Draft Financial Plan
May 2022

Introduction

Everything BPA does — from maintaining the region's extraordinarily valuable hydropower and transmission assets to investing in fish and wildlife mitigation — hinges on its financial strength.

Financial strength allows BPA to deliver on its multi-purpose mission, providing significant value to the Pacific Northwest and its citizens, including maintaining the region's extraordinarily valuable hydropower and transmission assets, providing competitive rates, preserving high reliability, and investing in responsible environmental stewardship, now and into the future.

Sustaining financial strength requires disciplined cost-management while maintaining the reliability, environmental sustainability and revenue-generating capability of the 31 federal hydroelectric projects, Columbia Generating Station, and more than 15,000 miles of BPA-owned and operated high-voltage transmission lines.

BPA must also be financially resilient so that it can withstand disruptive events that impact revenues or expenses and continue to deliver on its mission. For BPA, financial resilience is directly related to a strong balance sheet and is achieved by having sufficient liquidity, a prudent amount of leverage, and enough debt capacity to be able to plan for and fund essential and ongoing capital investments with certainty and at low cost.

By maintaining financial strength, BPA can sustain its role as an engine of the Northwest's economic prosperity and environmental sustainability.

Overview

The Financial Plan establishes a guiding framework for decision-making by defining the financial constraints within which BPA operates, and outlining objectives BPA has established to sustain its financial strength. The plan contains three sections that build from and support each other:

1. Statutory obligations and authorities.
2. Financial policies and established practices.
3. Financial objectives.

BPA's Financial Plan is an important companion to BPA's strategic direction. BPA will revise and update its financial plan periodically, depending upon actual financial performance or material changes in the operating environment.

Statutory Obligations and Authorities

Four concepts within BPA's statutes guide nearly all BPA rate-making and financial decisions:

1. Establishing the lowest possible rates consistent with sound business principles.
2. Repaying the federal investment over a reasonable number of years.
3. Establishing cost-based rates.
4. Establishing BPA's authorized forms of capital financing.

This list is not exhaustive. Other elements of BPA's organic statutes are relevant to the agency's financial and rate-making decisions. For example, under the Pacific Northwest Electric Power Planning and Conservation Act, BPA is obligated to protect, mitigate, and enhance fish and wildlife affected by the Federal Columbia River Power System in a manner "consistent with" both a regionally developed Columbia Basin Fish and Wildlife Program and the Act's purposes,[1] which include assuring the Pacific Northwest has an "adequate, efficient, economical and reliable power supply."[2]

One of BPA's most fundamental financial requirements is to establish cost-based rates to encourage "the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles."[3] Such rates must be based on BPA's total system costs, including the costs of producing and transmitting electric energy, and the risk associated with doing so. The rates must also be sufficient to assure repayment of the federal investment in the FCRPS over a reasonable number of years.[4] In this way, BPA customers and their consumers — rather than taxpayers — bear the cost and risk of the system.

All of BPA's costs are allocated to the revenue generating business units — Power Services or Transmission Services — and are recovered, in the aggregate, through their respective rates. The Federal Energy Regulatory Commission requires BPA to account for the financial activities of each business unit independently and report the results in each BPA rate filing.[5]

The rates BPA sets for its Power and Transmission services must be sufficient to recover the costs allocated to those services, and the revenues BPA collects must be adequate to recover those costs and to repay its share of the federal investment. BPA transmission rates, as outlined in the Northwest Power Act, must also ensure the equitable allocation of costs of the federal transmission system between federal and nonfederal power utilizing that system.[6]

The Transmission System Act places BPA on a self-financing basis,[7] meaning BPA funds its operations with revenues from power and transmission customers and does not depend on further appropriations from Congress.[8] As required by statute, all receipts are deposited into the Bonneville Fund, an account held by the U.S. Treasury, and all disbursements are made from this account.[9]

BPA has the authority to issue bonds and other debt securities to the U.S. Treasury — limited to $17.7 billion[10] on a revolving basis — to finance capital investments and expenses associated with implementing the Northwest Power Act.[11] BPA can also raise revenues through rates to finance capital

