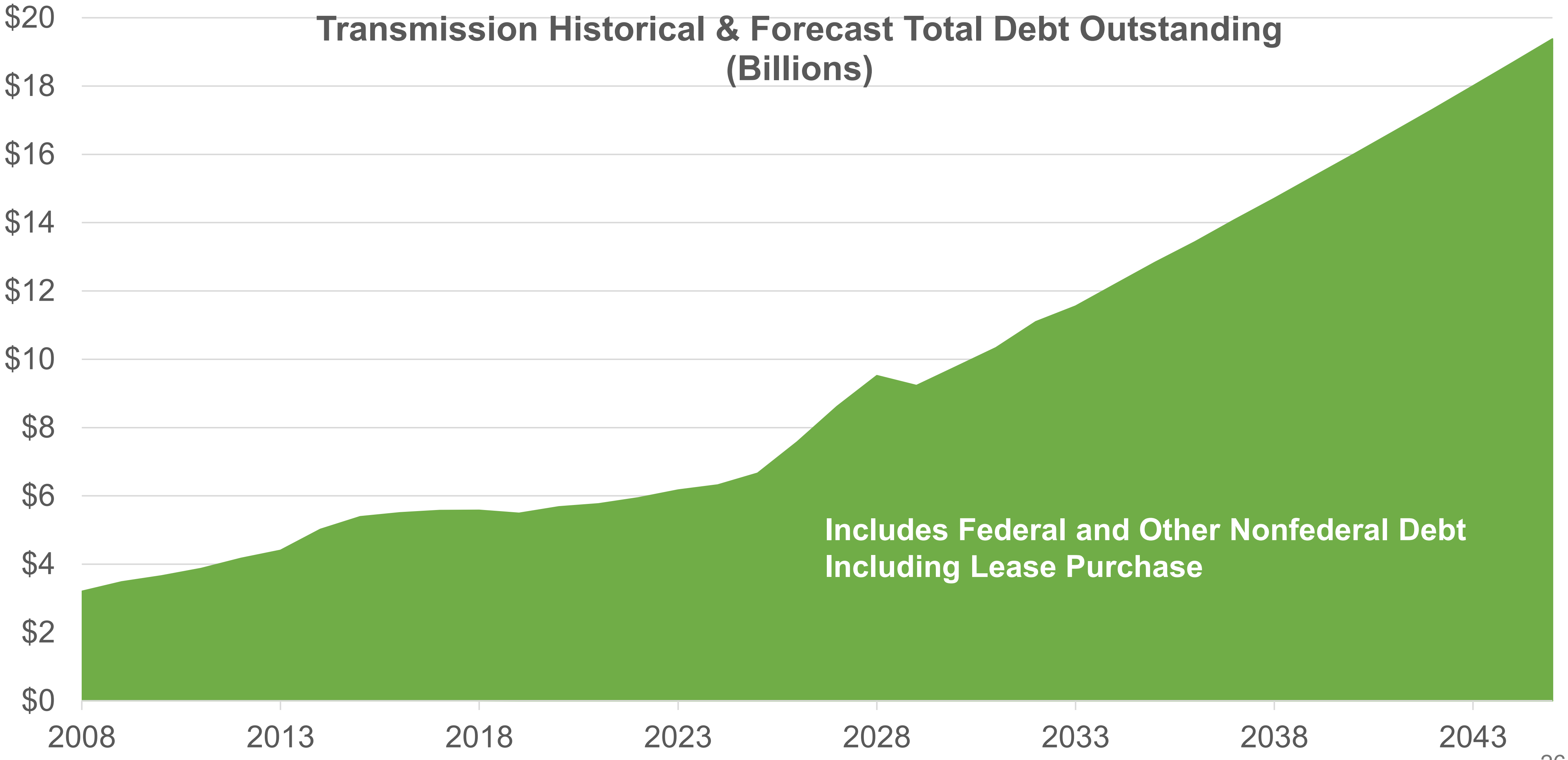
Change in Outstanding BPA Debt



Power's Debt Profile - Flat

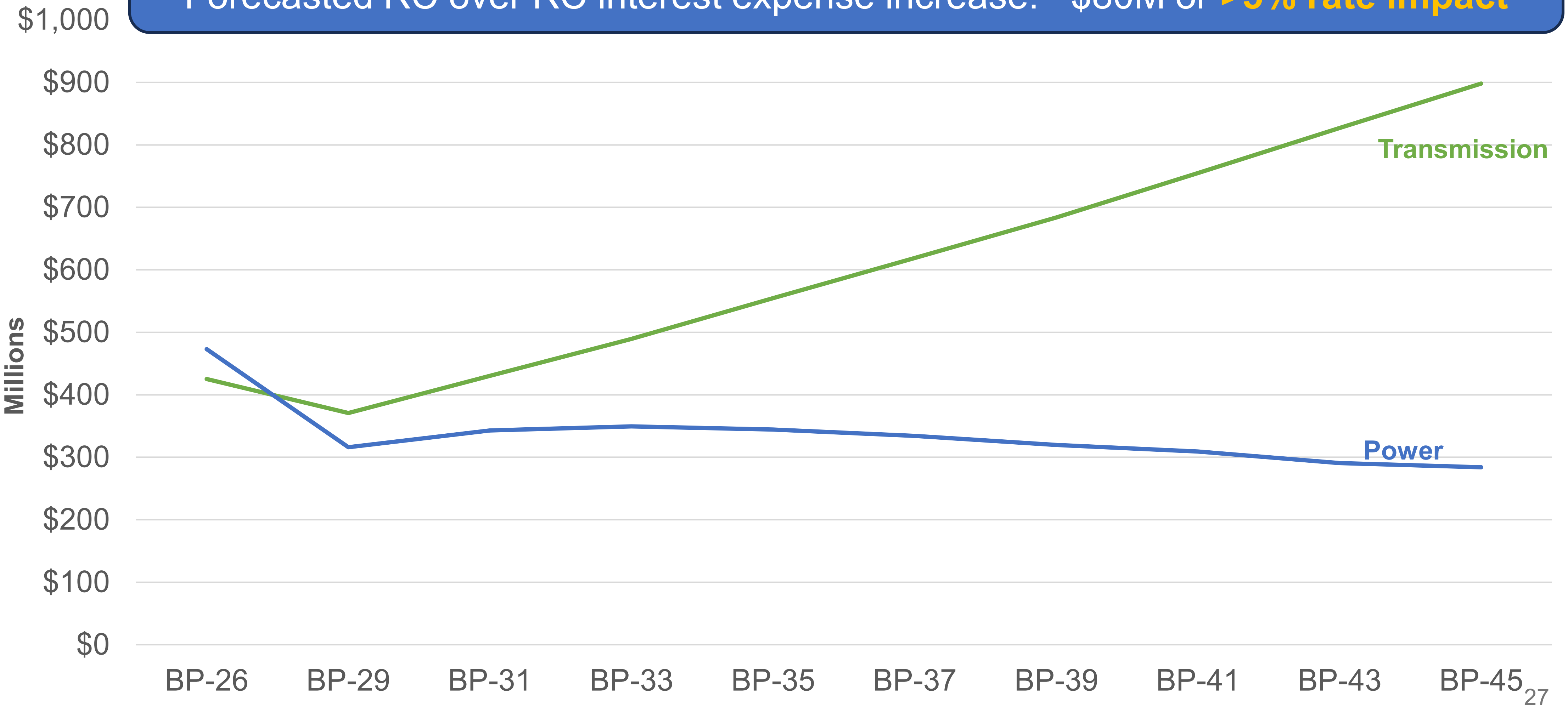


Transmission's Debt Profile - Increasing



Total Forecast Interest Expense

Transmission's rate impact "rule of thumb": $15M = 1% rate impact. So…
Forecasted RC over RC interest expense increase: ~$80M or **>5% rate impact**



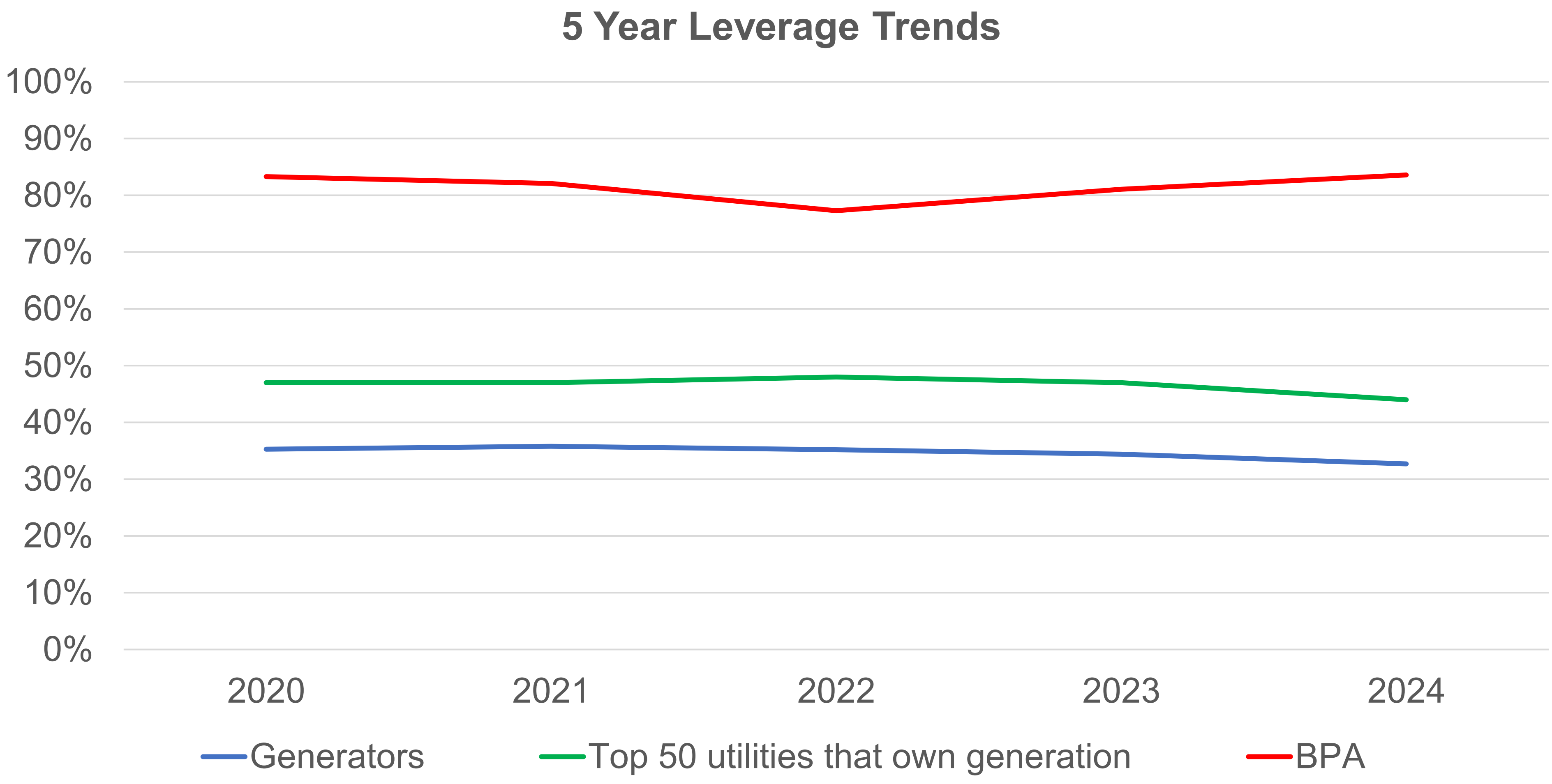
Rating Agency Perspectives

While it is extremely difficult to quantify the financial impacts of rating changes. **Investors demand higher interest rates from debt issuers with lower credit ratings**.

- "On a fully consolidated basis including federal debt, **BPA's historical financial metrics typically range from the A to Baa category** scoring under our methodology… Both the DSCR and debt ratio score at the 'Baa' category for those these two ratios." -Moody's, July 2025
- "The inclusion of revenue-funded capex in rate setting is a relatively recent policy shift that signals management's increased focus on its debt metrics and intent to reverse the increasing leverage trend. **This amount of revenue-funded capex is relatively modest… Bonneville has not yet reached its target debt-to-asset ratio target of 60% but is working to flatten the trend toward the target**." -Fitch, July 2025
- "Factors that Could, Individually or Collectively, **Lead to Negative Rating Action/Downgrade**… Leverage consistently above 11.0x in Fitch's rating case **with limited expectation of reduction**;" -Fitch, April 2026
- "Factors that Could, Individually or Collectively, **Lead to Positive Rating Action/Upgrade**… **Consistent declines in leverage**…" -Fitch, April 2026

Rating Agency Perspectives – Moody's

BPA is consistently above the median.



