Financial Reserves Policy phase-in implementation

March 2, 2018, 1:00 p.m.

BPA Rates Hearing Room

WebEx: join the meeting

Meeting Number: 903 905 930

Meeting Password: atkMywsB

Phone Bridge: 415-527-5035

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.
- 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 timeline

- March-April 2018: conduct public workshops, receive feedback on and refine proposals.
  - March 2: Public Workshop (comments due by March 8)
  - March 20: Public Workshop
  - April 9: Public Workshop (if needed)
- April-June 2018: finalize and publish draft proposal, follow with a public comment period and incorporate final decision into the Financial Reserves Policy.
  - April 9: Publish draft proposal
  - April 9 – May 1: Public comment period
  - Mid-June: Publish final ROD

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 reserves over the next 10 years;
    - Rate 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.

Financial Reserves Surcharge for Power

- Power Financial Reserves Surcharge proposal
  - If at the end of September Power's cash reserves are less than $300 million, then BPA Power Services triggers a Financial Reserves Surcharge for the next fiscal year (Oct. 1-Sept. 30) that collects $40 million.
  - If reserves are less than $0, then the Financial Reserves Surcharge collects $40 million plus the amount of reserves needed to get back to $0 in the next fiscal year.
  - If Power's cash reserves are greater than $260 million and less than $300 million, then the Financial Reserves Surcharge collects the amount of reserves needed to get back to $300 million in the next fiscal year.

Financial Reserves Surcharge for Transmission

- Transmission Financial Reserves Surcharge proposal
  - If at the end of September Transmission's cash reserves are less than $100 million, then BPA Transmission Services triggers a Financial Reserves Surcharge for the next fiscal year (Oct. 1-Sept. 30) that collects $15 million.
  - If reserves are less than $0, then the Financial Reserves Surcharge collects $15 million plus the amount of reserves needed to get back to $0 in the next fiscal year.
  - If Transmission's cash reserves are greater than $85 million and less than $100 million, then the Financial Reserves Surcharge collects the amount of reserves needed to get back to $100 million in the next fiscal year.

Financial Reserves Surcharge continued

- Rate implications of the Financial Reserves Surcharge proposal:
  - $40 million Financial Reserves Surcharge would replace $20 million currently in planned net revenues for risk.
  - The Financial Reserves Surcharge proposal would replace the current cost recovery adjustment clause (CRAC) mechanism.
  - Power rate impact of moving to a Financial Reserves Surcharge in fiscal year 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 threshold of $100 million.
  - As compared to a rate mechanism that moves the CRAC threshold up to $300 million, the Financial Reserves Surcharge proposal provides rate stability when reserves are between $0 and $300 million by capping the amount collected in a year at $40 million.

Net secondary revenue forecast credit?

- Public Power Council/Northwest Requirements Utilities asked to see a proposal that completely removes the net secondary revenue (NSR) forecast credit from base priority firm rates.
- PPC/NRU feel like their may be support from customers on removing the NSR forecast credit. Removing the NSR forecast credit from rates is only viable with considerable customer support.
- Removing NSR forecast credit from rates may warrant changes to the Financial Reserves Policy.
- BPA could issue a ROD on FRP implementation of the Financial Reserves Surcharge with a note that if a viable NSR plan is developed in the BP-20 Rate Case (or through settlement) that satisfies the criteria of the FRP, then BPA would be amenable to subsuming its FRP implementation through such a proposal.

Financial Reserves Credit proposal

- BPA staff proposal in response to the NSR forecast credit customer request:
  - Set the NSR forecast credit in PF rates to $0.
  - Use the reserves distribution clause (RDC) to implement a credit based on end of year cash reserves and have the RDC trigger on predefined thresholds (similar to today's CRAC).
  - Phase-in Power's RDC threshold from $30 million to $450 million (90 days cash on hand) in $30 million annual increments, for example:
    - FY 20 RDC threshold is $30 million, FY21 RDC threshold is $60 million
    - FY 22 RDC threshold is $90 million, FY23 RDC threshold is $120 million
  - Reduce agency and Transmission RDC threshold to 90 days cash on hand (currently set at 120 days cash on hand.)
  - Remove $20 million in PNRR, keep Power CRAC threshold at $0.

