



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

# Financial Plan 2022



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# Introduction

Everything the Bonneville Power Administration (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. This includes maintaining the region’s 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 nuclear plant, and more than 15,000 miles of BPA-owned and operated high-voltage transmission lines.

BPA must also be financially resilient to 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.

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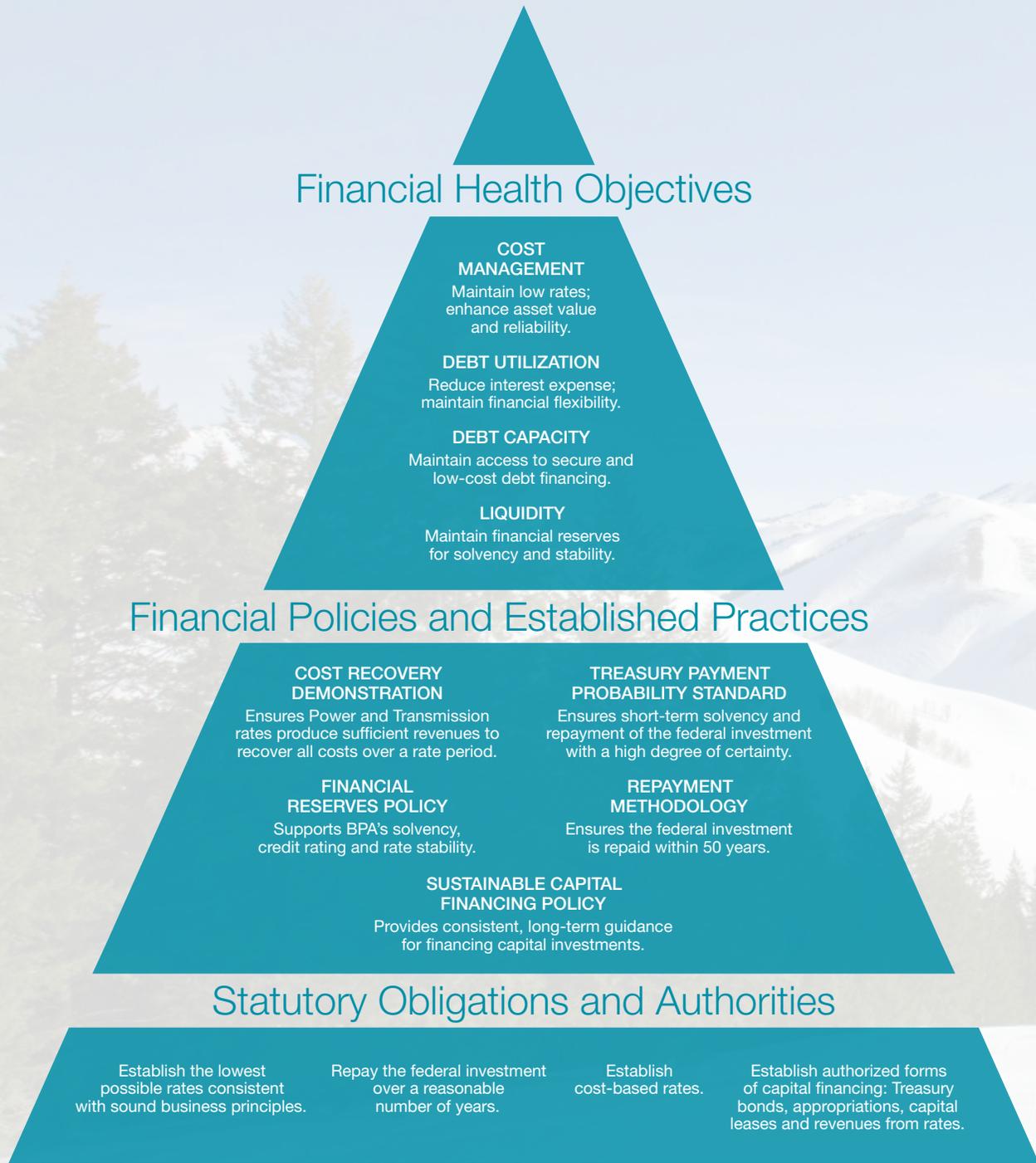
## Overview

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.

