



Financial Plan Refresh

Public Workshop
March 23, 2022



Objective & Agenda

- Today's Objective: Share our proposed framework for monitoring borrowing authority constraints and actions BPA will take should a constraint be forecast.
- Agenda
 - Comments Review
 - Borrowing Authority Framework
 - Recap and framing
 - Borrowing authority forecast
 - Proposed Borrowing Authority framework
 - Recap of BPA proposals & open dialogue
 - Next Steps

Comments Review

Comment Review & Summary

- The Feb 23rd workshop covered the accounting and rate making treatment of revenue financed assets. The following parties submitted comments: Avista, MSR, PGE, PSE, RNW and NRDC.
- Responses are posted to [bpa.gov](https://www.bpa.gov), under the Financial Plan Refresh section.
- Some of these comments were similar to comments submitted for the January 26 workshop. New feedback included:
 - Concern that BPA's goals around leverage and achieving a net neutral borrowing position may hinder investments needed for clean energy initiatives and goals.
 - Request for additional time or forum for additional discussion on comments.
 - Questioning how to define the 'reasonable period' for amortizing federal investments.
- BPA received comments on the Mar 9th workshop on capital performance metrics. We will work to post responses timely.

Borrowing Authority Framework

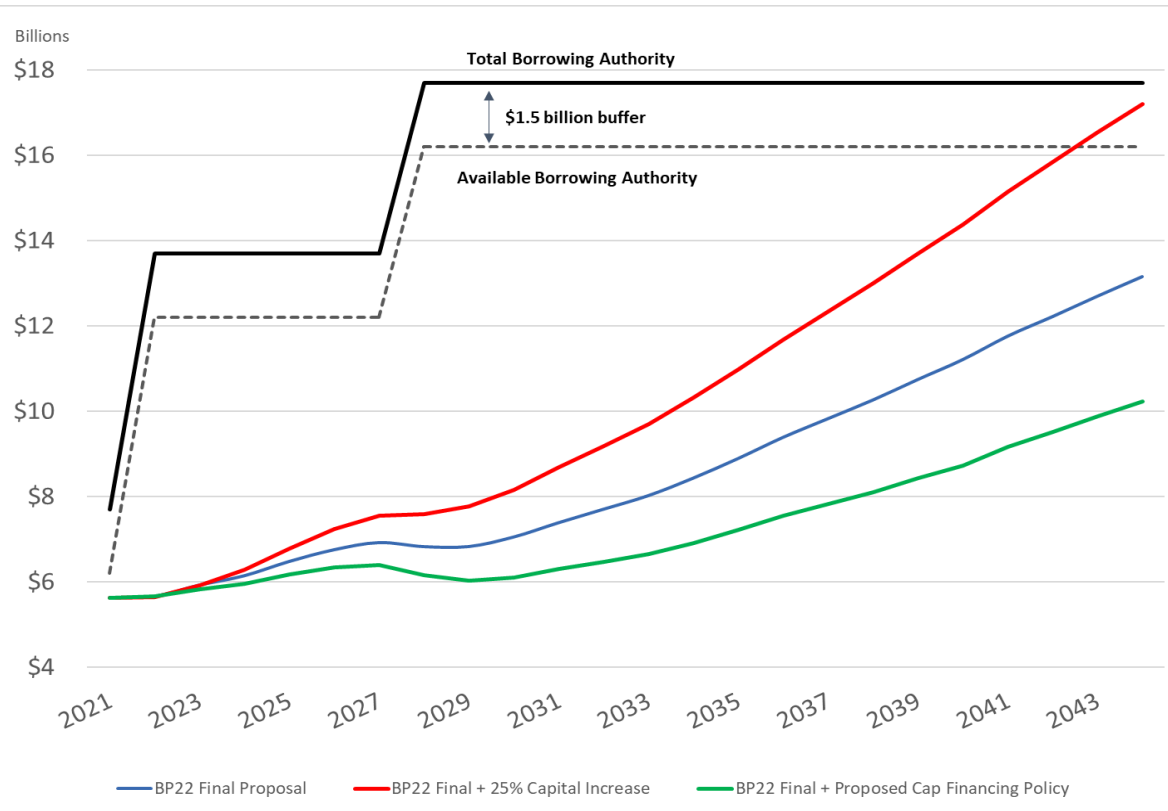
Borrowing Authority - Recap

- The borrowing authority capacity issue we saw heading into BP-22 has been resolved by the passage of the Bipartisan Infrastructure Deal (BID).
- The BID, which granted BPA access to an additional \$10 billion of borrowing authority, resolves this constraint for the foreseeable future.
- Today we will share a proposed framework for the continued ongoing monitoring of borrowing authority availability and the steps BPA would take should the forecast reveal a borrowing authority issue. It will:
 - Outline the monitoring process.
 - More clearly define the plan: do what, by when.
 - Meet our commitments made in BP-22 settlement and those outlined in the BID.