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[1] 16 U.S.C. § 839b(h)(10(A).
[2] 16 U.S.C. § 839(2).
[3] Transmission System Act §9, 16 U.S.C. § 838g; see also Flood Control Act of 1944, 16 U.S.C. § 825s; Northwest Power Act 16 U.S.C. § 839e(a)(1).
[4] Northwest Power Act 16 U.S.C. § 839e(a)(2)(A); Flood Control Act of 1944, 16 U.S.C. § 825s.
[5] Bonneville Power Administration, 20 FERC ¶ 61,142, at P 61,315 (August 1982).
[6] Northwest Power Act, 16 U.S.C. § 839e(a)(2)(C).
[7] Transmission System Act §11(b), 16 U.S.C. § 838i(a).
[8] See Transmission System Act §11(a), 16 U.S.C. § 838i(b).
[9] Transmission System Act §11(a), 16 U.S.C. § 838i(a) (establishing Bonneville Fund).
[10] Per the Bipartisan Infrastructure Law, $6 billion is available to BPA immediately upon passage of the law, and the remaining $4 billion is available at the start of fiscal year 2028.
[11] Transmission System Act §13(a), 16 U.S.C. § 838k(a).

investments and enter into lease purchases with third parties to fund investments in transmission facilities.[12]

Financial Policies and Established Practices

BPA financial policies and established practices provide clarity and consistency around how the agency will make decisions and set power and transmission rates consistent with its organic statutes.

Cost Recovery Demonstration

BPA is required to establish rates to recover the costs of producing and transmitting electricity, including operating and capital costs, and the cost to repay the federal investment in the system. BPA includes these costs, as well as the costs necessary to operate the agency consistent with sound business principles, in its revenue requirements that are used for setting rates.

As described below, the rest of BPA's policies and practices support the cost-recovery demonstration. Through an informal public review of BPA's projected cost levels, known as the Integrated Program Review (IPR), and application of BPA's repayment methodology, BPA establishes projected base cost levels for the ensuing rate period. BPA's Treasury Payment Probability standard, Financial Reserves Policy and Sustainable Capital Financing Policy provide for additional costs under certain circumstances to establish rates consistent with sound business principles and to ultimately support BPA's sustained financial strength.

Integrated Program Review

The IPR plays an important role in BPA's overall cost-recovery and financial planning process. It provides stakeholders an opportunity to review and comment on BPA's projected costs for capital and certain expense programs that are used in establishing BPA's rates in rate cases. This Financial Plan includes high-level targets for expense program costs, which are described in the financial objectives section below.

Not all costs used in the rate case are determined in the IPR process. For example, settlements or other costs that have a fixed schedule are outside the IPR. Additionally, costs and revenues that are predominately dependent on external factors, such as market, load or hydrologic conditions, are modeled and determined in the rate case. This includes surplus power sales, balancing power purchases, transmission service purchases, 4(h)(10)(C) credits[13], and irrigation rate and low-density discounts.

Repayment Methodology

Following the Northwest Power Act, BPA must repay the federal investment in the FCRPS over a reasonable number of years. Historically, the maximum repayment period for the federal investment has been 50 years or less for assets with average service lives less than 50 years. BPA may repay federal investments earlier than the maximum term.

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[12] Northwest Power Act §6, 16 U.S.C. § 839d; Transmission System Act §11(b)(5), 16 U.S.C. § 838i(b)(5).

[13] Under Section 4(h)(10)(C) of the Northwest Power Act, 16 U.S.C. § 839b(h)(10)(C), BPA receives a credit from the U.S. Treasury for non-power-related fish and wildlife mitigation efforts. The credit ensure that BPA pays only for the fish and wildlife mitigation programs related to power production, and not to other purposes of the FCRPS, such as navigation and flood control.

There is no fixed schedule of repayment. Instead, each rate period, BPA uses the repayment methodology to set the minimum level of repayment, which BPA might increase for other business reasons, to meet the statutory requirement to repay the federal investment over a reasonable number of years.