# 2022 FINANCIAL PLAN HIERARCHY



*The 2022 Financial Plan is organized in order of flexibility, beginning with the foundational and least flexible elements — BPA's statutory obligations and authorities — followed by active financial policies and practices, and ending with financial health objectives.*

# 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 (Northwest Power Act or 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,<sup>1</sup> which include assuring the Pacific Northwest has an "adequate, efficient, economical and reliable power supply."<sup>2</sup>

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."<sup>3</sup> 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.<sup>4</sup> In this way, BPA customers and their consumers — rather than taxpayers — bear the cost and risk of the system.

BPA's costs are allocated to its revenue-generating business units — Power Services or Transmission Services — and are recovered, in the aggregate, through the business units' 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.<sup>5</sup>

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.<sup>6</sup>

<sup>1</sup> Northwest Power Act 16 U.S.C. § 839b(h)(10)(A).

<sup>2</sup> Northwest Power Act 16 U.S.C. § 839(2).

<sup>3</sup> 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).

<sup>4</sup> Northwest Power Act 16 U.S.C. § 839e(a)(2)(A); Flood Control Act of 1944, 16 U.S.C. § 825s.

<sup>5</sup> Bonneville Power Administration, 20 FERC ¶ 61,142, at P 61,315 (August 1982).

<sup>6</sup> Northwest Power Act, 16 U.S.C. § 839e(a)(2)(C).

The Federal Columbia River Transmission System Act placed BPA on a self-financing basis,<sup>7</sup> meaning BPA funds its operations with revenues from power and transmission customers and does not depend on further appropriations from Congress.<sup>8</sup> 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.<sup>9</sup>

BPA has the authority to issue bonds and other debt securities to the U.S. Treasury — limited to \$17.7 billion<sup>10</sup> on a revolving basis — to finance capital investments and expenses associated with implementing the Northwest Power Act.<sup>11</sup> BPA can also raise revenues through rates to finance capital investments and enter into lease purchases with third parties to fund investments in transmission facilities.<sup>12</sup>

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## Financial Policies and Established Practices

BPA's 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 financial 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, and application of BPA's repayment methodology, BPA forecasts cost levels for the ensuing rate period. BPA's Treasury Payment Probability standard, Financial Reserves Policy and Sustainable Capital Financing Policy also affect BPA's 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 transparency to stakeholders, and an opportunity to review and comment. This stakeholder engagement helps inform 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, but is not limited to, surplus power sales, power purchase costs, transmission service purchases, 4(h)(10)(C) credits<sup>13</sup> and rate discounts.

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<sup>7</sup> Transmission System Act §11(b), 16 U.S.C. § 838i(a).

<sup>8</sup> Transmission System Act §11(a), 16 U.S.C. § 838i(b).

<sup>9</sup> Transmission System Act §11(a), 16 U.S.C. § 838i(a) (establishing Bonneville Fund).

<sup>10</sup> Per the Infrastructure Investment and Jobs Act, Pub.L. 117-58, \$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.

<sup>11</sup> Transmission System Act §13(a), 16 U.S.C. § 838k(a).

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

<sup>13</sup> 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 ensures 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.

## 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.

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 TPP standard<sup>14</sup> 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 a 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%.<sup>15</sup> Because U.S. Treasury payments are by law BPA's lowest priority payment obligation,<sup>16</sup> 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 FRP<sup>17</sup> 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.

The FRP's focus is on "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.<sup>18</sup> Thus, for BPA, reserves for risk are used in lieu of cash for computing days cash on hand.

The FRP 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.

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 triggers. This ensures the agency and a business line have

<sup>14</sup> See BP-18-FS-BPA-05 Power and Transmission Risk Study, Section 2.3 BPA's Treasury Payment Probability Standard (explaining the background and context for the TPP standard).