Data Sources

"Public Power – US, Medians: Stable performance, with higher liquidity and lower adjusted debt" (12/18/2025)

"Public Power – US, Medians: Credit quality is stable as liquidity improves and adjusted debt ratio declines" (12/09/2024)

"Public Power – US, Medians: Credit quality holds steady as liquidity, adjusted debt ratios both decline" (11/30/2023)

Benchmarking

60% is in line with utilities against which BPA benchmarks.
More fully explained in SCFP ROD Issue 4.2.3.1.

Sector	Entity	Debt/PPE Ratio	Sector Avg	Total Avg
Public Power Retail	Salt River Project	54%	75%	**59% Average Across All Sectors**
	LA Dept. of Water & Power	80%		
	San Antonio CPS	76%		
	Long Island Power Authority	88%		
PNW IOU	PacifiCorp	42%	46%	
	Portland General Electric	49%		
	Puget Sound Electric	48%		
Large NFP Wholesale	*Bonneville Power Administration*	80%	57% *(excl. BPA)*	
	Tennessee Valley Authority	57%		

Entities with comparable credit ratings (~AA), at least $10B in Net PPE, and significant capital expansion plans.

Three SCFP/Leverage Questions

1. Is 60% still the right BPA leverage goal?

2. Is 2040 still the right target date for achieving the leverage goal?

3. What methodology should BPA use to determine the appropriate amount of revenue financing (RF) to achieve this goal?

Key Consideration Points

While still in the grounding phase, the team is focusing on the following areas:

Revenue Financing Calculation

- Simplify the default revenue financing calculation, modeling percentage-of-capital as default amount (current approach has complex if/then calculation, provided false precision)
- Whether to revenue finance the *Sustain* program

Business Line (BL) Leverage Goal Progress

- Whether each BL should have the same leverage approach
- Increasing revenue financing if BL is not trending toward BPA leverage goal

Flexibility

- Leave the amount of revenue financing as a rate case issue. Use a default percentage-of-capital as a starting point, but allow for more or less revenue financing depending upon circumstances in each rate period.

Higher Of Methodology

Workshop Overview: Revenue Requirement Methodology and Revenue Financing

Objective: Fulfilling a BP-26 commitment, BPA will hold a workshop before the BP-29 rate case to address customer concerns regarding its **“Higher of"** methodology and the associated revenue financing impacts.

Primary Goal: Determine how to handle asset depreciation when projects are funded through revenue financing.

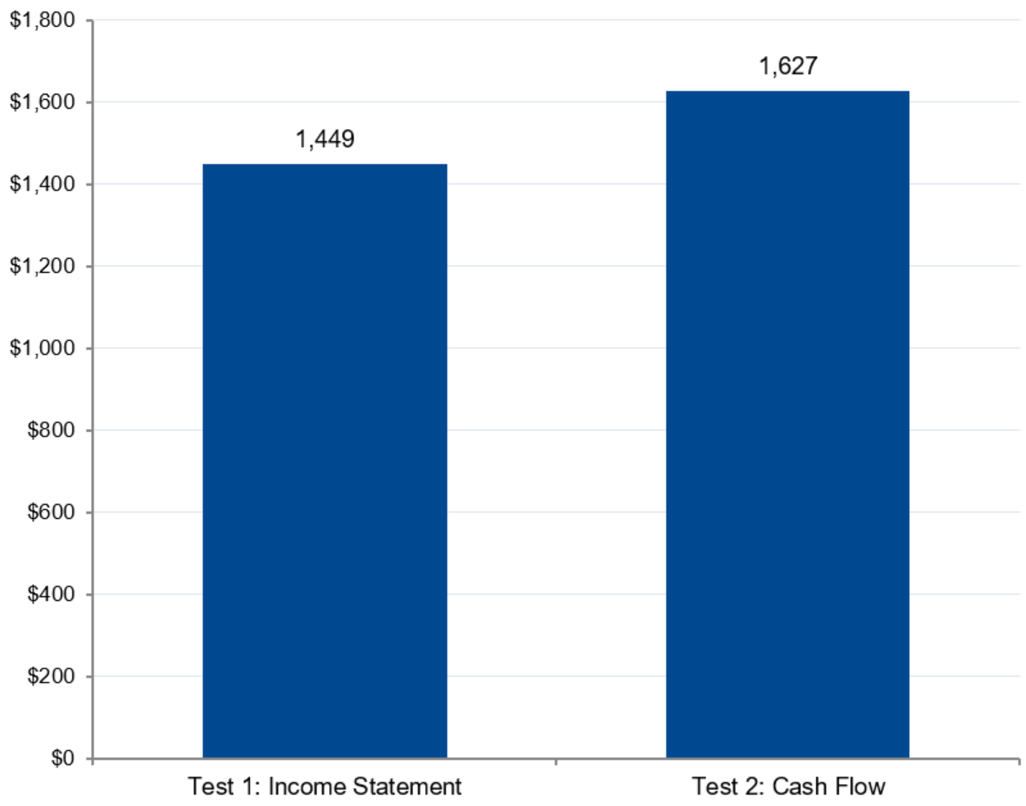
Scope Boundaries:

Focus: How we recover revenue financing costs through rates.

Excluded: How we set the overall target levels for revenue financing (this will be discussed in separate Sustainable Capital Financing Policy workshops).

Core Concepts: The "Higher Of" Method

- **Purpose:** A long-standing revenue requirement method (used for decades) to calculate how much total revenue must be recovered from rates to recover costs.
- **How It Works:** Rates are set to meet the higher of two calculations:
  - **Test 1 -** Accrual Basis: Based on the income statement (e.g., depreciation)
  - **Test 2 -** Cash Basis: Based on actual cash flow requirements (e.g., revenue financing)
- **Core Principle:** BPA does not design rates to intentionally run a net loss on either a cash or accrual basis. The methodology is flexible and adapts to the differing needs of BPA's Power and Transmission business units.