Treasury Payment Probability Standard

The Treasury Payment Probability (TPP) standard[14] helps ensure BPA has enough liquidity over a rate period to establish a very high probability of making the planned U.S. Treasury principal and interest payments in full and on time each year of the rate period.

BPA establishes power and transmission rates independently to maintain at least a 95% probability of making all payments to the U.S. Treasury in full and on time in each two-year rate period. The equivalent TPP standard for a one-year rate period is 97.5% and the equivalent for a three-year rate period is 92.6%. Because U.S. Treasury payments are by law BPA's lowest priority payment obligation,[15] the TPP standard ensures a high likelihood that all other payments, including nonfederal debt service, will be made throughout each fiscal year.

The TPP standard also supports BPA's statutory obligation to repay the federal investment over a reasonable number of years because it requires a very high likelihood of doing so each rate period. In addition, it is a sound financial practice to measure and ensure short-term (rate period) solvency.

Financial Reserves Policy

The Financial Reserves Policy[16] provides a framework for managing business line and agency financial reserves using the industry-standard metric of days cash on hand. This metric relates the amount of cash on hand to the overall size of the business, measured by operating expenses. It is a common measure of liquidity in the utility industry.

Financial reserves refer to "reserves for risk," a BPA term representing the amount of unobligated cash, short-term investments and deferred borrowing, which are all highly liquid and considered the same as cash. Thus, for BPA, financial reserves are used in lieu of cash for computing the days cash on hand metric.

The Financial Reserves Policy ensures BPA has enough financial reserves to meet minimum liquidity requirements, including day-to-day operations. It also ensures financial reserves are used efficiently when they grow to a healthy level.

The policy establishes upper and lower thresholds for managing financial reserves. The lower threshold for each business line is 60 days cash on hand. When financial reserves drop below this point, BPA takes rate action to begin raising financial reserves levels back to the 60 days cash on hand minimum.

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[14] See BP-18-FS-BPA-05 Power and Transmission Risk Study, section 2.3 BPA's Treasury Payment Probability Standard.

[15] *See* 16 U.S.C. § 839e(a)(2)(A) (noting BPA's rates must be sufficient to "assure repayment of the Federal investment in the Federal Columbia River Power System over a reasonable number of years **after first meeting the Administrator's other costs**."); *see also* 16 U.S.C. § 838k(b) (discussing BPA's obligation to repay Treasury bonds from the "net proceeds" of the Administrator).

[16] See BP-18-A-04 Administrator's Final Record of Decision, Appendix A: Financial Reserves Policy.

The upper thresholds guide the Administrator's decisions about whether financial reserves should be used for other high-value investment purposes. When both the agency is above 90 days cash on hand and a business line is above 120 days cash on hand, a reserves distribution clause (RDC) triggers. This ensures that the agency and a business line have sufficient financial reserves before they are considered to be used for other high-value investment purposes, such as repaying debt, rate reduction or making additional capital investments.

Financial Objectives

This section identifies the essential objectives for sustaining BPA's financial strength. It builds on the foundation of BPA's statutory obligations and authorities, as well as its existing financial policies and practices.

BPA will monitor its progress toward meeting these objectives and factor them into business decisions to continue to meet its obligation to provide the lowest possible rates consistent with sound business principles. Executing on these objectives over time will firmly place BPA in a position to consistently provide rates at the lowest possible cost, consistent with sound principles, delivering long-term value to BPA customers and the communities they serve.

Three Key Financial Objectives

Financial Objective	**Purpose**	**Metric**
Cost management discipline: • Program costs • Capital investments	Lowest possible rates Maintain asset value and reliability	Rate-period change in program costs Actual capital spending vs. rate case planned capital spending Completed capital investments or major milestones vs. planned capital investments
Financial resilience: • Liquidity • Debt utilization • Debt capacity	Solvency and stability Low interest expense and financial flexibility Secure and low-cost debt financing available to fund capital program	Days Cash on Hand and Treasury Payment Probability Debt-to-asset ratio Remaining borrowing authority
Independent financial health assessment	Maintain high investment-grade credit ratings	Credit rating

Improve cost-management discipline

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. This means that some programs might be higher than inflation and some might be below inflation, but in total, our goal is for program costs to be at or below the rate of inflation, in aggregate, for each business line.