Forecasting Borrowing Authority

- Inputs into the forecasting process:
 - Historical debt outstanding for each business unit, both federal and nonfederal.
 - Forecast inputs:
 - BPA capital forecasts: IPR provides 10 year forecast; out years are inflated from the forecast.
 - Nonfederal debt: includes CGS new money plans and approved programs such as Regional Cooperation Debt (RCD) Phase 2 refinancings; no new lease purchase.
 - Interest rates: official agency forecast.
 - Borrowing assumptions: default is Treasury borrowing, unless approved alternative in place; revenue financing included as decided in rate case, policy, or appropriate to the scenario; appropriations only used for Columbia River Fish Mitigation (CRFM) program.
- Timing and scenarios:
 - Annual assessment to factor in actual borrowing and repayment.
 - In rate case year, done after publication of final proposal.
 - Additional scenario analysis for major initiatives or “what if” scenario analysis.

Borrowing Authority Forecast



- Borrowing authority (BA) relates specifically to Federal bonds. The graph represents forecast federal bonds outstanding.
- Adequate BA access is not a problem for the foreseeable future.
- Even under an extreme stress test scenario – 25% increase in capex in all years and no added revenue financing – there is adequate BA through 2042.

Notes:

- BP22 assumes \$40m/year revenue financing per business unit through 2023, RCD2 through 2030, BP22 lapse factor for that rate period only, and no new lease financing
- Proposed capital financing policy is based on January 26th workshop

Borrowing Authority & Financial Plans

- Maintaining access to borrowing authority has been a feature of every financial plan (1993, 2007, and 2018).
- All plans identified the available tools to extend access and noted that we will use the tools to the extent available or needed, i.e. “All of the Above” strategy.
- None provided specific planning or policy details for how to resolve access to capital issues.
- None provided specific planning or policy details for how to deal with borrowing authority shortfalls – how responsibility is split between business units, triggers, etc.
- For the Financial Plan Refresh: the task is about further defining a framework for monitoring borrowing authority and steps BPA would take should a constraint arise.

Proposed Borrowing Authority Framework

- Primary objective: If our forecast shows a borrowing authority constraint, fill in some of the blanks in the Financial Plan, e.g. at what point do we act and how will we engage with customers.
- Given very low likelihood of experiencing a borrowing authority issue in the next 20 years, BPA is not inclined to outline an allocation methodology approach now.
- Instead, BPA proposes developing a framework that:
 - Focuses on events that trigger actions and the timing.
 - Considers a 20-year forecast period.
 - Commits to public process engagement under certain conditions.

Simple Framework Approach

- Annually forecast available borrowing authority (BA) for a 10- and 20-year period. Share publicly at an existing venue, e.g. Quarterly Business Review Technical (QBRT) workshop.
- If 20-year forecast shows:
 - No BA shortfall over the 20 year period, take no action.
 - A BA shortfall outside of the rolling 10-year period, start analysis and planning to determine actions.
 - A BA shortfall inside the rolling 10-year period, take more aggressive action.
- Explore and consider BA allocation methodology:
 - Explore and consider when/if a constraint to BA is forecast in the 20-year period.
 - Potential approach(s) to be shared via public workshop.
 - Deployment of methodology, if one were adopted, would be solely for planning and rates setting purposes.

Simple Framework Approach

Forecasted BA Level	BA Reporting & Communication	Actions
No forecasted BA shortfall over 20- year period	Annually at QBR/T (KPI reporting)	None
Forecasted BA shortfall outside the 10-year rolling period	Annually at QBR/T (KPI reporting); Separate workshop to consider BA potential allocation methods	Develop action plan: <ul style="list-style-type: none"> • Assess drivers and assumptions • Explore and consider potential BA allocation methods • Assess whether/what access to capital tools to employ
Forecasted BA shortfall inside the 10-year rolling period	Annually at QBR/T (KPI reporting); Separate workshop on access to capital	Implement the plan: <ul style="list-style-type: none"> • Reaffirm drivers and assumptions • Hold Access to Capital Workshops • Employ additional access to capital tools

Constraint *Outside* the 10-year Window

Develop the Plan

- Assess drivers and assumptions:
 - Determine what factors are driving the constraint.
 - Assess whether assumptions or inputs into forecast need adjustment.
- Explore and consider borrowing authority allocation methodology
 - Hold public workshop(s) to discuss potential approaches; consider feedback.
 - May use for further assessment of what access to capital tools to consider employing.
- Assess access to capital tools
 - Assess full slate of available access to capital tools and timing to employ.
 - May consider use of additional access to capital tools, even if constraint is outside of the 10-year window.

