Financial Plan Refresh
Public Comment Summary from grounding workshop
October 19, 2021

Row #	Stakeholder	Comment	BPA Response
1	NIPPC	Please record the workshops and make the recordings available to stakeholders. The functionality is available within WebEx. Having access to recordings after the meetings offers stakeholders valuable flexibility in participating in this process.	BPA has discussed this but is not going to record the FPR workshops. We do not currently record most of our public meetings. We want the FPR workshops to include an open exchange between BPA and its stakeholders. We want all parties to comfortably share information or views that may reflect preliminary thinking. Recording the meetings could have a chilling effect on our discussions. BPA does not believe the potential benefit in terms of convenience outweighs the dampening effect it could have on our important and in-depth discussions.
2	NIPPC	BPA consistently describes Transmission Services as a "Net Borrower," but BPA has only shared data related to debt incurred from 2010 to 2020 (with a forecast for the time period from 2021 to 2040). Please provide additional years of historical data related to debt levels. It would be helpful if BPA would provide additional data on historical debt levels and extend the graphs in Slides 9-12, and 14-16 back to 1937 – or the earliest years for which data is available.	The following data are readily available: • Outstanding long-term liabilities by business unit is available on bpa.gov, files back to 1997. • For an explanation of federal appropriations, see BPA's FY20 and FY21 audited financial statements, Note 8.
3	NIPPC	BPA sets its capital spending program every two years in the Integrated Program Review process. Please explain how BPA has calculated the debt levels used in the forecast for the period 2021 to 2043. • Is the debt forecast limited to capital spending to maintain or replace the existing grid? • Does the forecast contemplate expansion of the grid to meet	The forecasted debt issuance aligns to the capital investment plans outlined in Strategic Asset Management Plans (10 year plan). For years 11 and beyond we apply an inflation assumption. The details of SAMP for the upcoming two years (what capital investments are planned, whether sustain vs. expand, and other details) are covered in the IPR process. While there may be limited discussion on

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		state public policy goals related to clean energy?	such issues as part of the capital workshops in the January – March timeframe, we do not intend to address them in detail in the FPR process.
4	NIPPC	On Slide 12 of the October 19 presentation, Power's "Debt" includes Federal Appropriations. Are these appropriations debt? Please explain the purpose of these appropriations, and if they are debt, please provide details regarding the repayment obligation.	Appropriations are subject to the same repayment period conditions as bonds, e.g. maximum of 50 years but may be shorter if the underlying asset category has a shorter life. Interest rates are assigned based on the provisions of the Bonneville Refinancing Act of 1995. Transmission no longer has appropriations.
5	NIPPC	On Slide 15 of the October 19 presentation, BPA indicates that without the Infrastructure Bill, no additional Borrowing Authority is anticipated. Other than revenue financing, what alternative sources of capital is BPA pursuing for funding Power and Transmission Assets?	BPA is continuing to assess projects eligible for lease purchase funding. The 1974 Transmission Act gives BPA the ability to lease-purchase transmission-related capital projects. Within this process, our focus is on setting up sustainable capital funding approaches first, then determining what funding gap is left to address.
6	NIPPC	On Slide 18, the statement is made that "Moody's uses a variation of the Debt to Asset ratio with a focus on industry medians." Please compare and contrast BPA's calculation with Moody's calculation.	Variations in how an entity calculates "debt to asset ratio" appear to be common. BPA's calculation can be found in rate case revenue requirement documentation (Power in Table 3I; Transmission in Table 3-8). Some key distinctions between BPA's and Moody's calculations are that (1) Moody's includes a calculation of working capital on the asset side, which BPA does not do, (2) Moody's includes net pension liabilities as debt which BPA does not do, and (3) BPA includes deferred borrowing on the debt side, which Moody's does not.
7	NIPPC	BPA cited to credit agency rating reports on slides 17 to 19. Please provide additional information related to BPA's understanding of those	Understanding and applying industry practices, as appropriate, aligns with our statutory authorities, which speak to lowest possible rates consistent with