Projections for these program costs are generally developed prior to BPA rate case proceedings in the IPR process. The goal to manage these costs in the aggregate at or below the rate of inflation during this period is BPA's demonstration of our commitment to deliver competitive and stable rates over the longer-term and to maintain BPA's position as the provider of choice for regional public power customers when new power sales contracts are negotiated prior to 2028. This goal also leaves BPA flexibility to adjust its program costs when needed to ensure it meets its various statutory obligations.

BPA's IPR costs represent projections of the costs BPA anticipates needing to recover over the rate period to provide power and transmission services and to meet BPA's mission objectives and various statutory obligations, including BPA's environmental responsibilities. The programs included in this goal for each business line are:

Power Services

- Columbia Generating Station
- Bureau of Reclamation
- Corps of Engineers
- Renewables
- Energy Efficiency
- Non-generation Operations
- Fish and Wildlife, including Lower Snake River Compensation Plan
- Northwest Power and Conservation Council
- Corporate Costs

Transmission Services

- Operations
- Maintenance
- Engineering
- Acquisition and Ancillary Services
- Corporate Costs

Capital investments: Maximize the life-cycle value of assets based on industry leading standards and increase the budget execution and work completed execution of the asset management program.

BPA assets are diverse in age, complexity, geography and function, which makes the planning and prioritization of investments challenging. Moreover, the FCRPS power and transmission assets are aging and require significant capital investment to allow them to continue to provide reliable and low-cost service and to enhance their operations well into the future. Maintaining these assets is essential to delivering value to BPA's customers and their communities. For these reasons, it is critically important to ensure that capital investment needs are identified, prioritized and funded systematically.

Central to this effort is the development of Strategic Asset Management Plans (SAMPs) for each asset category. These plans inform capital investment level requirements by:

- Understanding our assets' criticality, health and risks.
- Establishing risk-based asset performance objectives (such as lost generation and reliability).
- Using analytical methods to prioritize capital investments for safe and reliable asset performance.

The SAMPs are key inputs to the IPR process, where projected capital investment costs are determined for the following rate case, and a forecast is developed for the following eight years — totaling 10 years of anticipated capital investments. These projected capital investment costs are sized and prioritized to achieve the SAMPs' objectives and are the basis for the 10-year capital-financing plan.

Capital investment discipline is fundamental to ensure that BPA invests the right amount of money in the right assets at the right time, returning the highest possible value of these investments. To help gauge our progress in this area, BPA will use the following measures and guidelines to help ensure the success of our Asset Management program:

- Actual capital spending versus rate case planned capital spending.
- A target execution range that provides expected, upper and lower execution targets.
- Completed capital investments or major milestones versus planned capital investments.

These measures are based on the foundational principle that executing to the SAMP is critical to ensuring the long-term health and value of the FCRPS. These measures focus on the estimated dollar spending identified in the SAMPs compared to actual dollar execution; and the estimated asset investments in the SAMPs compared to the actual assets installed; as well as defining a range of acceptable budget execution. Viewed in combination, these measures help to highlight whether BPA's capital investments are being managed in a cost-effective and timely manner in alignment with the SAMPs.

As asset management maturity increases, these performance metrics and related targets may be modified or changed. Moreover, performance metrics and related targets will be reassessed periodically to reflect directional goals of the agency and business circumstances.

Build financial resilience

Liquidity: Maintain a minimum of 60 days cash on hand for each business line, and maintain a 97.5% annual Treasury Payment Probability.

BPA is a self-funded federal entity holding a single bank account with the U.S. Treasury. All of BPA's revenues are deposited into this account, and all of BPA's expenditures are made from this account. BPA is limited to financial reserves and a short-term line of credit with the U.S. Treasury to manage its operational liquidity. BPA does not have the statutory authority to access other traditional forms of operational liquidity, such as commercial paper. Maintaining a prudent level of financial reserves and overall liquidity is an important element to sustaining BPA's financial strength.

