

# Long Term Financial Planning

January 28, 2020



# Agenda

- Overview
- Strategic Issues
  - Financial Metrics
  - Debt Management & Access to Capital
  - Regulatory Assets
- Stakeholder Engagement

# Overview

- BPA faces a variety of strategic challenges many of which are interrelated such as
  - Competitiveness
  - Financial Plan targets
  - Access to capital
  - Capital planning and execution
- Finance intends to explore strategic issues over the coming year
  - May lead to development of new or modification of existing policies
  - May influence choices made in rate cases
- Stakeholder engagement - will attempt to piggy back on existing external processes such as QBR Technical workshops

# Financial Metrics

# Financial Metrics

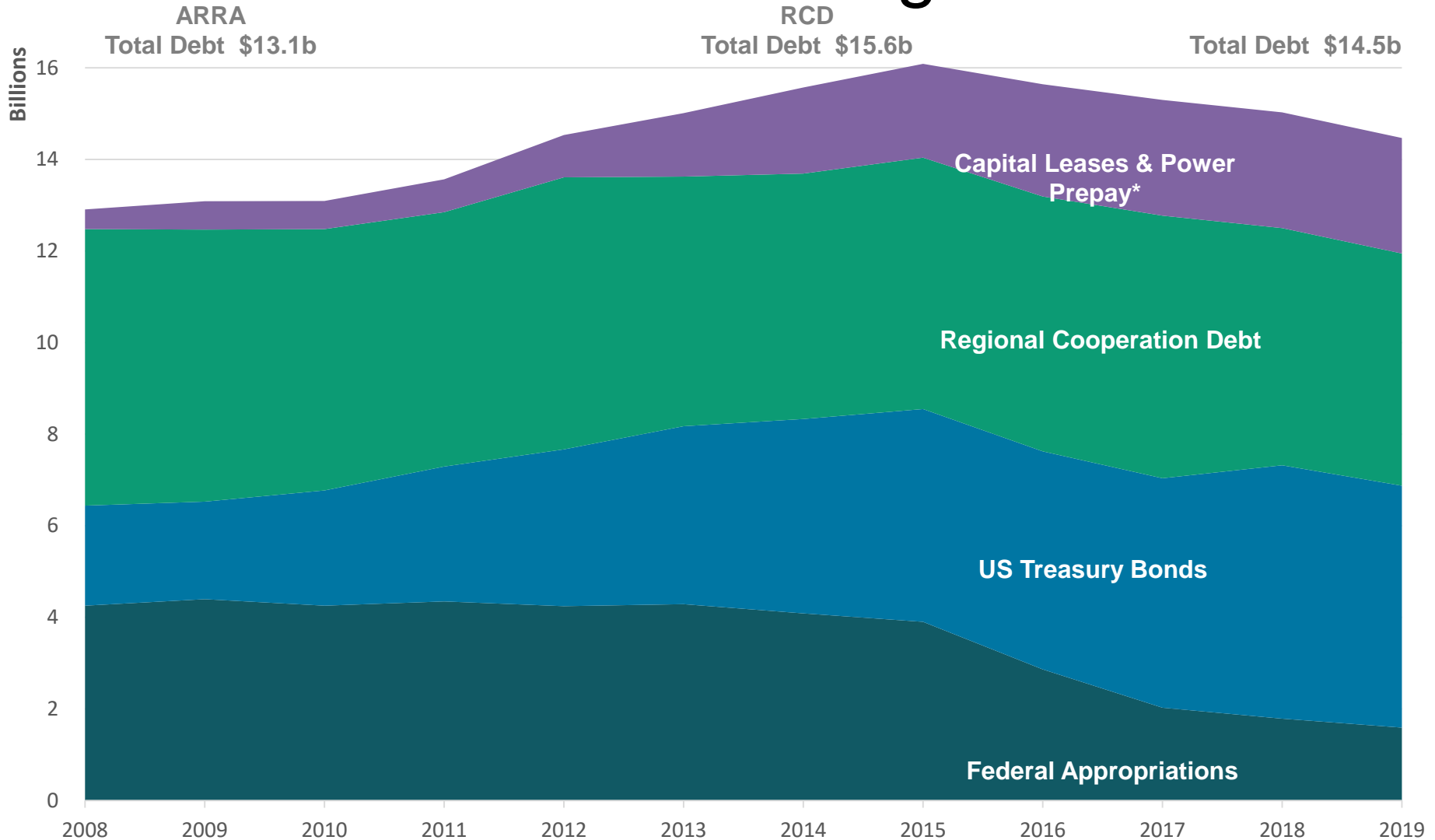
- The four pillars Financial Plan are the foundation of this discussion.
  - Cost management -- maintain low rates
  - Debt utilization – reduce interest expense, maintain flexibility
  - Debt capacity – access to secure, lost-cost debt
  - Liquidity – maintain financial reserves for solvency & stability
- The debt-to-asset (leverage) ratio is a key metric. The plan sets a near term target of at least holding flat through 2028 with a long-term goal of 60-70%.
- We are exploring additional metrics to assess BPA's financial health in the areas of:
  - Liquidity (e.g. operating cash flow ratio)
  - Leverage (e.g. debt service coverage ratio)
  - Efficiency (e.g. AR conversion rate)
  - Profitability & cost management (e.g. EBITDA)