Constraint *Inside* the 10-year Window

Implement the Plan

- Reaffirm drivers and assumptions
 - Determine whether assumptions or inputs into forecast need adjustment.
 - Refine access to capital tools plan, if necessary.
- Hold public workshop:
 - Share details of the assessment and analysis.
 - Share details on potential Borrowing Authority allocation approach and additional access to capital tools to be employed.
- Employ additional access to capital tools, as informed by latest assessment and analysis
 - Carry out use of additional access to capital tools by business unit.
 - Continue regular access to capital reporting during period of BA constraint.

Borrowing Authority Framework Recap

- The proposed long-range monitoring plan, should provide sufficient early notice of any potential BA constraint.
- Given the very low likelihood of a BA constraint in the foreseeable future, BPA is not inclined to articulate an allocation approach at this time.
- BPA commits to holding a public process to explore and consider potential allocation approaches, if/when a BA constraint is forecasted within the 20-year forecast period.

Recap of Proposals & Open Dialogue

Recap of Financial Plan Refresh Topics

- Topics covered:
 - Debt management
 - Capital execution
 - Borrowing authority
- For each of these topics, BPA shared our thinking, which varied by topic and included:
 - New policy proposal
 - New goals, metrics and targets proposals
 - New framework proposal
- We also discussed accounting and rate making treatment of revenue financed assets.
- For each topic, BPA sought customer feedback, and provided written responses to the bulk of the comments submitted.

Debt Management

Proposal	Key Goals/Points	Implementation	Forecast Results	Considerations
<ul style="list-style-type: none"> • New Policy - Sustainable Capital Financing • Record of Decision • Sunset existing Leverage Policy 	<ul style="list-style-type: none"> • Move away from 100% debt financing • Achieve at least a net neutral borrowing position • Achieve a leverage ratio no higher than 60% by BP-40 	<ul style="list-style-type: none"> • Update the Financial Plan; policy guides rate actions • Revenue finance 10% of capital, 20% if goals are not met • Phase in: rate impact limited to no greater than ~1% incremental per rate period • Proposal based on forecast capital; built on top of base forecasted debt repayment levels 	<p>Power:</p> <ul style="list-style-type: none"> • Revenue finance 10% of total capital, equivalent to ~\$40m per year • Incremental rate period impact ~0% <p>Transmission:</p> <ul style="list-style-type: none"> • Revenue finance about 20% of total capital, with phase in, amount grows by ~\$15m per rate period from BP22 base of \$40m per year • Incremental rate impact limited to ~1% to BP28, decreases afterwards 	<ul style="list-style-type: none"> • Capital basis: actual vs. forecast capital • Rate impact concerns • Targets: 60% and net neutral • Initial discussion about treatment in rates e.g. whether to create an offset

Capital Execution

Proposal	Key Goals/Points	Implementation	Forecast Results	Considerations
<ul style="list-style-type: none"> Refinement of existing FP metrics Develop metrics and targets that better define success and provide transparency on capital performance 	<ul style="list-style-type: none"> Metric1: Capital spend vs forecast Target1: Seeking more mature target than current target Metric2: Assets Placed in Service (Actuals vs Planned) Target 2: Seeking input on this target 	<ul style="list-style-type: none"> Update the Financial Plan; no associated rate actions Report out regularly at QBR or QBR Technical, or possibly both May become KPI targets Does not preclude further work with customers on capital performance reporting 	<ul style="list-style-type: none"> Capital performance regular reporting provides transparency for customers Information may help guide further discussion 	<ul style="list-style-type: none"> Seeking input on targets for each metric Customer proposal: +/- a percentage of rate case, e.g. 110% to 90% of rate case

Borrowing Authority

Proposal	Key Goals & Points	Implementation	Forecast Results	Considerations
<ul style="list-style-type: none"> • Refinement of existing FP • No foreseeable borrowing authority constraint, thus BPA not inclined to develop an allocation method now • Proposed a framework that outlines timing of actions; commits to public engagement 	<ul style="list-style-type: none"> • Long-term monitoring horizon, 20 years with regular reporting • Any forecasted borrowing authority constraint drives actions • Public process to consider/explore an allocation methodology, if/when constraint forecast 	<ul style="list-style-type: none"> • Update the Financial Plan; no associated rate actions now • Report out regularly at QBR and/or QBR Technical, timing likely annual • May update the existing KPI target to align 	<ul style="list-style-type: none"> • No borrowing authority constraint for the foreseeable future • Should a constraint arise, BPA will alert customers per the framework • Hold public workshop to consider/explore allocation methodology if a constraint is forecast • Develop plan and implement plan, actions depend on whether constraint is in/outside 10-year period 	<ul style="list-style-type: none"> • Framework informed by low likelihood of a borrowing authority constraint • Two week comment period to take in customer feedback-open to Apr 6th