<sup>15</sup> The three-year rate is equal to the one-year rate to the third power ( $0.975 \times 0.975 \times 0.975 = 0.926$ ).

<sup>16</sup> Northwest Power Act 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).

<sup>17</sup> See BP-18-A-04 Administrator's Final Record of Decision, Appendix A: Financial Reserves Policy, (adopting the Financial Reserves Policy).

<sup>18</sup> This is distinct from "reserves not for risk" which refers to reserves held for specific purposes, such as customer deposits.

sufficient financial reserves before they are considered to be used for other high-value purposes, such as repaying debt, rate reduction or making additional capital investments.

## Sustainable Capital Financing Policy

The Sustainable Capital Financing Policy<sup>19</sup> is intended to provide consistent, long-term guidance for BPA's use of debt and revenues to finance its capital investments. Each business unit is expected

to use revenues raised through rates (i.e., revenue financing) to fund 10% of its capital program with the remaining 90% funded with debt. Additionally, if a business unit is not on track to reach a debt-to-asset ratio of 60% by 2040, the amount of revenue financing will increase to 20% of the capital program, limited to approximately a 1% net incremental rate impact per rate period, i.e., \$15 million per year for Transmission and \$25 million per year for Power. The default amounts of revenue financing can be raised or lowered in each rate case to respond to changing circumstances.

## 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 these objectives and factor them into business decisions to continue meeting 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 deliver long-term value to BPA customers and the communities they serve.

### THREE KEY FINANCIAL OBJECTIVES

FINANCIAL OBJECTIVE	PURPOSE	METRIC
<b>Cost-Management Discipline:</b> <ul style="list-style-type: none"> <li>• Program Costs</li> <li>• Capital Investments</li> </ul>	Lowest possible rates consistent with sound business principles  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
<b>Financial resiliency:</b> <ul style="list-style-type: none"> <li>• Liquidity</li> <li>• Debt Utilization</li> <li>• Debt Capacity</li> </ul>	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 U.S. Treasury payment probability  Debt-to-asset ratio  Remaining U.S. Treasury borrowing authority
<b>Independent Financial Assessment</b>	Maintain high investment-grade credit ratings	Credit rating

<sup>19</sup> Administrator's Record of Decision, Sustainable Capital Financing Policy, August 2022, available at [www.bpa.gov/about/financialplanrefresh](http://www.bpa.gov/about/financialplanrefresh).

## 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 Integrated Program Review 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
- U.S. Army 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
- 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 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 for each asset category. These plans inform capital investment 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. 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 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 progress in this area and ensure the success of its Asset Management Program, BPA will use the following measures and guidelines:

- 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 an upper threshold of 120 days cash on hand, above which the administrator shall consider repurposing reserves for other high-value business line-specific purposes.

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 (TPP 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 FCRPS. It will ensure BPA can continue to meet its various statutory obligations 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, as noted above, 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.***

BPA 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. As discussed, BPA'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.<sup>20</sup> 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.

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<sup>20</sup> On Nov. 15, 2021, the Infrastructure Investment and Jobs Act was signed into law and provided a permanent increase of \$10 billion to BPA's Treasury borrowing authority, bringing the total amount of bonds that BPA 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.

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.

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BPA'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.

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BPA is committed to ensuring transparency in its long-term borrowing authority outlook. The agency's borrowing authority framework (see Attachment 1) 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.

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## Conclusion

This Financial Plan outlines steps BPA intends to take to sustain its financial strength so that it continues to be a dependable 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.

## 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.

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.

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## Attachment 1: Borrowing Authority Framework

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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 the 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 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.

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## Attachment 2: Sustainable Capital Financing Policy

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### 1. Background and Purpose

The Sustainable Capital Financing Policy (Policy) guides BPA's use of debt and revenue financing to finance its capital investments. Responsibly managing our outstanding debt, as well as controlling its growth in relation to the value of the underlying Federal assets, is vital to ensuring the sustained financial strength and viability of the Federal Columbia River Power System (FCRPS) for BPA's customers and their communities, and will help to ensure a more consistent cost of service over time.