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		reports: 1. Of the public power entities BPA compares itself to, how do they compare to BPA in terms of gross revenue by business line, relative size of owned transmission assets, and federal financial backing? Is BPA an outlier in any of those regards? 2. Has BPA evaluated how its leverage practices compare to other large power marketers and transmission operators within the US and internationally who are not local consumer-owned utilities? 3. Why should BPA customers have confidence that the comparable entities are, in fact, comparable?	sound business principles. The slides cited include quotes and data from ratings agencies that included BPA within various categories of comparable entities. BPA was included in these categories because it met the same criteria as the other included entities. The information provided at the Oct 19th meeting shows that, across multiple categories, BPA's current capital financing practices make it an outlier.
8	NIPPC	On Slide 20, several of the bullets are in quotation marks. What is the source of these quotes?	The quoted statements were direct citations from three Pacific Northwest utilities from publicly available work products: one was from a white paper on capital and two were from utility-issued official statements. Similar statements can also be found in official statements, strategic and financial plans, cost of service analysis/studies, and budget documents from other PNW utilities.
9	NIPPC	On Slides 21 and 22, BPA asserts conclusions for industry practice. What is the basis for these conclusions? Does BPA consider the utilities that employ these capital financing practices to be comparable to BPA? If so, please explain why they are comparable to BPA.	The descriptions of utility practice were informed by utility cost of service studies, other publically available documents produced by regional utilities, and utility training offered by trade associations (e.g. APPA).
10	NIPPC	On Slide 26, BPA indicates that the repayment period is 35 years for transmission and 50 years for power. Please explain why the repayment periods are different. Also, how is the	Fifty years is the maximum allowable period. It can be shorter if the assets in the category have a shorter service life. Transmission repayment periods have fluctuated over time, generally

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		repayment period shortened or lengthened when the term of debt used to pay for transmission and power assets is less than the stated repayment period or longer than the stated repayment period?	between 40 and 45 years, as the estimated average life of assets changed. BPA started using 35 years for transmission about two decades ago because it resulted in lower debt service costs over time. See the BP-22 Revenue Requirement Study for each business unit, section 1.2.2.2 within both documents, for a longer discussion on this topic.
11	PPC	PPC would like to express particular appreciation for the inclusion of asset management metrics in this process. Exploration of additional program and budget execution metrics (beyond capital) within BPA's overall program cost goals would be a valuable addition to the process – PPC anticipates preference customer proposals in this area, which we see as consistent with the scope proposed by BPA.	We received comments supporting the scope of the FPR, importance of grounding sessions, and importance of continued focus on cost management and value delivery. Thank you for these comments; BPA believes we are aligned.
12	PPC	Although not explicitly within the scope of the Financial Plan Refresh, we stress that affordability, cost management, and delivery of customer value must continue to be fundamental goals.	See #11
13	PPC	Overall, the scope and timeline of the process appears reasonable. Common "grounding" in key data and trends will enable more productive discussion among customers.	See #11
14	NRU	When discussing debt to asset ratio during the workshop, BPA staff commented that "lower is always better". NRU would like to point out that this isn't always true and implies that zero debt is the best possible financial scenario for BPA. NRU encourages the use of phraseology like "a debt to asset ratio that is too high is unhealthy".	It was not our intention to imply that a lower ratio is always better or that zero debt outstanding is the best scenario for BPA. We agree that a debt to asset ratio that is too high is unhealthy.
15	M-S-R	M-S-R thinks that the traditional cost of	It is not clear what this means or how it

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		capital does not only include interest expense but also must include some recognition of revenue requirement for equity like capital. M-S-R also observes that in its experience, equity capital is more costly than debt capital. Therefore, the graph in slide 14 is incomplete.	would be done. BPA has no equity holders. It does not have stockholders like an IOU or members like a co-op.
16	M-S-R	M-S-R's observation of slide 16 is very positive. It indicates that BPA's balance sheet is much stronger than it was 10-15 years ago. It also is M-S-R's observation that going forward BPA's balance sheet remains quite strong. Therefore, it appears that leverage is not a material concern with respect to BPA's financial health.	While BPA's total debt balance may be lower than the peak, the two business units have differing trajectories. Transmission's debt balance has grown significantly. Power's has declined. Slide 16 does not mean that leverage is not a material concern. As noted in other slides, BPA is an outlier regarding leverage.
17	M-S-R	M-S-R has reviewed some of the rating agency opinions and does not conclude that leverage is a primary concern. Rather the "willingness to impose adequate rates" and the maintenance of "adequate liquidity" are the primary concerns of the rating agencies. They are the primary concerns because the primary focus of the rating agencies is the probability of bondholders being paid interest and principal in a timely manner.	BPA has never said that leverage is the primary concern of rating agencies. Leverage is a concern, one of many. Rating agency reports may focus on different issues from year to year, emphasizing different issues. We pointed to rating agency perspectives and how BPA compares against other utilities as a way of thinking about sound business principles and industry practices.
18	M-S-R	Fourth, M-S-R does not consider Publically Owned Utilities ("POUs") and/or Investor-Owned Utilities ("IOUs") as "peers" to a sovereign of the United States. IOUs and POUs have an obligation to make principal and interest payments in a timely manner. In the event such payments are not made, there typically are default provisions that are triggered. M-S-R is not aware of any similar provisions with respect to BPA's borrowing from the Federal treasury. M-S-R also thinks that there are governing boards that represent the interests of electric customers. Revenue financing cannot	BPA recognizes there are differences between IOUs, POUs, and a Federal Power Marketing Administration like BPA. Nonetheless, credit rating agencies include BPA in certain categories for purposes of their comparisons, which is evidence that those entities are in some ways comparable. In some respects, BPA faces more oversight than a POU. While POUs may have boards, and BPA an Administrator, BPA has a far more complex and inclusive rate process than any POU. BPA rate proceedings are conducted pursuant to federal statutory rules and then submitted to