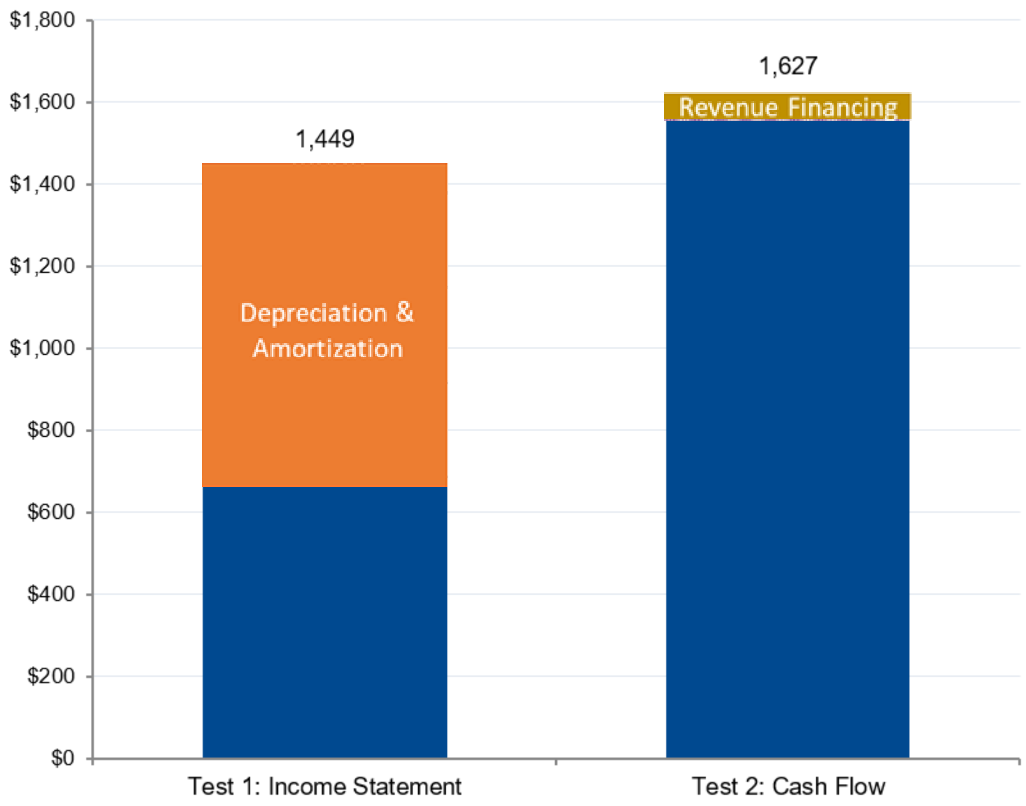


BP-26 Initial Proposal, FY 2026 Transmission ($M). The cash flow test is the higher test in each year of BP-26 for both business lines.

The revenue requirement is set at the higher of the two tests. The tests are alternative measures of cost recovery; they are not additive.

Core Concepts: The "Higher-Of" Method
Depreciation & Revenue Financing

- **How It's Reflected in the Tests:**
  - **Depreciation –** Recognized as an accrual on the income statement (Test 1)
  - **Revenue Financing** – Recognized as cash requirement on the Statement of Cash Flows (Test 2)
- **Core Principle:** Revenue Financing and depreciation are not additive as they are recognized on different financial statements



BP-26 Initial Proposal, FY 2026 Transmission ($M). The cash flow test is the higher test in each year of BP-26 for both business lines.

The revenue requirement is set at the higher of the two tests. The tests are alternative measures of cost recovery; they are not additive.

Core Concepts: Industry Standards & Depreciation

Cost Recovery:

BPA is legally and operationally directed to operate like a business.

Rates are designed to recover all costs—including asset depreciation—to maintain long-term financial health.

Precedent:

This approach aligns with Federal Energy Regulatory Commission (FERC) guidelines and Generally Accepted Accounting Principles (GAAP).

BPA has included depreciation in rate setting since at least 1979, and the "higher-of" methodology since 1983.

History:

BPA has recovered costs on both accrual and cash bases for decades under DOE Order RA 6120.2 (issued 1979, amended 1983); the repayment-study method dates to 1964 (GAO/RCED-84-25). Assets are depreciated under these standards regardless of how they were financed.

Core Concepts: Increased Revenue Financing

Policy Direction: BPA's policy goal is to move away from 100% debt financing by revenue financing (financing upfront using cash) a portion of capital.

Portfolio-Based: Revenue financing targets are set as a percentage of the total capital program rather than being tied to specific, individual physical assets.

Benefit on Future Costs: Each revenue-financed dollar avoids debt issuance: no principal or interest on that capital in any future revenue requirement.

Understanding Customer Concerns

Debt-Financed Assets (Gradual Costs)

- **The Process:** BPA issues debt to fund the asset upfront. Customers pay no upfront capital costs.
- **The Recovery:** The cost of the asset is gradually recovered from customers over time through annual depreciation expenses as the asset is used and is recognized on the Income Statement (Test 1).
- **The Result:** total cost includes interest on the debt over its full term.

Revenue-Financed Assets (Upfront Costs + Depreciation)

- **The Process:** Customers fund the capital asset upfront through cash collected in rates and is recognized on the Statement of Cashflows (Test 2).
- **The Concern Raised:** Because the asset is owned by BPA, it must still be depreciated on the books over its useful life. Customers are concerned that they are paying for the asset upfront, yet rates are still being charged for depreciation over time—effectively recovering costs for a debt that does not exist.

Options Under Consideration

Alternative A:
Maintain Current Practice

- **Description:** Maintain the existing rate setting and depreciation practices.

Alternative B:
Depreciation Offset

- **Description:** Track the cash collected from revenue financing into a rate case only "depreciation offset" account.

  This balance would be amortized over time (matching the average life of the assets) to directly offset and reduce the impact of depreciation on customer rates.

Alternative C:
Projects Funded in Advance (PFIA) Approach

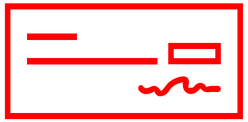
- **Description:** Treat revenue-financed capital similarly to customer-contributed funds.

  BPA would track specific projects, apply interest during construction, and treat the upfront revenue as "unearned," gradually recognizing it over the life of the asset.

Key Considerations

Alternative B:
Depreciation Offset

- Discussed in BP-26 Revenue Financing Rebuttal Testimony.
- To avoid complex accounting issues, this would be treated as a "rate case only" adjustment.



Alternative C:
Projects Funded in Advance (PFIA) Approach

- Difficult to implement because revenue financing is currently applied to a broad percentage of our capital portfolio rather than linked to specific, individual assets.
- Introduces accounting complexity as PFIA flows through BPA's financial statements.

