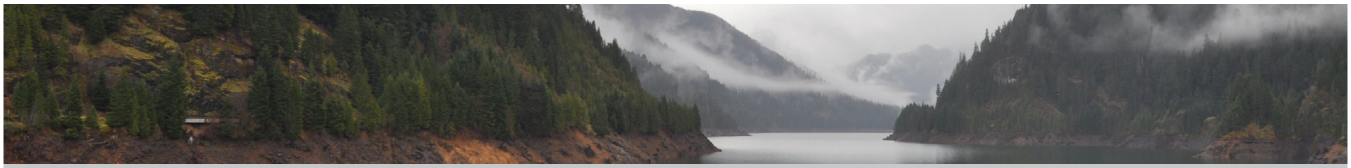

Fact Sheet

September 2018

BPA refines Financial Reserves Policy to build resiliency

The Financial Reserves Policy outlines how the Bonneville Power Administration will build and sustain financial resiliency, a key objective of BPA's 2018–2023 Strategic Plan goal to strengthen financial health.

BPA developed and implemented the Financial Reserves Policy in the BP-18 Rate Case. There, BPA also committed to hold a follow-on public process to determine some aspects of the policy that were left open for further discussion, such as the rate action it should take when financial reserves fall below a business line's lower threshold. This public process concluded in September 2018. Implementation details will be decided in the BP-20 Rate Case, which begins in November.

"The [Financial Reserves] policy will provide both clarity and transparency in our management of financial reserves. It sets upper and lower financial reserves thresholds by business line, based on the metric of days cash on hand, to support BPA's credit rating, promote equity, provide liquidity and rate stability, and ultimately support the agency's long-term financial health."

—Administrator Elliot Mainzer, BP-18 Final ROD

Background

Financial reserves are BPA's main source of liquidity for day-to-day operations and result from revenues being greater than expenses over time. Financial reserves allow BPA to continue to pay its bills even when sales revenues are insufficient to cover costs over a given period. They also provide credit rating support and are a tool to manage rate stability. While all revenues are held in the Bonneville Fund and are available to meet BPA's payment obligations, BPA attributes financial reserves to its Power and Transmission business lines based on their financial performance. The combination of Power and Transmission's reserves make up BPA's total agency reserves.

The Financial Reserves Policy provides guidance in three areas: (1) the level of financial reserves BPA and each business line should hold; (2) how to build financial reserves when they fall below a prescribed level; and (3) a process to consider repurposing financial reserves when they exceed a prescribed level.

The policy provides a framework to ensure BPA achieves the strategic plan's financial resiliency objective to maintain a minimum of 60 days cash on hand for each business line.

WHAT ARE FINANCIAL RESERVES FOR RISK?

Bonneville accounts for financial reserves in two pools: reserves for risk and reserves not for risk. The Financial Reserves Policy applies only to reserves for risk, which are funds that are accessible to meet within-year liquidity needs and are not obligated to a specific purpose. Reserves not for risk are funds set aside that are already obligated for a specific purpose.

Basics of the Financial Reserves Policy

The Financial Reserves Policy provides a target range of reserves with a lower and upper threshold for each business line and an upper threshold for agency reserves. It also specifies that BPA should take rate action if either business line falls outside of the target range.

Lower threshold and rate actions

The lower threshold for each business line is determined by the greater of the equivalent of 60 days cash on hand or the minimum level of financial reserves needed to ensure each business line maintains a 95 percent Treasury payment probability over the two years of the rate period. The policy includes two rate actions that may increase rates: one that occurs if business line reserves are below their lower threshold, and an additional rate action that occurs if business line reserves are below $0.

If business line reserves are below the lower threshold, BPA would initiate a rate action to increase rates. For Transmission, this rate action is $15 million per year, unless a smaller amount would return reserves to the lower threshold. Since Transmission's reserves already fall in the target range, no rate action was necessary in BP-18. For Power, this rate action is $30 million per year for the BP-20 rate period and $40 million per year in the BP-22 rate period and beyond unless a smaller amount would return reserves to the lower threshold. In BP-18, this rate action was implemented through planned net revenues for risk, meaning BPA added a fixed amount to the costs Power needed to recover during the rate period.

A second rate action would be taken if business line financial reserves are below $0. For Power and Transmission, this rate action would recover the amount below $0, dollar for dollar, up to $100 million. For Transmission, $100 million is the maximum this rate action would recover. For Power, any amount over $100 million would be recovered at fifty cents on the dollar, up to a maximum of $300 million. In BP-18, BPA would implement this rate action, if necessary, through the cost recovery adjustment clause.

FINANCIAL RESERVES POLICY THRESHOLDS USING BP-18 OPERATING COSTS ($ MILLIONS)

	Lower threshhold	Upper threshhold
POWER	304	609
TRANSMISSION	99	199
AGENCY	—	606

Upper threshold and financial reserves distributions

The upper threshold is calculated for each business line by adding 60 days cash on hand to the lower threshold amount. The agency upper threshold is the sum of the business lines' lower thresholds plus the equivalent of 30 days cash on hand for the agency.

A financial reserves distribution, previously called a reserves distribution clause in the BP-18 Rate Case, would only trigger if both a business line's financial reserves and agency financial reserves exceed their respective upper thresholds. When a financial reserves distribution triggers, the administrator has discretion over whether funds should be dispersed and how the additional funds should be used, such as for rate relief or early debt repayment.

What will be decided in the BP-20 Rate Case?

BPA must still make several decisions on how to implement the policy in the next rate case, including the rate mechanisms for collecting or distributing reserves, when those rate mechanisms trigger and the metrics used to determine when a reserves-related rate action should be taken. Proposed decisions on these issues will be included in the BP-20 Initial Proposal released in November.

BPA and interested parties have suggested several rate mechanisms to collect reserves when business line reserves are below the lower threshold. One option is to use planned net revenues for risk, which would add a fixed amount of additional cost recovery over the rate period. An alternative is to use an annual surcharge, which would be triggered at or near the end of every fiscal year. BPA expects to continue using the CRAC as the mechanism to adjust rates if a business line's reserves fall below $0.

BPA is also reviewing whether it should change how it determines when to trigger a rate action, moving away from using forecasts and instead using end-of-year actuals. The other possible change is the metric used to trigger a rate action, which is currently determined by accumulated calibrated net revenues. BPA will consider whether it should instead use reserves for risk or accumulated net revenues.