BPA has a large capital program, generally spending between \$500 million to \$1 billion per year to reinvest in aging infrastructure and expand the existing system and capabilities. Over the years, the vast majority of the program has been funded with debt, which is not a common utility practice. It is common for some funding of the current capital program to come from current rates. Power has relied almost entirely on debt, primarily U.S. Treasury bonds with smaller amounts coming from the one-time Power Prepay Program and Congressional appropriations to the U.S. Army Corps of Engineers and Bureau of Reclamation. Transmission also relied on U.S. Treasury bonds, although a significant amount of investment was also funded through the lease-purchase program. Transmission also has investments built to meet the needs of specific customers who also finance the construction. These investments are generally described as Projects Funded in Advance (PFIA) and are liabilities BPA must repay with interest.

BPA's use of debt has a significant impact on its long-term financial strength and flexibility. High debt levels increase BPA's future fixed costs (interest expense), which will either increase rates or require BPA to reduce costs in other areas of the business to maintain the same level of total costs despite higher fixed costs. Further, debt levels have a direct impact on debt-to-asset ratios.

A high ratio hampers BPA's ability to respond in times of financial stress and volatility by limiting its financial flexibility. Limited flexibility in times of financial stress or volatility can result in an unstable cost of BPA service. Furthermore, an entity's debt ratio, along with liquidity position and debt-service coverage ratio, is a key financial indicator. A high ratio, while one of many factors considered, could negatively impact BPA's credit ratings, which can result in higher interest rates.

This Policy establishes a predictable and consistent approach for determining amounts of revenue financing each rate period that are anchored to achieving our long-term debt-to-asset ratio target. Revenue financing will reduce BPA's use of debt, which will reduce future fixed costs, allowing for financial flexibility and a more stable cost of service over time. However, the revenue financing amounts are limited and debt will still play a major role in financing BPA's capital investments.

### 2. Definitions

**Revenue financing:** Raising funds through rates to recover the cost of directly paying for capital investments. In lieu of directly paying capital investments, funds could also be used to repay existing debt above the scheduled amounts if conditions warrant, such as to achieve greater interest savings by paying off existing debt rather than avoiding new debt.

**BPA-funded capital investments:** The portion of the BPA's total capital program that it would fund with debt (bonds, appropriations, lease purchase or power prepay), financial reserves, or revenue financing. It excludes commercial, customer-funded projects, which are generally categorized as PFIA, including those funded through Large Generator Interconnection Agreements (LGIA), Small Generator Interconnection Agreements (SGIA), and Line Load Interconnection Protocols (LLIP).

### 3. Scope

The Policy affects BPA's use of debt to finance the capital investment program for each individual business unit. It is intended to provide a consistent, long-term framework within which BPA can manage its capital funding practices.

### 4. Goals

The Policy goals are to establish a capital financing method that:

1. Moves BPA away from 100% debt financing by revenue financing a portion of capital, and
2. Achieves agency and business unit debt-to-asset ratios of no greater than 60% by 2040.

### 5. Policy

The default amount of revenue financing will be calculated for each business unit prior to each rate case as follows:

1. The default amount of revenue financing for each business unit will be 10% of the Integrated Program Review<sup>1</sup> loaded capital spending forecast of BPA-funded capital investments that are functionalized to each business unit.
2. However, if 10% revenue financing in step 1 results in a business unit debt-to-asset ratio that is greater than 60% by 2040 on a forecast basis, the default amount of revenue financing for that business unit will be increased to the lower of:
  - (a) 20% of the IPR capital spending forecast of BPA-funded capital investment, or
  - (b) Incremental revenue financing (compared to the amount of revenue financing included in the prior rate case) of \$15 million per year for Transmission Services or \$25 million per year for Power Services.<sup>2</sup>

BPA may propose or adopt an amount of revenue financing for a given rate period that is greater than or less than the default amount, in response to circumstances including, but not limited to: changes in BPA's capital program, prior or forecast triggering of risk adjustment mechanisms, rate pressure, settlement, likelihood of achieving the debt-to-asset ratio policy goal, or whether an amount of revenue financing greater or less than the default amount occurred in a prior rate period.

