Managing for Financial Health

February 11, 2016

Bonneville is a financially healthy organization.

Aa1	AA-	AA
Stable	Stable	Stable
Moody's	S&P	Fitch

Most recent ratings for Bonneville Power Administration related debt
February 11, 2016

Financial Health

SUSTAINABLE FINANCES & RATES

An organization's financial condition that enables it to deliver on its mission under any circumstance.

Solvent

Able to pay all obligations

Resilient

Able to withstand or recover quickly from difficult conditions

Stable

Able to replicate results

Benefits of Financial Health

SUSTAINABLE FINANCES & RATES

Low borrowing costs.

		2015		2014
Capitalization and Liabilities				
Capitalization and long-term liabilities				
Accumulated net revenues	**$**	**3,175,668**	$	2,823,085
Debt				
Federal appropriations		**3,901,740**		4,090,050
Borrowings from U.S. Treasury		**4,366,740**		3,944,040
Nonfederal debt		**6,786,856**		6,439,711
Total capitalization and long-term liabilities		**18,231,004**		17,296,886

- Bonneville's $15.1 billion debt portfolio included $6.8 billion of long-term non-federal debt as of 9/30/15. Our capital investment program relies heavily on access to the capital markets.
- Total interest expense in FY15 was $573 million
- A stronger credit leads to lower interest cost and improved terms with counterparties
- A healthy financial profile ensures market access for BPA-backed bonds (even in times of market dislocation, e.g., 2008 financial crisis).

Benefits of Financial Health

SUSTAINABLE FINANCES & RATES

Stability.

- Financial health ensures BPA is prepared to deal with unforeseen events without drastic measures and/or disruption to our operations (financial reserves).
- Consistent and strong financial performance provides validation that we are operating the utility appropriately and not jeopardizing the long-term prospects of regional electric service and its cost.
- A healthy BPA assures rating agencies and investors who evaluate our customer's debt that the Region is well equipped to handle a variety of conditions, both from a reliability and cost perspective.

Measures of Financial Health

SUSTAINABLE FINANCES & RATES

Quantitative.

- **Debt Service Coverage (DSC) ratio**. Compares annual required payments to bondholders and other contractual arrangements to the amount of revenues available after we pay our expenses (e.g., "Net Revenues are two times (2.0x) debt service").

	2015	2013
Non-federal DSC Ratio	5.7 x	2.2 x
Total DSC Ratio	1.5 x	1.2 x

- **Days Cash on Hand**. The amount of cash (or liquid assets) we have relative to how much it costs to operate.

	2015	2013
Reserves for Risk	144 days	111 days
Reserves for Risk & Expense Note	272 days	241 days

Measures of Financial Health

SUSTAINABLE FINANCES & RATES

Quantitative.

- **Debt to Assets ratio.** Amount of debt outstanding relative to the depreciated value of its assets.

Debt to…	2015	2013
Net Utility Plant & non-federal generation	96 %	97 %

- **Interest Expense to Total Revenue.** Total interest in any year reflected as a percentage of total operating revenues.

	2015	2013
Interest Expense/ Total Revenue	18 %	19 %

Measures of Financial Health

<u>Quantitative.</u>

- **Change in Capital Related Costs between rate periods.** Represents current capital related costs less prior period capital related costs divided by prior period capital related costs.
    - Relative to inflation

- **Change in IPR Costs between rate periods**. Represents current IPR costs less prior period IPR costs divided by prior period IPR costs.
    - Relative to inflation

Measures of Financial Health

SUSTAINABLE FINANCES & RATES

Qualitative.

- **Capital Investment Strategy.** Is BPA investing adequate resources to sustain its asset fleet? Is BPA making strategic investments to expand its asset fleet?

- **Business Strategy.** Operationally, what are the risks to BPA's business?
  - What could significantly reduce revenues?
  - What could significantly increase expenses?

- **Revenue Base.** How healthy is the source of BPA's revenues (i.e., customer strength, contracts, market pressures)?

- **Management.** How experienced is management and how have they performed?

- **Liquidity Plan.** What mechanisms does BPA have to obtain money to repay bondholders if normal operating revenues are dramatically interrupted or reduced for some reason

Policies for Financial Health

SUSTAINABLE FINANCES & RATES

- Common policies, goals and targets for public power entities include:
  - Minimum forecast coverage targets that are used to guide ratemaking decisions
  - Maintenance of a minimum days cash on hand target
  - Adherence to debt ratio targets
  - Automatic revenue adjustment mechanisms to ensure recovery of variable costs or meet specific targets

- BPA is a unique entity in the utility industry
  - Department of Energy entity
  - Limited access to U.S. Treasury borrowing
  - Limited ability to access capital markets through third-party financings
  - FCRPS is unlike any other resource

- Given our unique nature, we believe some of our qualitative factors are very important to our financial health
  - Management commitment to sound financial planning and policies
  - Competitive resources that provide the Region with an attractive cost of power

Bonneville is a financially healthy organization.

Our stakeholders and every Bonneville team member are committed to keep it that way.

Financial Disclosure

- This information has been made publicly available by BPA on February 10, 2016 and contains some information not reported in BPA's financial statements.