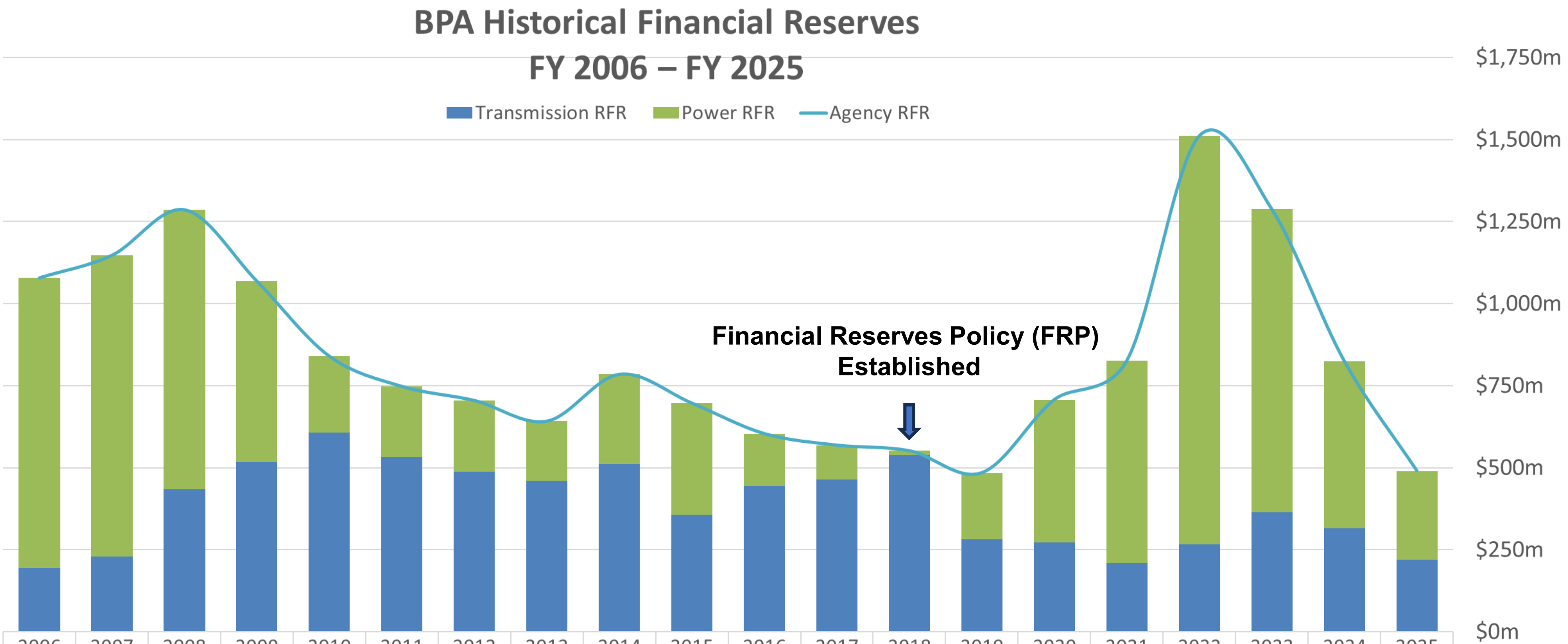
Financial Reserves Policy & Rate Setting Practices for Liquidity Risk

What are Financial Reserves & Why Do They Matter

Financial Reserves for Risk (“financial reserves”, “reserves” or “RFR”) are BPA’s main liquidity tool and consist of cash, cash-like equivalents, investments, and deferred borrowing, all of which are available to cover ongoing expenses.

Why do financial reserves and liquidity matter?

- **Ensures Operational Stability:** It keeps the business running, allowing it to cover daily operating expenses and other cash flow needs.
- **Supports Financial Resilience & Flexibility:** Strong liquidity helps entities survive unexpected crises, economic downturns, supply chain disruptions, or slow seasons. Enables flexibility to act on opportunities.
- **Improves or Helps Maintain Credit Rating and Financing:** Rating agencies and investors examine liquidity factors in evaluating an entity’s financial health. Liquidity can impact credit ratings and the cost of capital.



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Power RFR	$885m	$917m	$851m	$551m	$233m	$215m	$217m	$182m	$273m	$339m	$159m	$105m	$13m	$203m	$435m	$617m	$1,244	$924m	$508m	$270m
Transmission RFR	$193m	$229m	$434m	$516m	$606m	$532m	$487m	$459m	$511m	$357m	$444m	$463m	$538m	$281m	$272m	$209m	$267m	$363m	$316m	$220m
Agency RFR	$1,078	$1,147	$1,286	$1,068	$839m	$747m	$704m	$641m	$784m	$696m	$603m	$568m	$551m	$484m	$707m	$826m	$1,511	$1,287	$824m	$490m

Key Take Away

Power's reserves have seen significant volatility over the past 20 years, as low as $13M and as high as $1.2B. Transmission's reserves tend to show less volatility.

Reserves: Current Status as of EOY FY25

Business Line	Reserves for Risk	Days Cash On Hand
Power	$270 M	50
Transmission	$220 M	94
Agency	$490 M	64

- **Power:** Ended the year **$100M below its lower threshold**, triggering a maximum surcharge rate adjustment of $40M (an approximate 2% rate increase) to be implemented in FY26.
- **Transmission:** Finished the fiscal year in a healthy position; no risk-mitigation mechanisms were required.
- **Agency Balance:** Remains barely above BPA's minimum threshold and is critically low by industry standards. S&P Global Ratings cited this thin margin as the primary driver for revising the agency's outlook from stable to negative.

S&P Comments: April 2026 Credit Rating Feedback

*"The negative outlook reflects **weak hydroelectric conditions that have led to consecutive years of less than 1.0x coverage** of total federal and nonfederal debt service, **the associated declining unrestricted cash balances**……"*

*"We could **lower the SACP and the GRE ratings** if Bonneville continues to face adverse power market and hydrology conditions that **erode coverage and liquidity metrics**."*

"We view regional resistance to rate adjustments as presenting a negative governance risk because we consider the resistance as diminishing management's ratemaking latitude."

Liquidity Risk Policy Review Objectives

Objective: Review BPA's current risk mitigation package to ensure the tools, mechanisms, and policy are sufficient and prudent to meet the continuously changing landscape of the energy industry.