Such circumstances do not require BPA to deviate from the default amount of revenue financing. This Policy and accompanying Record of Decision will be relevant evidence in making such decisions.

### 6. Implementation

The Policy will be implemented each rate period. The Administrator retains the discretion to use revenue financing to support business-line liquidity needs. BPA will propose to retain, within its calculations for risk adjustment mechanisms such as the Power and Transmission Financial Reserves Policy (FRP) surcharges and cost recovery adjustment clause rate adjustments, the requirement to repurpose revenue financing to support business unit liquidity needs in lieu of, or to reduce the magnitude of, these rate-increasing risk adjustment mechanism amounts. Additionally, when a business unit's start-of-year reserves for risk are between 60 and 120 days cash on hand, BPA intends that revenue financing will be reduced to the extent that a business unit's end-of-year reserves for risk are expected to be lower than the start-of-year. The reduction is limited to the amount needed to retain the start-of-year reserves for risk.

### 7. Periodic Review

The intent of this Policy is to provide durable guidance on capital financing decisions for long-term debt management. BPA intends to periodically review this Policy to consider its progress toward

<sup>1</sup> Or its successor.

<sup>2</sup> The amounts in subsection (b) are based on incremental rate impacts of approximately 1% for each business unit, on a net-cost basis, which considers savings from avoided interest expense.

achieving the goals set forth in Section 4, to ensure the Policy is operating effectively, and ensure the Policy continues to align with BPA's strategic direction. BPA will request stakeholder input as part of this review. BPA expects to review the Policy approximately every five years.

BPA will also monitor and annually report its progress toward meeting the Policy goals.

## 8. Calculations

The following calculations are pertinent to the Policy:

1. BPA will calculate debt-to-asset ratios using the following formula:  $(\text{Federal debt} + \text{Nonfederal debt} + \text{Deferred borrowing}) / (\text{Net Utility Plant} + \text{Nonfederal generation})$
2. BPA will use audited financial statements to calculate actual debt-to-asset ratios for the last complete fiscal year to serve as the starting point for the forecast for each business unit.
3. BPA will use revenue requirements to calculate forecast ratios for each business unit. When calculating forecast ratios, BPA will use its forecast of capital spending as a proxy for new Plant in Service (an input into the Net Utility Plant component of the above debt-to-asset ratio formula) and for new debt. This is because actuals include Construction Work in Progress (CWIP)

in the Net Utility Plant calculation. If BPA used a forecast of when plant goes into service in the future, it could double-count investments that are currently in CWIP. In addition, actuals include deferred borrowing as debt. If BPA used a forecast of new borrowing, it could double-count existing deferred borrowing.

4. BPA will use end-of-year actual reserves for risk compared to the start-of-year reserves for risk balances to determine whether revenue financing is to be repurposed to support business unit reserves for risk.

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## Attachment 3: Financial Reserves Policy

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### 1. Background and Purpose

The Financial Reserves Policy (Policy) provides a consistent, transparent, and financially prudent method for determining BPA's target ranges for financial reserves available for risk (financial reserves). The Policy establishes upper and lower financial reserves thresholds for Power Services, Transmission Services, and the agency as a whole, which define the target ranges. The Policy also describes the actions BPA may take when financial reserves levels either fall below a lower threshold or exceed an upper threshold. The Policy supports BPA's requirement to establish the lowest possible rates consistent with sound business principles.

