

Financial Reserves Policy phase-in implementation

April 20, 2018, 10:30 a.m.*

BPA Rates Hearing Room

WebEx: [join the meeting](#)

Meeting Number: 904 977 134

Meeting Password: Jh2HP3TF

Phone Bridge: 415-527-5035

**may start early if the previous workshop ends early*



Contents of this presentation

- Financial Reserves Policy background and decision criteria for FRP phase-in implementation
- Response to several comments
- Discuss draft FRP language
- Review of backcast analysis and updated statistics
- Next steps

Financial Reserves Policy background

- BP-18 Final Record of Decision administrator's preface stated:
 - Under the policy [FRP], we will begin rebuilding Power's financial reserves by collecting \$20 million above projected net costs each year until the lower threshold is reached.
 - While I am adopting the FRP in this decision, I have left some implementation features open for further development, including how to phase-in the lower threshold for Power's financial reserves and how to best leverage financial reserves to manage long-term wholesale market price exposure and promote greater rate stability.
 - I believe that the region will be best served by focusing on these elements in future processes, such as the upcoming long-term strategic planning discussion and BP-20 Rate Case workshops.
- Financial Reserves Policy, BP-18 Final Record of Decision, Appendix A stated:
 - 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. (Section 3.3)
 - The specifics of how the Power and Transmission CRACs (or equivalent rate action) recover shortfalls are not limited by this policy. (Section 4.1.)
- Strategic and financial plans state that liquidity is a financial health priority, specifically Power Services needs to increase its reserves to a minimum of 60 days cash on hand (\$300 million).

FRP phase-in implementation decision criteria

- Implementation criteria for the FRP affects both power and transmission rates. Because of this, there is a diverse set of stakeholders in the decision and competing decision criteria, such as:
 - Goal of achieving \$300 million for Power financial reserves over the next 10 years;
 - Rates are stable;
 - Implementation criteria should be consistent with the strategic and financial plans, and decisions in BP-18 Rate Case; and
 - FRP can be simply implemented in rates and systems/processes.

Comments from the March 20 workshop

- Timeline: BPA could make decisions on the financial policies at the same time it concludes the pre-rate workshops (end of summer)
- Rate targets: BPA should adopt a Power Rate Target Policy, or include a rate goal in the Financial Reserves Policy

Proposal incorporated into the draft revised FRP

- Annual rate action when below lower threshold: \$40 million for Power Services, \$15 million for Transmission Services.
- Keep current methodology when below \$0.
- Rate mechanisms (PNRR/Surcharge/CRAC) and timing (actual cash reserves vs forecast ACNR) for annual rate actions will be decided in 7(i) process.

Provisions for increasing financial reserves

- 4.2 The methodologies for increasing financial reserves are described below. The specific rate mechanisms to achieve 4.2.1 and 4.2.2 will be determined in the applicable rate proceeding and may be implemented as a single rate mechanism or multiple rate mechanisms.
- 4.2.1 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.

Provisions for increasing financial reserves (cont)

- 4.2.2 In addition to the rate action described above in section 4.2.1, it is Bonneville's general policy and past practice to operate its business with positive financial reserves. Consistent with this policy and past practice, 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.

Proposal against decision criteria

Decision criteria	\$40 million rate action proposal
Rebuilds Power reserves	<p>YES</p> <p>73 percent likelihood 60 days cash on hand in Power reserves in 10 years.</p>
Rate stability	<p>YES</p> <p>One time rate increase from \$20 million to \$40 million, then rates remain relatively stable as reserves are available for rate stabilization.</p>
Consistent with BP-18 Final ROD, strategic and financial plans	<p>YES</p> <p>From strategic plan: BP-18 included \$20 million in PNRR to increase reserves until they reach minimum of 60 days cash on hand; in workshops BPA will explore how to build Power’s reserves more quickly.</p>
Simple to implement	<p>YES</p> <p>Proposal is straight forward and does not require additional resources to implement.</p>

- Power rate impact of moving from \$20 million in PNRR to \$40 million annual rate action in FY 2020 would be 1.5 percent (non-slice rate impact, the overall rate impact would be 1 percent).
- No transmission rate impact since Transmission is already above its lower threshold of \$100 million.

Backcasting results

- Phase-in options were tested assuming the FRP was in place starting in FY 2010.
- At this time, Power reserves for risk were \$553 million, Transmission \$515 million, and Agency \$1,069 million.
- In all models (except Historical) Transmission received a \$316 million RDC in FY 2010.

End of FY17 Reserves for Risk

\$ in Millions

	Historical	\$300M CRAC Threshold	\$40M Surcharge	\$20M Surcharge
Power	105	246	246	205
Trans	463	226	226	243
Agency	568	472	472	448

FY10-FY17 Reserves Adjustments

\$ in Millions

	Historical	\$300M CRAC Threshold	\$40M Surcharge	\$20M Surcharge
Power Ttl	-	141	141	100
Trans Ttl	(267)	(504)	(504)	(487)
Power Annual	-	18	18	13
Trans Annual	(33)	(63)	(63)	(61)

	Proposals to increase Power financial reserves:	Credit Threshold probability Agency reserves drop below 30 days cash on hand for 2 consecutive years over a 10 year period	FRP Target Met probability Power will increase financial reserves to 60 days cash on hand within 10 years	Expected Annual Cost (Power) average annual cost of the rate mechanisms in the proposal
A	Pre-BP18 \$0 CRAC threshold \$0 PNRR/Surcharge	21%	57%	\$18M overall \$31M yrs 3-10, \$9M yrs 11-20
B	BP18 Initial Proposal IRPL Good year ratchet	13%	70%	\$23M overall \$38M yrs 3-10, \$11M yrs 11-20
C	BP18 Final ROD \$20M PNRR \$300M CRAC threshold (once reserves >\$300M)	15%	65%	\$23M overall \$39M yrs 3-10, \$10M yrs 11-20
D	BPA draft Financial Reserves phase-in \$40M Surcharge/PNRR \$0 CRAC threshold	11% 14% <i>50% CRAC after \$100m</i>	75% 73% <i>50% CRAC after \$100m</i>	\$20M overall \$40M yrs 3-10, \$4M yrs 11-20
E	Public Customers Preferred Proposal \$20M Surcharge/PNRR \$0 CRAC threshold	19%	65%	\$18M overall \$34M yr 3-10, \$5M yr 11-20

Next steps

- Draft revised Financial Reserves Policy will be posted today (April 20th).
- Comment period is open from April 20th – May 11th www.bpa.gov/goto/comment.
- Rate mechanisms to implement the FRP will be discussed in pre-rate case workshops this summer.