- Consider rate setting and operational mechanisms and policies that better prevent BPA from dipping and remaining below its Days Cash on Hand (DCOH) target;
- Provide the ability to recover to target level in a timely manner and maintain flexibility; and
- Review rate setting methodology to assess whether cost recovery and risk mechanisms should prevent rates to be set with expected financial reserves below the lower DCOH threshold.

Current Risk Policies

- **Financial Reserves Policy (FRP) Mechanisms** – End of year (EOY) actuals above or below various thresholds drive rate action. Annual rate actions that trigger under certain conditions:
  - **Reserves Distribution Clause (RDC)** – Triggers if a business line financial reserves and agency financial reserves are above their respective upper thresholds (120 and 90 DCOH), the Administrator can allocate excess reserves to high value business line specific purposes, ***with no cap.***
  - **FRP Surcharge** – Triggers if EOY actual business line reserves are below the calculated 60 DCOH threshold, intended to move reserves back up toward the lower threshold, ***but capped at $40M annually***.
  - **Cost Recovery Adjustment Clause (CRAC)** – Triggers if EOY actual business line reserves are below $0, intended to move business line reserves back up to $0, ***but capped at $300M annually***.
- **Sustainable Capital Financing Policy (SCFP)** – funds generated to revenue finance capital assets are instead used to support liquidity in certain situations, at the expense of leverage.

Reasons to Revisit Risk Practices & Policies

BPA's financial risk and policy decisions were sound given the context in which they were made, but the business landscape has evolved, leading to continued unhealthy risk exposure.

Volatility Risk Drivers	Reserves for Risk ~$250M standard deviation, compared to $40M FRP Surcharge
Emphasized Borrowing Over Proactive Recovery	Reliance on Treasury Note reduces likelihood of PNRR for TPP, increasing reliance on retro-active mechanisms
Key Policy Limited	Surcharge/CRAC do not ensure recovery back to 60 days within fiscal year
Potentially Imbalanced Approach	Policies favor retroactive action over proactive; cap downside recovery but not upside risk
FRP Performance	Higher than anticipated number of FRP triggers; may not provide sufficient risk mitigation for downside risks

Volatility Risk Drivers

Rate Setting Construct: BPA's revenue composition drives the volatility in Power's Reserves for Risk (RFR) levels. While Power sets rates to recover all costs, it also includes a significant Secondary Revenue (SR) credit. This SR credit, included at mean probability level, reduces the revenue requirement, e.g. lowers rates. Deviations between forecast and actual net revenues lead to higher or lower RFR. ***The SR deviation, in particular, is the primary source of volatility in Power RFR.***

In 8 of the last 12 years SR was lower than rate case by an average of $200M. FY23-25 rates assumed ~$1B in SR; actuals were ~$43M.

Overall Volatility: Powers BP-26 risk study showed one standard deviation for Power's net revenues is approximately $250M. This implies a 68% likelihood that actuals are within plus or minus $250M of the expected value, and a 32% chance actuals end up outside of that range.

Market Price Volatility: BPA faces market price volatility. The need to purchase supplemental power at high wholesale prices creates correlated supply and price risks.

Hydrologic Variability: Hydropower generation in the Columbia Basin relies heavily on variable annual snowmelt. Since future actuals are uncertain, BPA analyzes various possibilities to prepare for uncertain outcomes.

TPP & the Treasury Note Modeling Approach

- BPA's rate setting model is primarily designed to demonstrate cost recovery on an expected basis and to ensure sufficient cash flow is generated to demonstrate a 95% Treasury Payment Probability (TPP) over a two-year rate period.
- In risk modeling, BPA assumes $340M of the $750M US Treasury Expense Note is available for within-year liquidity. The remainder, $410M, is modeled as available liquidity to meet TPP. In other words, it is assumed that, in any game that shows insufficient reserves to make the US Treasury payment, BPA borrows on the note to make the full US Treasury payment.
- **For Example:** In BP-26, if BPA did not model the Treasury Note, meeting the TPP Standard would have required ~$100M of PNRR.
- Modeling of the Treasury Note relies on borrowing for risk mitigation over proactive rate increases in current rate period, potentially shifting cost recovery to a future rate period.

Risk Practices & Policies: Development

- In BP-18, when the FRP was first established, BPA contemplated moving the recovery logic of the CRAC up to the 60 days cash on hand (DCOH) threshold.
  - **BP-18-FS-BPA-05, 6.5.1:** *"The tentative Power Lower Threshold derived as the FRP requires is $304 million. However, this amount is reduced to the level of the Power CRAC Threshold from the BP-16 Final Proposal, $0, as part of the phase-in of the FRP (see Section 6.8 below)."*
  - **BP-18-FS-BPA-05, 6.8 – (2):** *"A methodology for increasing the CRAC Threshold to the Power Lower Threshold will be created. This methodology will be discussed in a public process to be held after the BP-18 rate proceeding. When the Power CRAC Threshold has been increased to the Power Lower Threshold, the $20 million of PNRR per year will be discontinued."*

- **The FRP Phase-In Implementation ROD, adopted two mechanisms to implement the FRP:**