Prior to the Policy, BPA did not have a consistent way to establish financial reserves target ranges and upper and lower financial reserves thresholds for each business line and BPA. This is of particular importance because financial reserves levels and financial reserves policies and practices have a direct effect on BPA's credit rating, which is determined at the aggregate BPA level. BPA, however, sets rates to recover costs for each business line individually. The lack of a consistent policy across the business lines and for BPA as a whole allows for ad hoc financial reserves decisions and different treatment for each business line.

Establishing prudent financial reserves lower thresholds over time for the business lines helps to maintain BPA's credit rating, solvency, and rate stability, which is consistent with sound business principles. Establishing prudent financial reserves upper thresholds for the business lines and BPA as a whole ensures that financial reserves do not grow to unnecessarily high levels but rather are invested back into the business or distributed as rate reductions, both of which lower revenue requirement costs.

### 2. Scope of the Financial Reserves Policy

The Policy affects financial reserves available for risk (financial reserves) attributed to Power Services (Power) and Transmission Services (Transmission).

The Policy establishes lower and upper financial reserves thresholds for Power Services and Transmission Services, and upper financial reserves thresholds for the agency at the ends of fiscal years. The Policy also provides guidance on the actions BPA should take when financial reserves fall below established lower threshold levels or rise above established upper threshold levels at the ends of fiscal years.

The Policy does not preclude or hinder in any way the Administrator's authority to use financial reserves for purposes deemed necessary by the Administrator.

The Policy is intended to provide a consistent framework within which BPA can manage its financial reserves. To that end, the Policy will constitute precedent that BPA will adhere to in future rate cases absent a determination by the Administrator that the Policy must be modified to meet BPA's changing operating environment.

### 3. Financial Reserves Thresholds

#### 3.1 Definitions

Financial reserves available for risk. Financial reserves available for risk (financial reserves) consist of cash, market-based special investments, and deferred borrowing, all of which are highly liquid and unobligated for BPA to use to mitigate financial risk, less any outstanding balance on the Treasury Facility.

Days Cash on Hand Metric. Days cash on hand is the number of days a business can continue to operate using its own cash on hand with no new revenue. Days cash on hand is a common industry

liquidity metric measuring the relationship between the amount of cash a business holds and the amount of average daily expenses incurred in operating the business.

### 3.2 Business Line Financial Target Ranges

Financial reserves target ranges for each business line shall be calculated independently each rate period, and consist of upper and lower financial reserves thresholds, which define the upper and lower ends of the target ranges.

### 3.3 Lower Financial Reserves Thresholds

Lower financial reserves thresholds shall be calculated independently for Power and Transmission each rate period based on the greater of: (1) 60 days cash on hand, and (2) what is necessary to meet the Treasury Payment Probability (TPP) Standard. For each business line, if financial reserves fall below the lower threshold, a rate action shall trigger the following fiscal year to recover, in part or in whole, the shortfall.

### 3.4 Upper Financial Reserves Thresholds

Upper financial reserves thresholds shall be calculated independently for Power and Transmission each rate period and will be the financial reserves' equivalent of 60 days cash on hand above the lower financial reserves thresholds. The agency upper threshold is the sum of Power and Transmission's lower thresholds plus 30 days cash on hand for the agency.

#### 3.4.1 Financial Reserves Distributions

If business line financial reserves and agency financial reserves are above their respective upper thresholds, the Administrator shall consider the above-threshold financial reserves for investment in other high-value business line-specific purposes including, but not limited to, debt retirement, incremental capital investment, or rate reduction.