BPA's primary source of liquidity is its financial reserves. Financial reserves are used to meet financial obligations in the face of potential cash flow uncertainty. BPA faces both short-term uncertainty, such as when bills are paid before revenues are received, and long-term uncertainty, such as financial losses that could result from poor market or hydropower conditions.

BPA measures the sufficiency of its financial reserves by the industry-standard metric of days cash on hand, which is a measure of how long BPA can continue to pay its operating expenses given the amount of cash it has available. BPA's Financial Reserves Policy provides guidance to ensure both business lines have a minimum of 60 days cash on hand for basic liquidity needs and to support its credit ratings. The policy also includes a maximum of 120 days cash on hand so that financial reserves do not grow too high and become inefficient from an investment standpoint.

In addition to financial reserves, BPA retains an operating line of credit with the U.S. Treasury for Northwest Power Act-related operating expenses, and sets its power and transmission rates to achieve a very high likelihood of repaying all financial obligations in each rate period (Treasury Payment Probability standard). Both of these tools add further support to BPA's overall liquidity.

Debt utilization: Revenue finance a portion of BPA's annual capital investments and achieve a debt-to-asset ratio no greater than 60% by 2040.

The term debt utilization describes how BPA uses debt to fund capital investments and how BPA repays that debt. BPA has historically used debt to finance nearly 100% of all capital investments and repaid that debt according to statutory requirements, which is generally 50 years or less.

This has led to a high debt-to-asset ratio — the ratio of total outstanding debt to revenue-generating assets that ultimately repay all debt — relative to the utility industry average. The debt-to-asset ratio is also known as leverage. While BPA has made progress in this area, managing to a healthy leverage ratio over the long-term is critical to sustaining BPA's financial strength. The debt-to-asset ratio has broad impacts, including these primary areas:

- Interest expense: A higher debt-to-asset ratio results in higher interest expense that BPA must recover in Power and Transmission rates, which either takes from other programs or increases rates now and in the future.
- Financial flexibility: A higher debt-to-asset ratio limits financial flexibility because it results in higher fixed costs. Financial flexibility becomes critically important during times of financial stress and increased uncertainty.
- Credit ratings: A higher debt-to-asset ratio increases the likelihood of BPA missing future debt payments because of a higher proportion of fixed costs in BPA's rate structure, which negatively impacts credit ratings and can result in higher nonfederal interest rates.
- Capital spending levels: Managing to a debt-to-asset ratio goal will help govern the overall use of debt to fund capital investments, creating an appropriate tension between capital spending levels and rate impacts.

Responsibly managing BPA's outstanding debt and controlling its growth in relation to the value of the underlying federal revenue-generating assets is vital to ensuring the sustained financial strength and viability of the Federal Columbia River Power System. It will ensure Bonneville can continue to meet its various statutory obligations, including encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers, consistent with sound business principles, and ensure a more stable cost of service over time.

BPA's goal is to attain a debt-to-asset ratio for each business line no greater than 60% by 2040, by adopting a policy approach that includes revenue financing a portion of capital investments.

Targeting a 60% debt-to-asset ratio ensures that outstanding debt is managed to prudent levels, reduces or stabilizes fixed costs in the revenue requirement, and improves the ability to maintain a more consistent cost of service over time.

Debt capacity: Maintain sufficient debt capacity to fund BPA's capital program on a rolling 20-year basis, and preserve $1.5 billion of available financing from the U.S. Treasury.

Bonneville is in a capital intensive industry and has significant current and future capital investment needs. As such, ensuring adequate access to capital funding is crucial to the success of our asset management program. Bonneville's primary source of debt financing is its U.S. Treasury borrowing authority, which works like a revolving line of credit. BPA's borrowing authority limit is $17.7 billion[17]. This level of borrowing authority provides BPA with funding certainty to meet its near-term and future capital program levels, ensuring access to a secure, flexible and low-cost funding source.