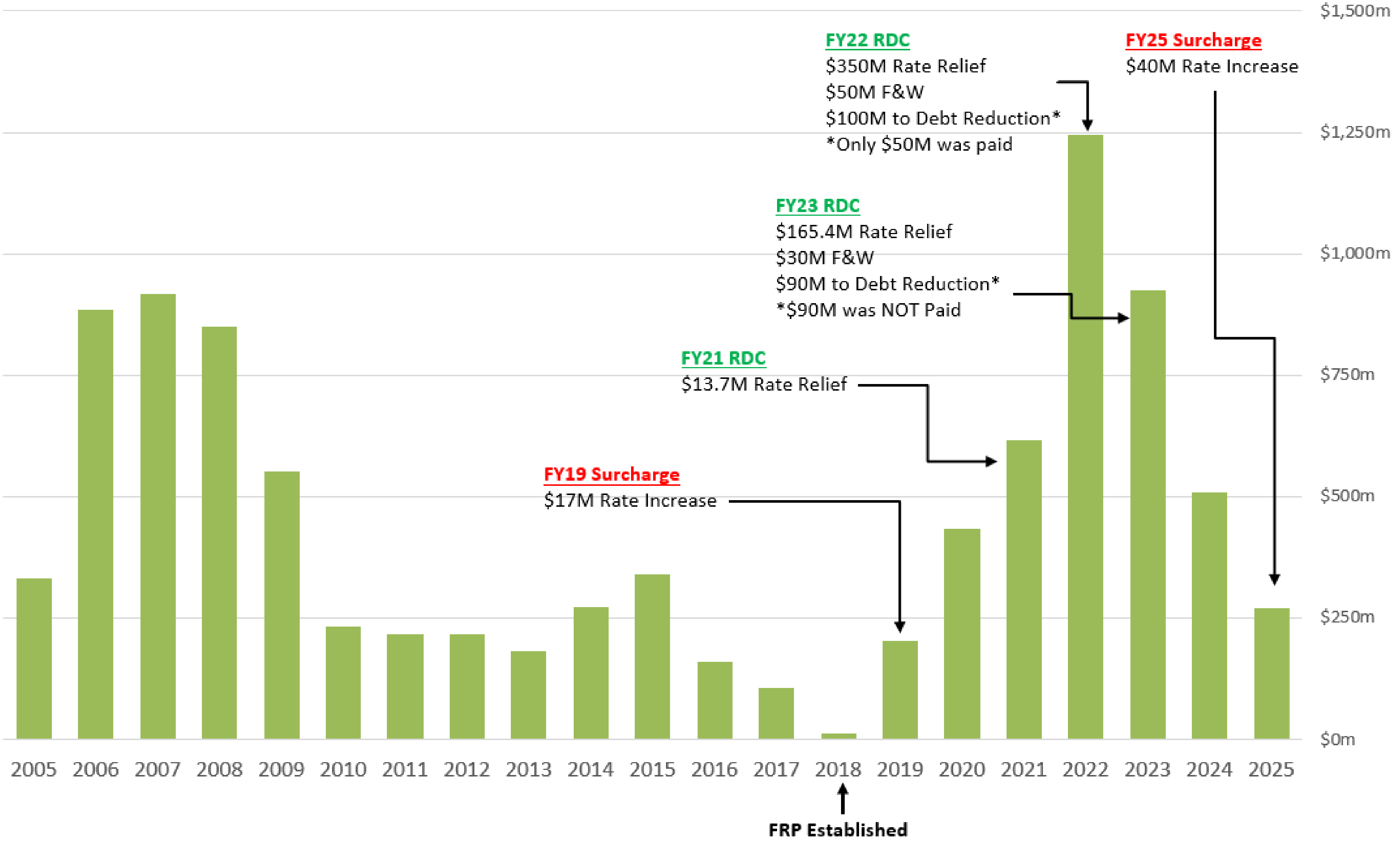
Current policies and practices allow BPA to set rates with an expected value for RFR at less than 60 days with a high likelihood that risk mechanisms will trigger in the rate period

BP-18 *Outlined* Approach	**FRP Phase-In Implementation ROD**
Move CRAC to Power Lower Threshold (60 DCOH)	Surcharge Cap Recovery $30M year one to $40M thereafter; CRAC maintained at $0

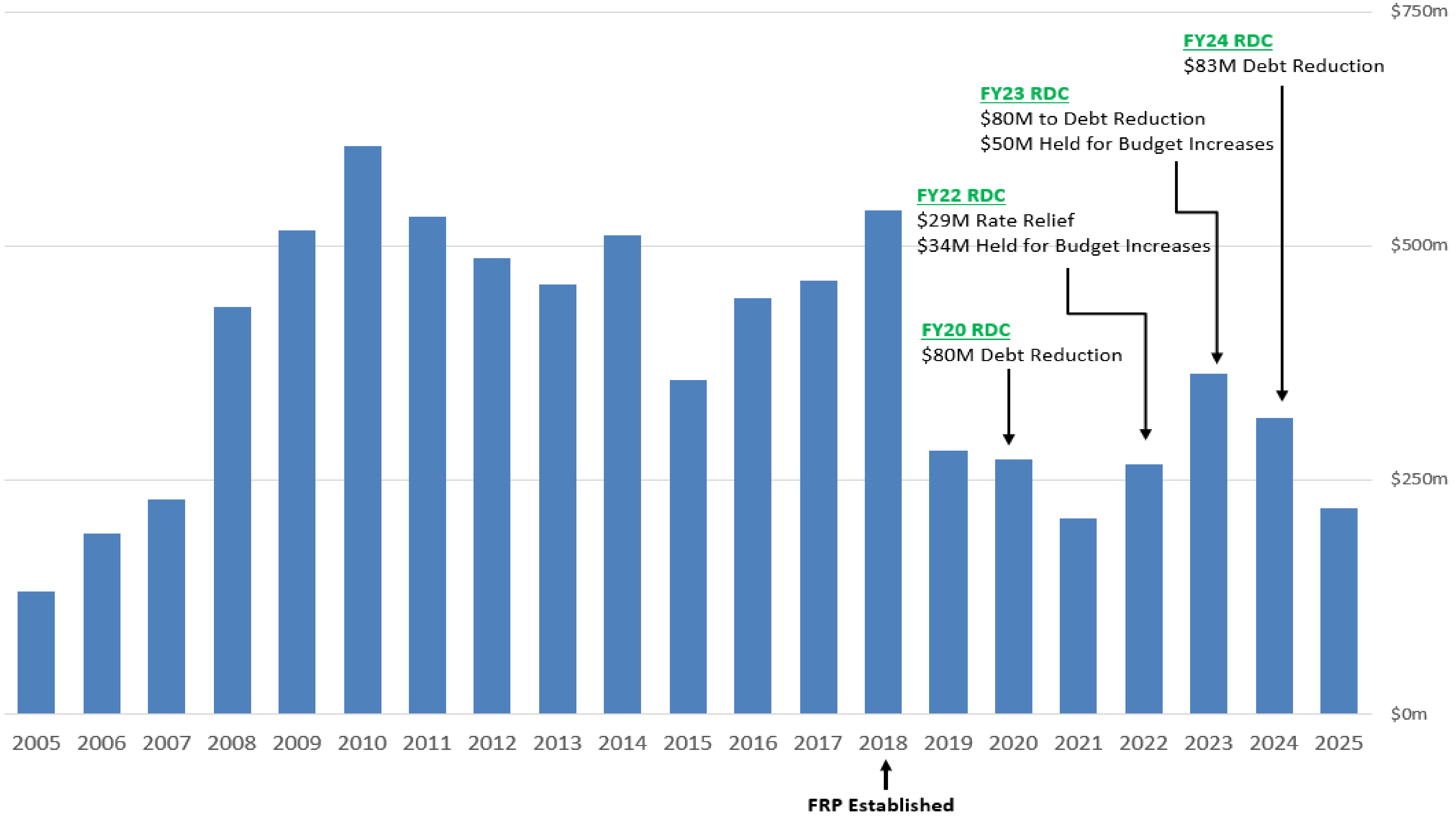
Risk Package Potential Imbalances & Limitations

