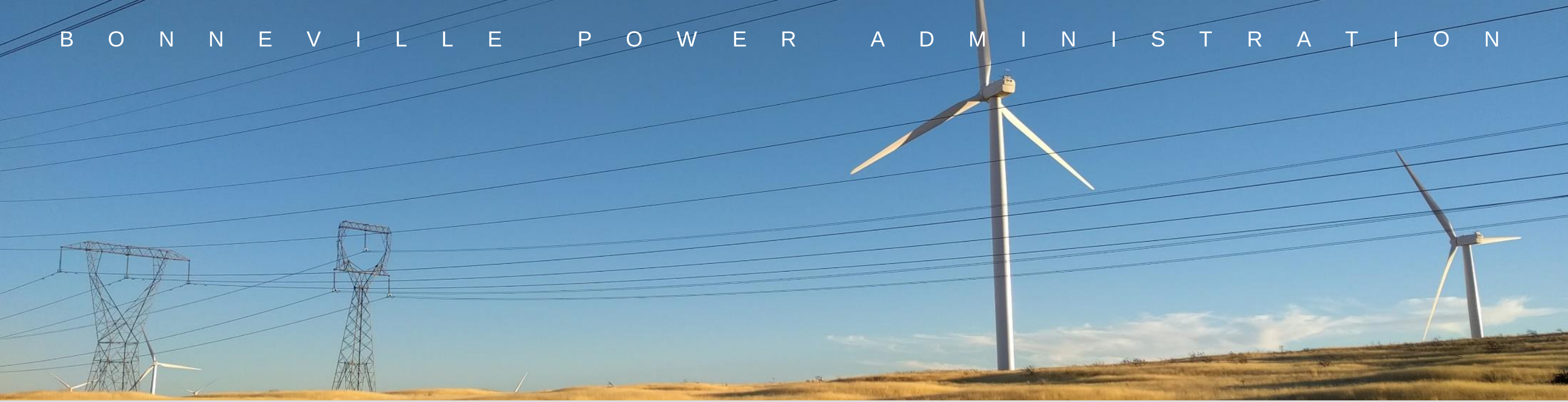

Financial Plan Refresh

Public Workshop

March 9, 2022

Capital Metrics Workshop

- Today's Objective: Share BPA's thinking on execution metrics for inclusion in the Financial Plan
- Agenda
  - Recap of where we are in the process
  - Review customer comments from prior workshop
  - Impacts of changes in execution from forecast (over or under)
  - Current execution reports
  - Metrics for consideration

Reminder: Public Engagement Process

Sep - Nov 2021

Completed

- 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:
  - Jan12 & 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

Customer Comments Review

- No parties submitted comments in relation to the Feb 9th capital framework workshop.
- The comment period for the Feb 23rd workshop closes today, Mar 9th.
- BPA’s written responses to the Jan 26th workshop comments are available on bpa.gov.

Recap of Prior Capital-related Workshops

- SAMP’s are the main input into the IPR capital forecasts:
  - Capital dollar for dollar
  - Associated expense impacts are sub component and covered in IPR expense forecasts
- Similar to other BPA process, SAMPs are developed 2-3 years in advance of the execution years.
- Capital projects are complex and can be multi-year projects that have a lot of unknowns.
- Customer input to the SAMPs, including capital spending levels, is welcome during the IPR process.

Forecast vs Actual Capital Execution

- BPA often sees variance between rate case capital forecasts and execution, influenced by the lag between establishing the forecast and the year of implementation, e.g. a 2-3 year lag.
- BPA is committed to explaining the drivers of variance between forecasts and actuals at the QBR technical workshops, and as needed, making process improvements.
- Variance in capital spending compared to IPR forecast could be due to:
  - Reprioritization of projects (e.g. due to critical and emerging business needs)
  - Changes in staffing or material/equipment/outage availability which can impact project schedules and milestones
  - Changes in project costs since forecast
- BPA recognizes customer concern regarding potential rate / finance impacts resulting from implementation variance along with impacts they may incur if we do not execute as planned.

Financial Impacts of Execution Variances

- Executing less (or more) capital than assumed in the rate case has limited financial impacts.
- Example: Assume a $50M change in execution from rate case forecast in both years of the BP-22 rate period.
- Key potential BPA financial impacts are associated with:
    1. Income statement
    2. Revenue financing amounts
    3. Borrowing authority

Financial Impacts of Execution Variances

1. Income statement impacts – net interest expense and depreciation:
   - Net Interest Expense impact, about +/- $1.0M:
     - Interest expense: Assuming debt issuance at the FY21 weighted average cost of capital (3.5%), results in about $3.5M more/less interest expense over the rate period, assuming mid year bond issuance.
     - AFUDC: The interest expense forecast in rates is offset somewhat by the AFUDC forecast in rates. Assuming an AFUDC rate of ~2.5% results in AFUDC of $2.5M over the rate period. Again, AFUDC is an offset to interest expense.
   - Depreciation: Difficult to assess the change in depreciation in the rate period for a variety of reasons:
     - Assets may not have been assumed to be placed in service in rate period. Other assets in CWIP could be energized more quickly than assumed in the rate case.
     - However, it is safe to assume there would be lower/higher depreciation expense; but when cash needs drive the revenue requirement, there is no rate impact.

