Long Term Financial Planning

January 28, 2020
Agenda

• Overview

• Strategic Issues
  – Financial Metrics
  – Debt Management & Access to Capital
  – Regulatory Assets

• Stakeholder Engagement
Overview

• BPA faces a variety of strategic challenges many of which are interrelated such as
  – Competitiveness
  – Financial Plan targets
  – Access to capital
  – Capital planning and execution

• Finance intends to explore strategic issues over the coming year
  – May lead to development of new or modification of existing policies
  – May influence choices made in rate cases

• Stakeholder engagement - will attempt to piggy back on existing external processes such as QBR Technical workshops
Financial Metrics
The four pillars Financial Plan are the foundation of this discussion.

- Cost management -- maintain low rates
- Debt utilization – reduce interest expense, maintain flexibility
- Debt capacity – access to secure, lost-cost debt
- Liquidity – maintain financial reserves for solvency & stability

The debt-to-asset (leverage) ratio is a key metric. The plan sets a near term target of at least holding flat through 2028 with a long-term goal of 60-70%.

We are exploring additional metrics to assess BPA’s financial health in the areas of:

- Liquidity (e.g. operating cash flow ratio)
- Leverage (e.g. debt service coverage ratio)
- Efficiency (e.g. AR conversion rate)
- Profitability & cost management (e.g. EBITDA)
Debt Management & Access to Capital
Overview

- BPA has a large and diverse debt portfolio with flexibilities and constraints that make it unique.

- Financial Plan direction:
  - Preserve $1.5 billion of available financing from the U.S. Treasury
  - Evaluate alternative courses of action so that BPA can continue to meet its ongoing capital needs at the lowest possible cost
  - Consider an “all of the above” capital financing strategy
  - Develop a 10-year capital-financing plan that considers the cost and certainty of financing instruments while meeting stated financial objectives.
BPA’s Outstanding Debt

Source: BPA Audited Financial Statements FY 2008-FY2019
* FY14 and prior includes conservation bonds (Tacoma, CARES, and Emerald)

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Pre-decisional. For Discussion Purposes Only.
Borrowing Authority Over Time

$7.7b Borrowing Authority Limit

$6.2b Financial Plan Limit

Balance at 9/30/19 = $5.3b
“All of the Above” Strategy

Financial Plan

- Revenue financing to pay for capital investments
- Regional Cooperation Debt (RCD) refinancing
- Reserve financing
- Lease-Purchase program
- Actions requiring legislation
  - Additional borrowing authority
  - Authority to issue debt directly to capital markets

Other Options (Not included in the Financial Plan)

- Reduce planned capital spending levels
- Increased debt repayment levels (a form of revenue financing)
- Non-federal Transmission asset ownership with BPA entering into Capacity Leases (similar to Hooper Springs arrangement)
Questions to Explore

• In order to sustain BPA’s long-term viability and health, we need to grapple with inter-related questions.

  • What is the optimal debt level, given the changing markets, technology and customer needs, to stay financially viable in the long run?

  • What is the best approach to financing future capital needs?
Regulatory Assets
BPA Regulatory Assets

$5,292m Total RA as of 9/30/2019

- Residential Exchange: $2,093 (24 Years)
- Terminated Nuclear: $1,706 (~55 Years)
- Columbia River Fish Mitigation: $769 (75 Years)
- Fish & Wildlife Measures: $243 (15 Years)
- Conservation: $208 (12 or 20 Years)
- Other: $144
- Various: $130
- I-5 Corridor Project: $0 (5 Years)
Assessing Treatment & Opportunities

• Alliance of Western Energy Consumers (AWEC) proposed in the BP-20 rate case that BPA accelerate the amortization schedule of the Power’s energy efficiency regulatory asset.

• The proposal prompted internal discussion of BPA’s regulatory assets and treatment going forward.
  – Should BPA change any of its approaches for regulatory asset treatment?
  – If BPA were to accelerate amortization schedules, which regulatory assets, if any, would provide the best opportunity for a long term benefit?
Conclusion
Stakeholder Engagement

• As workshops are scheduled, customers will be notified via Tech Forum and other modes of communication, as appropriate.

  – Anticipate the first detailed workshop in mid to late February, likely on the topic of Regulatory Assets.

  – Other workshops will follow as BPA’s internal analysis and discussion develops.

• Materials will be posted on BPA’s external website under the Finance & Rates/Finance Public Processes site. The specific location and links will be provided via the Tech Forum.

• The goal is to have all workshops wrapped up by the close of IPR so that any decisions can be implemented in the Initial Proposal.
Financial Disclosure

This information has been made publicly available by BPA on January 28, 2020 and does not contain Agency-approved Financial Information.