# Debt Management & Access to Capital

# Overview

- BPA has a large and diverse debt portfolio with flexibilities and constraints that make it unique.
- Financial Plan direction:
  - Preserve \$1.5 billion of available financing from the U.S. Treasury
  - Evaluate alternative courses of action so that BPA can continue to meet its ongoing capital needs at the lowest possible cost
  - Consider an “all of the above” capital financing strategy
  - Develop a 10-year capital-financing plan that considers the cost and certainty of financing instruments while meeting stated financial objectives.

# BPA's Outstanding Debt



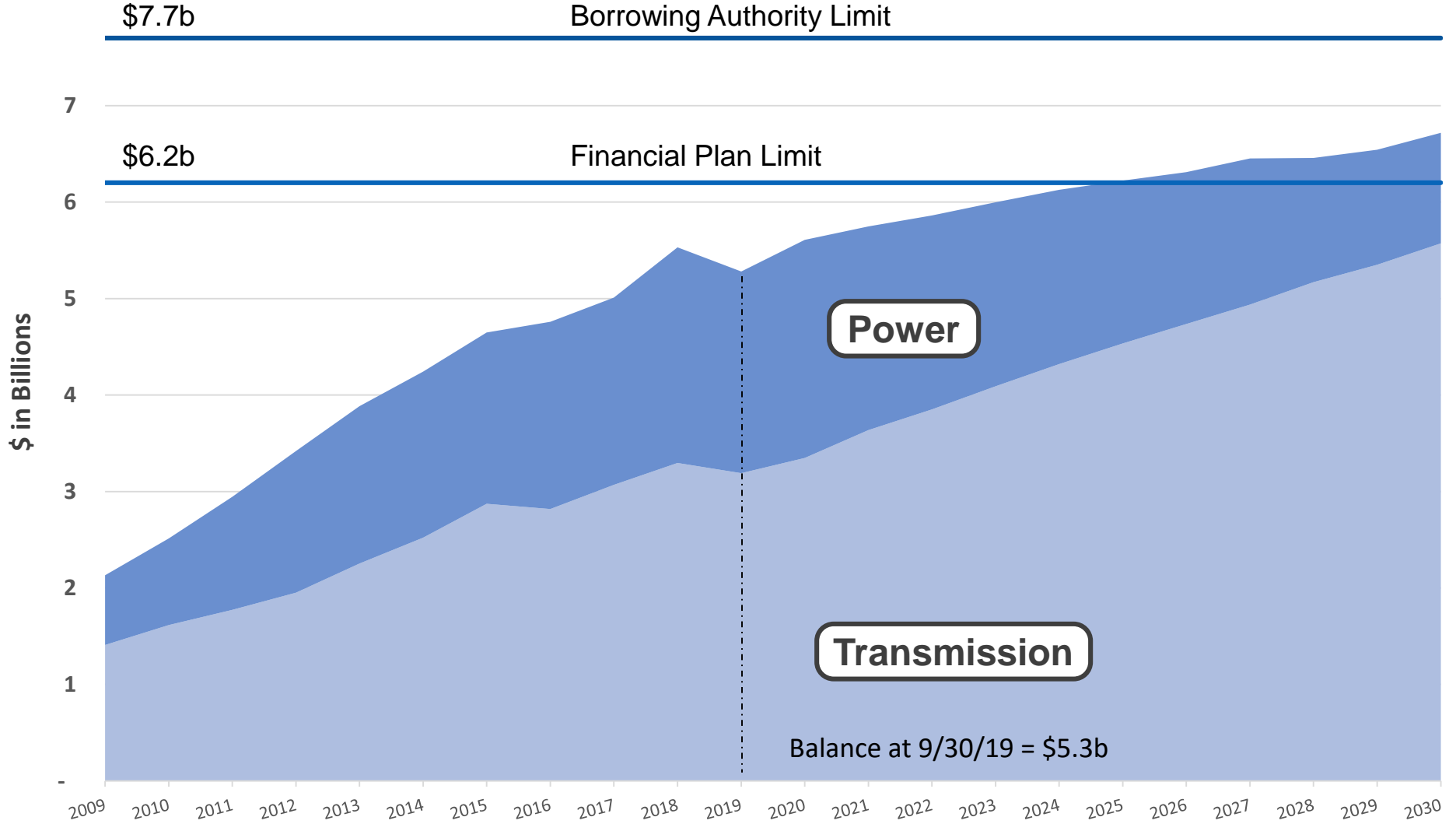
Source: BPA Audited Financial Statements FY 2008-FY2019