Financial Impacts of Execution Variances

2. Proposed Future Revenue Financing:
   - BPA is proposing revenue financing based on a percentage of capital spending. Under-spending compared to the forecast would only have an impact if the amount of revenue financing is based on forecasted capital vs being based on actuals from the prior rate case period.
   - BPA has received comments from customers asking that BPA consider using actual capital spend to drive revenue financing amounts in a rate period. BPA is actively considering this, along with other comments. The policy might also consider using a combination of actuals plus forecast.
3. Borrowing Authority Forecasts:
   - BPA's goal is to maintain $1.5B of borrowing authority on a rolling 10-year forecast. With the recent addition of $10B of borrowing authority, there should be no impact in the near term or for the foreseeable future.
   - BPA will share a borrowing authority forecast and framework at the March 23rd workshop.

Operational Impacts of Execution Variances

- BPA's asset categories plan capital work because their analysis shows the work is needed to minimize risks *(reliability, financial, safety, environmental, compliance ….).*

- Within operational and budgetary constraints we attempt to not only do the 'right work' but to do it at the 'right time'.

- For many reasons planned capital work can be delayed. When this happens the work is typically completed in the near term but sometimes in the following fiscal year.

- The impact of delaying planned work is that over time this can create a growing backlog of work. This can increase risks overall and it can negatively impact our ability to execute the capital work planned in the current fiscal year.

Capital Execution Reports

- BPA monitors and tracks a variety of metrics, including asset performance and other metrics related to customer funded projects that are reported in other venues.
- Today's conversation will focus on capital execution. Capital execution is being defined as:
  - Capital Assets Planned vs. Complete
  - Capital Spend and Variance from Rate Case
- Reports, including authorized major agency capital investments, are reviewed by BPA executives quarterly to monitor project cost, schedule, and scope.
  - This regular review allows the opportunity for direct executive engagement if projects deviate from the originally authorized business case.
  - These major capital project reports are available externally at the following site:
  - https://www.bpa.gov/about/finance/public-materials-project-synopsis

Customer Collaboration and Best Practices

- BPA has participated in groups to understand what others are monitoring and measuring.
- For Fed Hydro, most look at asset life cycle and project management, not asset execution.
  - With metrics identified measuring asset performance and cost of production.
  - BPA currently does not have the capability to track most of these metrics.
- Transmission has met with customers to discuss asset execution. Feedback centered around:
  - How does BPA measure success in its capital program planning and execution?
    - Measured by capital spend and assets installed. Ability to spend at IPR and Start of Year forecasts, and ability to install the amount of assets we had planned.
  - Why do BPA projects for customers seem to cost more and take longer than when customers complete themselves?
    - Numerous factors contribute: NEPA requirements; design standards and requirements; high voltage equipment standards and requirements; resource limitations.
  - How will BPA/Transmission improve its capital execution levels?
    - Creating a new execution arm called secondary capacity model, that works in parallel to our primary capacity model.

Current Capital Execution Metrics

	Power	Transmission
Metric 1	Capital Spending vs. Rate Case *(Publicly Released-QBR)*	Capital Spending vs. Rate Case *(Publicly Released- QBR)*
Target 1	Current Target: At or less than 100% of Rate Case	Current Target: At or less than 100% of Rate Case
Metric 2	Units Placed In Service (planned vs. actuals) *(Not Currently Publicly Released)*	Assets Planned vs. Completed *(Publicly Released- Technical QBR)*
Target 2	Current Target: Established each year, currently approximately 80% of target	Current Target: Established each year, working to refine parameters

Recap and Feedback

- Operational impacts and the incremental risk from under execution are hard to quantify.
- Financial impacts from under/over execution are limited from a rate setting standpoint. Nonetheless, BPA is committed to improving its execution compared to rate case forecasts.
- While *Capital Spending vs. Rate Case* is an important metric, it is more important in relation to, or in combination with the, *Units Placed in Service* and *Assets Completed* metrics.
- We are particularly interested in feedback on:
  - The metrics and targets shared today, and in particular the targets.
  - The business goals customers are interested in BPA monitoring.

Next Steps

- Please submit written feedback to communications@bpa.gov by March 16 with "Financial Plan Refresh" in the subject line.
- Next workshop: Borrowing Authority framework on March 23rd.