Next Steps

Recap: Public Engagement Process

Sep - Nov 2021

- Project kick-off with external stakeholders:
 - Today, 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:
 - Jan 12 & 26
 - Feb 09 & 23
 - Mar 09 & 23

May - Jun 2022

- Workshop to review recommended proposal (the basis for the ROD) and recommended Financial Plan updates
 - May 24
- Formal comment period for recommended proposal and updates
 - Opens: May 24
 - Closes: Jun 16

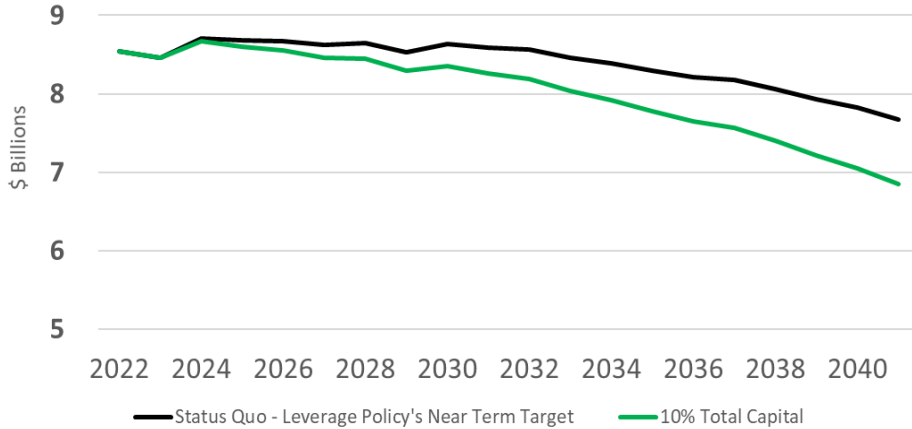
Next Steps

- Please submit written feedback on the borrowing authority framework presented today. Submit comments to communications@bpa.gov by April 6th with “Financial Plan Refresh” in the subject line.
- BPA has been collecting feedback from external stakeholders throughout the January-March informal public process and will consider these comments and suggestions while developing our draft proposals to be shared in May.
- Timeline:
 - May 24: Public workshop to review and discuss draft proposals.
 - May 24 to June 16: Formal comment period.
 - End of July: Issue Record of Decision for sustainable capital funding policy and inform on direction for other key Financial Plan updates, e.g. capital metrics and borrowing authority framework, that do not require a ROD.
 - End of September: Publish 2022 Financial Plan.

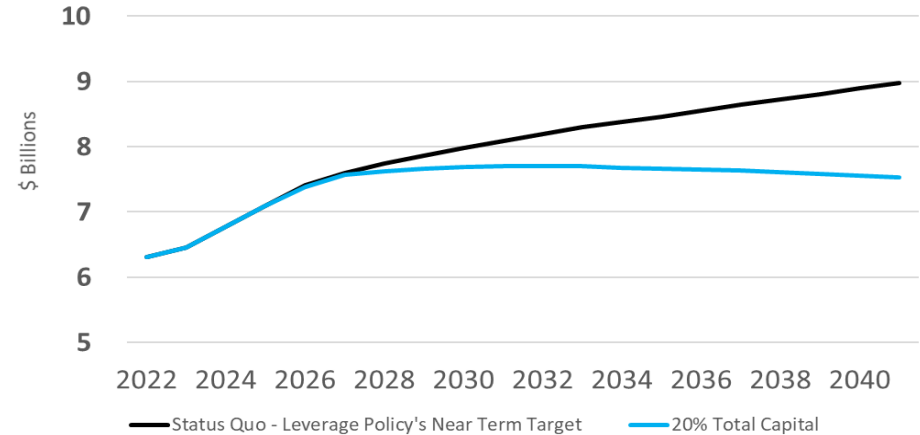
Appendix Materials

Total Debt Outstanding

Power Total Debt Outstanding



Transmission Total Debt Outstanding



Graphs represent total forecasted debt outstanding for each business unit under the status quo and under the proposed sustainable capital financing policy.

Access to Capital Toolbox

- Leases
- Customer financing, e.g., prepay
- Cash freed up by EN refinancings
- Increase rates, e.g. accelerate debt repayment, revenue finance
- Current financial reserves
- Congressional action: increase to borrowing authority or access to commercial bond market