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### 3.5 Calculation of Lower and Upper Financial Reserves Thresholds

3.5.1 - Power Services		
Power lower financial reserves threshold	=	The greater of: (1) 60 days * (Power operating expenses / 365 days), and (2) the threshold needed to achieve a 95% TPP.
Power upper financial reserves threshold	=	Power lower financial reserves threshold plus 60 days* (Power operating expenses / 365 days)
<i>Where:</i>		
Power operating expenses	=	Power total expenses – (Power depreciation and amortization + Power net interest expense + Power non-federal debt service + Power purchases)

<b>3.5.2 - Transmission Services</b>		
Transmission lower financial reserves threshold	=	The greater of: (1) 60 days * (Transmission operating expenses / 365 days), and (2) the threshold needed to achieve a 95% TPP.
Transmission upper financial reserves threshold	=	Transmission lower financial reserves threshold plus 60 days* (Transmission operating expenses / 365 days)
<i>Where:</i>		
Transmission operating expenses	=	Transmission total expenses – (Transmission depreciation & amortization + Transmission net interest expense)

<b>3.5.3 - Agency</b>		
Agency upper financial reserves threshold	=	The sum of the Power lower financial reserves threshold and the Transmission lower financial reserves threshold plus 30 days cash on hand for the agency
<i>Where:</i>		
30 days cash on hand for the agency	=	30 days* (agency operating expenses / 365 days)
Agency operating expenses	=	Power operating expenses + Transmission operating expenses

**4. Implementation**

**4.1 Overview**

The Policy will be implemented each rate period through the Power and Transmission rate schedules and GRSPs. The lower and upper financial reserves thresholds for each business line will be recalculated each time BPA establishes new Power and Transmission rates. Lower and upper financial reserves thresholds will remain constant throughout each rate period. Lower and upper financial reserves thresholds will be computed using forecast rate period average operating expenses from the Power and Transmission revised revenue tests.

Implementation shall include parallel rate mechanisms for each business line each rate period that will trigger if financial reserves are below the lower financial reserves thresholds. Implementation shall also include parallel Financial Reserves Distributions for each business line each rate period that will trigger if financial reserves are above upper financial reserves thresholds.

**4.2 Provisions for Increasing Financial Reserves**

The methodologies for increasing financial reserves are described below. The specific rate mechanisms to achieve 4.2.1 through 4.2.3 will be determined in the applicable rate proceeding.

4.2.1 Except as provided in section 4.2.2, if financial reserves attributable to a business line are below its lower threshold, then the annual rate action will be the lower of the following two, unless a larger increase in reserves is necessary to achieve the TPP standard:

- (1) \$40 million per year in Power rates, if recovering Power financial reserves; \$15 million per year in Transmission rates, if recovering Transmission financial reserves; or
- (2) the amount needed to fully recover financial reserves up to the applicable business line lower threshold.

4.2.2 The \$40 million per year rate action described above in section 4.2.1(1) is being phased in for Power until Fiscal Year (FY) 2022. In FY 2022 and thereafter, the \$40 million per year rate action in section 4.2.1(1) will apply and this section 4.2.2 will be inapplicable. In FY 2020 and FY 2021, if financial reserves attributable to Power are below its lower threshold, then the annual rate action will be the lower of the following two, unless a larger increase in reserves is necessary to achieve the TPP standard:

- (3) \$30 million per year in Power rates; or
- (4) the amount needed to fully recover financial reserves up to the Power lower threshold.

4.2.3 In addition to the rate action described above in sections 4.2.1 and 4.2.2, Bonneville will initially propose in each rate case a rate mechanism to increase each business line financial reserves in the event they fall below \$0. Such rate mechanism will include the following parameters:

- (1) When financial reserves are below \$0 for Power Services, Bonneville will recover in each year of the rate period the first \$100 million dollar-for-dollar. Bonneville will recover only fifty cents on the dollar for any amounts greater than \$100 million. This provision will be limited to an annual cap of \$300 million; and
- (2) When financial reserves are below \$0 for Transmission Services, Bonneville will recover in each year of the rate period the first \$100 million dollar-for-dollar. This provision will be limited to an annual cap of \$100 million.

Implementation of the methodology described above, including the timing of when the calculations in (1) and (2) will be performed, will be determined each rate period through the Power and Transmission rate schedules and GRSPs. Such implementation may include de minimis thresholds.

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BONNEVILLE POWER ADMINISTRATION  
P.O. Box 3621 Portland, Oregon 97208-3621

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