\* FY14 and prior includes conservation bonds (Tacoma, CARES, and Emerald)

Pre-decisional. For Discussion Purposes Only.



# Borrowing Authority Over Time



# “All of the Above” Strategy

## ***Financial Plan***

- Revenue financing to pay for capital investments
- Regional Cooperation Debt (RCD) refinancing
- Reserve financing
- Lease-Purchase program
- Actions requiring legislation
  - Additional borrowing authority
  - Authority to issue debt directly to capital markets

## ***Other Options (Not included in the Financial Plan)***

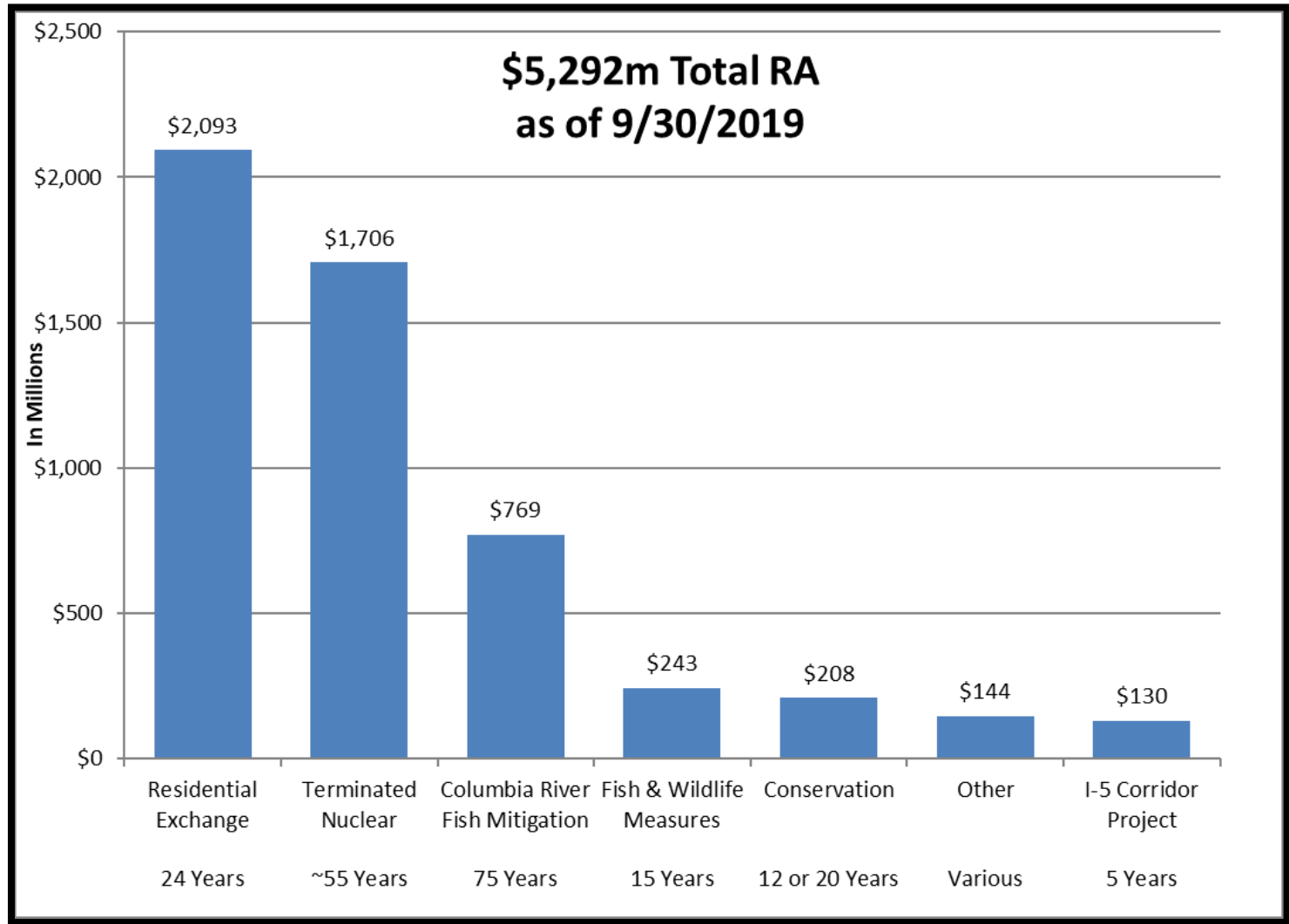
- Reduce planned capital spending levels
- Increased debt repayment levels (a form of revenue financing)
- Non-federal Transmission asset ownership with BPA entering into Capacity Leases (similar to Hooper Springs arrangement)

# Questions to Explore

- In order to sustain BPA's long-term viability and health, we need to grapple with inter-related questions.
  - What is the optimal debt level, given the changing markets, technology and customer needs, to stay financially viable in the long run?
  - What is the best approach to financing future capital needs?

# Regulatory Assets

# BPA Regulatory Assets



# Assessing Treatment & Opportunities

- Alliance of Western Energy Consumers (AWEC) proposed in the BP-20 rate case that BPA accelerate the amortization schedule of the Power's energy efficiency regulatory asset.
- The proposal prompted internal discussion of BPA's regulatory assets and treatment going forward.
  - Should BPA change any of its approaches for regulatory asset treatment?
  - If BPA were to accelerate amortization schedules, which regulatory assets, if any, would provide the best opportunity for a long term benefit?

# Conclusion

# Stakeholder Engagement

- As workshops are scheduled, customers will be notified via Tech Forum and other modes of communication, as appropriate.
  - Anticipate the first detailed workshop in mid to late February, likely on the topic of Regulatory Assets.
  - Other workshops will follow as BPA's internal analysis and discussion develops.
- Materials will be posted on BPA's external website under the Finance & Rates/Finance Public Processes site. The specific location and links will be provided via the Tech Forum.
- The goal is to have all workshops wrapped up by the close of IPR so that any decisions can be implemented in the Initial Proposal.



# Financial Disclosure

This information has been made publicly available by BPA on January 28, 2020 and does not contain Agency-approved Financial Information.