- The current set of risk tools to manage downside risk are mostly retroactive.
  - **Pro-active Tools:** Planned Net Revenues for Risk (PNRR) could be generated through TPP, but rare occurrence due to reliance on Treasury expense note in modeling.
  - **Retro-active Tools:** Surcharge and CRAC; Unwinding Revenue Financing
- Downside recovery capped; upside distribution not capped.
  - Amount of recovery limited to $40M between 0 and 60 DCOH.
  - CRAC only collect fifty cents on the dollar below $100M, capped at $300M.
  - RDC is not capped.

Power Historical Financial Reserves for Risk FY 2005-2025



Transmission Historical Financial Reserves for Risk FY 2005-2025



Additional Liquidity Challenge Considerations

- **Financial Predictability and Strategic Planning:** Frequent fluctuations in financial performance create operational challenges, increase administrative costs, and limit the ability to execute long term strategic plans. Establishing more stable financial outcomes is supports consistent, proactive decision making rather than reactive measures.
- **Minimum Liquidity Reserves (60 Days of Cash):** Maintaining a minimum of 60 days of cash on hand is standard for prudent risk management but low compared to industry standard. Establishing BPA’s lower threshold, 60 days, as a firm baseline, supported by clear, timely mechanisms to restore reserves if they fall below this level, provides financial stability.
- **Alignment of Financial Targets with Historical Volatility:** Given that base rates incorporate secondary revenue, the existing deadband between the lower and upper thresholds for Power may not sufficiently accommodate reserve fluctuations. Adjusting the target range upward would better align BPA’s financial buffers with historical market volatility.

Summary & Conclusions

Summary: After several years of implementation, it has become evident that the current risk package struggles to effectively manage the inherent volatility of the energy industry and has potentially left BPA exposed to extreme downside risk.

- The deviations between forecast and actual net revenues, the impact of modeling the Treasury Note in TPP calculations, and the imbalance of proactive, retroactive and downside recovery have created a landscape where the current package may inadequately recover multiple poor water years.
- The rate relief provided through the RDC in back-to-back years, followed by poor hydro years, quickly depleted Power RFR, exposing Power customers to a surcharge in the following year. This highlights the current package's shortcoming and reason to consider potentially increasing reserves stability and decreasing the number of trigger events.

The risk mitigation financial policy review will consider the ability of BPA's risk mitigation package to cover downside risk, recover reserves within a reasonable period of time, and have thresholds that encourage rate stability.

Liquidity Risk Policy Approach

Guiding Principles

- Cognizant of rate pressure and volatility
- Balancing proactive and retroactive risk management
- Simplification and mechanical implementation
- Comprehensive risk mitigation alignment

Modeling & Analysis Approach

- Utilizing the Toolkit for comprehensive scenario modeling alongside trace modeling scenarios
- Forecasting implications of proposed policy and rate setting adjustments
- Evaluate potential financial outcomes
- Identify optimal strategies for risk mitigation
- Inform decision making for long-term fiscal health

Proposed Focus Areas

Review and model independently or as a group the below areas.

Within year risk mechanisms, Upper:	Within year risk mechanisms, Lower:	Rate setting risk management tools:

• Increasing the upper threshold for reserves
• Adding specificity to Reserves Distribution Clause (RDC) fund allocation
• Introducing a Rate Stability Fund
	• Increasing the amount recovered by the surcharge
	• CRAC (Cost Recovery Adjustment Clause) Recovery Adjustments
	  ◦ Fixed amount and recovery dollar ratio
	  ◦ Remove annual cap on CRAC recovery
		• Proactive/prospective risk mitigation
		• Reduction of Secondary Credit (combined with after-the-fact credit) to comply with 7(g)
		• Use of PNRR
		• Potential new tool for rate setting process
		  ◦ With intent to ensure expected reserve levels to remain above the 60 DCOH threshold during the rate period

Proposal Considerations

Assessing the following proposal considerations:

- **Tailored Business Line Risk Analysis:** Conducting risk package analysis at the business line level to tailor and evaluate custom packages based on each business line's specific needs.
- **Shift from Retroactive to Proactive Risk Mitigation:** Introduce proactive rate setting risk management tools to ensure expected reserves remain above the lower threshold during the rate period.
- **Revising Lower Threshold Recovery (Surcharge & CRAC):** Increase the amount recovered by the surcharge, adjust CRAC (Cost Recovery Adjustment Clause) recovery dollar ratios, and potentially removing the annual cap on CRAC recovery.
- **Adjusting Upper Thresholds and Fund Allocations:** Increasing the upper threshold for reserves, adding specificity to the Reserves Distribution Clause (RDC) fund allocation, and introducing a new Rate Stability Fund.
- **Addressing Secondary Revenue (SR) Volatility:** Reviewing a reduction of the Secondary Credit (combined with an after-the-fact credit) to comply with 7(g).
- **Reducing Reliance on the Treasury Note:** Evaluate the use of PNRR and potential new tools in the rate setting process.

Discussion

Comments on This Workshop

Please share feedback on this workshop to RMFPR@bpa.gov by 8/31.

Please note that feedback will not be posted and direct responses will not be provided.

Feedback will help inform future workshops.

Upcoming Workshop Schedule

Date	Meeting	Purpose
8/20	Workshop – Kick Off & Grounding	To formally kick off the Risk Mitigation & Financial Policies Refresh, establish a collaborative foundation with customer partners, and level set all attendees on the project's core focus areas, scope, and timeline.
Next 9/1	Workshop – Analysis & Alternatives	To share analytical methodologies and preview the policy tools, mechanisms, and strategies currently under evaluation.
10/20	Workshop - Proposal Discussion	To facilitate a collaborative review of the holistic proposal packages under consideration.
11/13	Workshop - Draft Policy Framework for ROD Development	To share the draft policy framework and collect stakeholder input on its planned implementation.