BPA does not expect borrowing authority constraints so long as debt is prudently managed, but monitoring long-term borrowing authority access and preserving $1.5 billion of borrowing authority at all times to meet operational and capital liquidity needs are important debt capacity targets. BPA is committed to ensuring transparency in its long-term borrowing authority outlook and engaging the public should an issue arise.

BPA's borrowing authority framework[18] articulates how BPA will monitor, report and act on remaining borrowing authority forecasts. The framework consists of annually monitoring and reporting remaining borrowing authority forecasts for a rolling 20-year period and a commitment to public engagement should a forecast constraint arise. This long-range monitoring framework provides sufficient early notice of any potential access to capital constraint.

Independent financial assessment

Maintain high investment-grade credit ratings from all three ratings agencies.

A credit rating is an independent assessment of financial health that directly impacts the cost of BPA's future nonfederal debt obligations, including BPA-backed Energy Northwest debt and transmission lease-purchases.

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[17] On Nov. 15, 2021, the Infrastructure Investment and Jobs Act was signed into law and provided a permanent increase of $10 billion to Bonneville's Treasury borrowing authority, bringing the total amount of bonds that Bonneville is authorized to issue and sell to the U.S. Treasury, and to have outstanding at any one time, up to $17.7 billion. Of the additional $10 billion, $6 billion is available for immediate use while the remaining $4 billion will become available beginning in fiscal year 2028.

[18] See Appendix, item A

Since most utilities, including BPA, have debt obligations that extend beyond 20 years, credit ratings are a long-term measure of financial strength and ultimately reflect the likelihood that a borrower will be able to meet all of its financial obligations over time. BPA's credit ratings provide investors with information that aids them in their investment decisions, including the interest rate levels at which investors will purchase BPA-backed debt.

By pursuing the financial objectives outlined above, BPA seeks to maintain high investment-grade credit ratings on its nonfederal debt from all three ratings agencies.

Conclusion

BPA's Financial Plan outlines steps BPA intends to take to sustain its financial strength so that BPA continues to be a sound business partner and can deliver on its mission and statutory obligations under various future conditions.

As the business environment changes or other circumstances warrant a need to reassess elements of the Financial Plan, BPA will collaborate with its customers and stakeholders and determine the best course of action.

Appendix

Appendix A:

Borrowing Authority Framework

BPA will annually forecast available borrowing authority for a rolling 10- and 20-year period. BPA will publicly share the forecast results at an existing public meeting venue, such as Quarterly Business Review Technical (QBRT) workshop, or its successor.

This forecast will identify any borrowing authority "shortfall." A "shortfall" exists when the forecast shows less than $1.5 billion of remaining borrowing authority at some point in the 20-year period, *i.e.,* crossing into the $1.5 billion remaining borrowing authority threshold. If the forecast shows a borrowing authority shortfall at any point in the 20-year period, it will trigger actions described below. Actions will be informed by when the shortfall is forecast to occur, and the severity of the forecasted shortfall.

The framework outlines actions that BPA will take for three separate borrowing authority forecast circumstances, detailed below.

1. ***No shortfall***. If the forecast shows no borrowing authority shortfall over the rolling 20-year period, BPA will take no additional action. Regular annual borrowing authority status reporting will continue.

2. ***A shortfall in year 11 – year 20***. If the forecast shows a borrowing authority shortfall outside of the rolling 10-year period, BPA will host one or more public workshops to discuss the borrowing authority issue and explore and consider development of a borrowing authority allocation methodology. All workshops will include a comment period for BPA to collect and consider stakeholder feedback. BPA will develop an action plan to address the constraint. BPA will determine whether to engage additional access to capital tools, and when to employ such tools. Actions outlined will be informed by the timing and severity of the forecasted shortfall.

3. ***A shortfall in year 1 – year 10***. If the forecast shows a borrowing authority shortfall inside the rolling 10-year period, BPA will host one or more access to capital workshops to discuss the borrowing authority issue and share the action plan to be implemented. All workshops will include a comment period for BPA to collect and consider stakeholder feedback.