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		be imposed without the affirmative consent of these boards. M-S-R is not aware of any similar protection of customers with respect to BPA's imposition of revenue financing—it is a unique right of a sovereign entity. The asset base for such utilities also differ from that of BPA, with local resources meeting local needs, as opposed to BPA's high voltage transmission system forming the backbone for regional transmission.	FERC for review and approval, something that POUs do not do. BPA is also subject to Congressional oversight unlike POUs. As for defaulting on bond payments, BPA is able to defer Treasury payments, but it is not without cost or risk. Deferred principal and interest must be repaid before any other Federal debt. It is not discharged as may occur in a bankruptcy proceeding. The last BPA deferrals led to repeated attempts to dismantle the agency.
19	M-S-R	What are the appropriate inclusive costs associated with financial capital (direct and indirect)?	It is not clear what this means. BPA's capital spending includes both direct and indirect dollars sometimes referred to as fully loaded cost. BPA's rate cases, budgeting, and borrowing is based on the fully loaded cost.
20	M-S-R	Given BPA's projected level(s) of capital expenditures and past level(s) of leverage, is leverage likely to be a material concern over the next 10-15 years?	Slide 16 of the October workshop shows that both Power and Transmission appear to be on trajectory to meet or beat the mid-range target of 75-85% by 2028. Transmission's leverage ratio, however, stays relatively static and at no point reaches the long-term target of 60-70%. Furthermore, the leverage metric in the 2018 Financial Plan was intended to achieve low interest expense and financial flexibility. Given that, despite flat leverage, Transmission's debt outstanding levels and interest expense are forecasted to continue to climb, additional strategies should be considered to meet the intended purpose.

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21	M-S-R	If BPA has adequate levels of reserves and adequate rates to cover program costs, will the rating agencies be concerned about BPA's leverage ratio?	Each rating agency has its own model for developing a rating. Financial strength, e.g. liquidity, leverage, debt service coverage, is one of a number of factors considered in a rating determination. In recent years rating agencies have mentioned financial reserves, and leverage as areas of concern. BPA believes managing its leverage, along with other financial measures, to remain financially healthy is a sound business practice regardless of whether the rating agencies identify this concern going forward.
22	M-S-R	Who are legitimate "peers" to BPA?	No two entities are exactly alike. BPA has some unique attributes, and some attributes that are similar to other entities. The slides recognize that BPA meets the criteria to be included in certain credit rating agency categories.
23	M-S-R	Is BPA's debt (to the Federal treasury) more akin to preferred stock or senior debt?	It is like neither. BPA's priority of payments makes Treasury debt subordinate to all other costs.
24	M-S-R	If BPA's borrowing authority is increased by $10 billion, how should this impact BPA's capital financing policies?	Additional borrowing authority will address the near-term need to take immediate rate action to maintain a buffer of $1.5 billion in available borrowing. However, alleviation of this issue does not change BPA's commitment to develop sustainable, long-term policies on capital financing practices. Those policies will be designed to ensure BPA's balance sheet and overall financial health remains sound for decades to come.
25	M-S-R	Slides 10-13 and 15-16 reflect projections of debt financing and resulting borrowing authority availability. What are the capital spending assumptions underlying those debt projections? When were they made? What alternatives were considered? What projects are	Capital spending forecasts are from the IPR and IPR2 processes which provided spending forecasts for BP22.

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		included? Do the changes to the energy markets and resource preferences result in changes to those assumptions?	
26	M-S-R	Slide 14 reflects projected interest expense. What interest rate assumptions underlie the projections? What are the expected rate impacts?	The interest rate forecast is the same as the one used and documented in BP22.
27	M-S-R	Slides 19-22 reflect data on industry practices for capital financing. Which utilities are included in the studies?	The Fitch peer study includes data on 50 public utilities across the US that receive credit ratings. It includes retail, wholesale, generating and transmission cooperatives, and distribution cooperatives. Moody's analyzes the financial positions of the top 50 public utilities that it rates. As for the regional utilities, BPA has found information on all of the PUDs in the PNW, about 1/3 of the municipals, and one cooperative. We also found information on six California utilities that purchase products from BPA.
28	M-S-R	Slide 24 – Please explain how the $187.4 million of forecast revenue financing for Transmission was derived. Also, what is meant by "About $110 million of total revenue financing was used to offset poor financial performance."	The $187.4 million includes revenue financing actually included in rates. The majority is from BP-20 and BP-22 which was driven by the leverage policy or settlement agreements. Regarding the $110 million, it is the amount of revenue financing that was included in rates, but in the end not used for revenue financing, but instead as a source of liquidity to offset lower-than-forecast revenues.