Two-year example of proposals

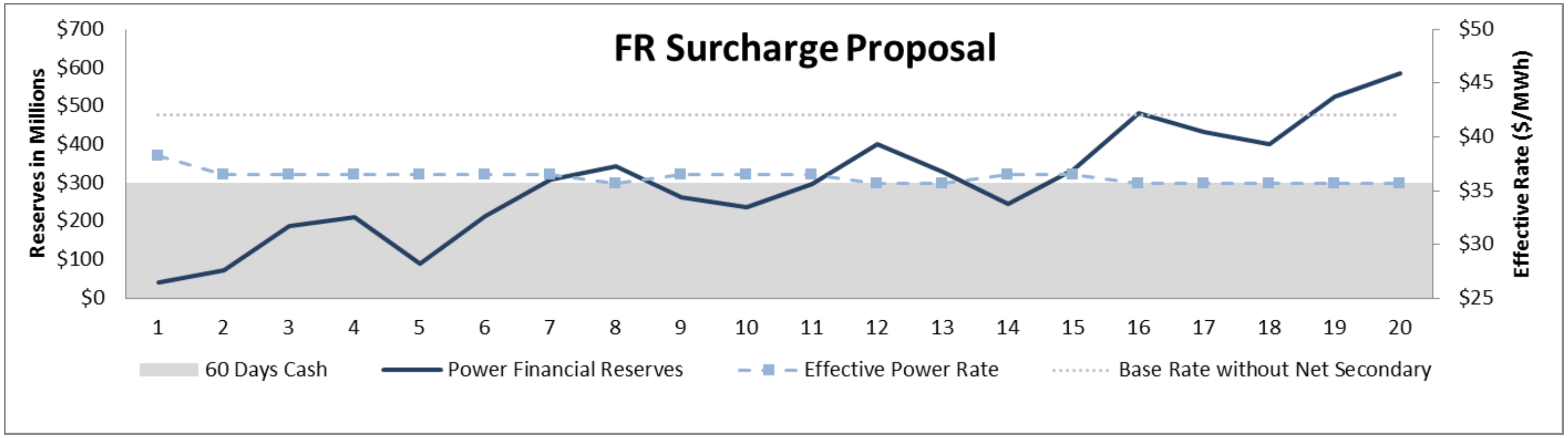
Scenario:

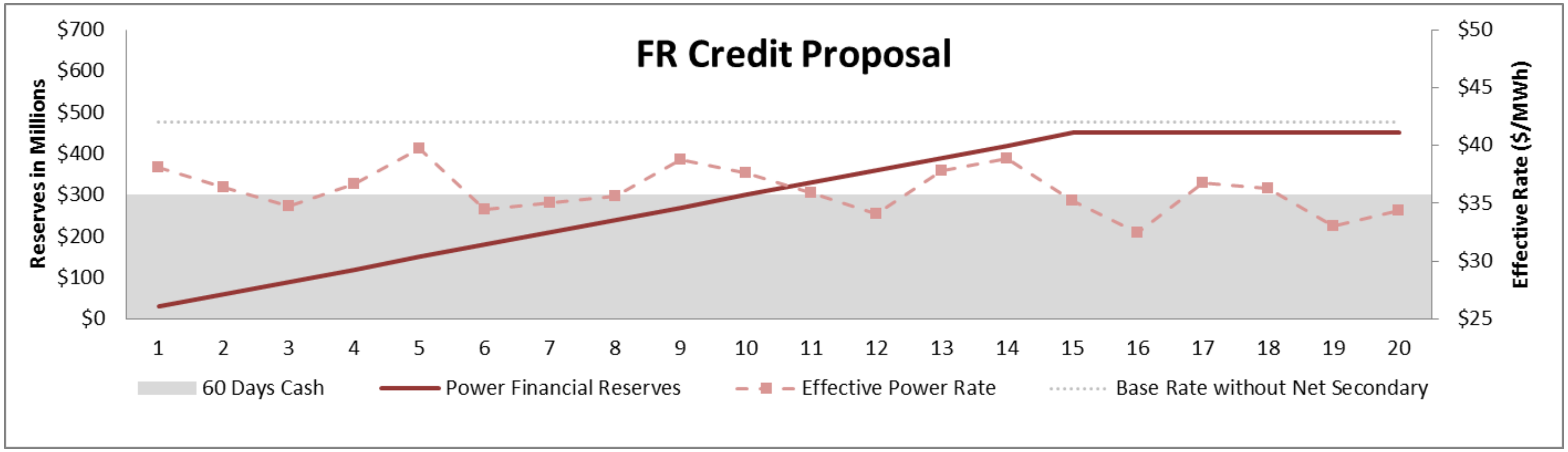
- Power financial reserves are starting at $0;
- Actual NSR for FY 20 is $350 million, and FY 21 is $250 million; and
- Base PF rate without net secondary is $42 per megawatt hour.

	A	B		C
1	*(in Millions)*	Financial Reserves Surcharge		Financial Reserves Credit
2	**Year 1 - FY2020**			
3	End of Previous Year Reserves:	$0		$0
4	Net Secondary in Rates:	($300)		$0
5	Actual Net Secondary:	$350		$350
6	Net Secondary Impact on Reserves:	$50		$350
7	Surcharge:	$40		$0
8	RDC:	$0		($320)
9	Year 1 Financial Reserves:	$90		$30
10	Year 1 Effective Rate:	$36.49/MWh		$35.22/MWh
11	**Year 2 - FY2021**			
12	End of Previous Year Reserves:	$90		$30
13	Net Secondary in Rates:	($300)		$0
14	Actual Net Secondary:	$250		$250
15	Net Secondary Impact on Reserves:	($50)		$250
16	Surcharge:	$40		$0
17	RDC:	$0		($220)
18	Year 2 Financial Reserves:	$80		$60
19	Year 2 Effective Rate:	$36.49/MWh		$37.34/MWh

Twenty-year example of proposals

- Scenario: Power reserves are starting at $0; and actual NSR calculated using a normal distribution with a mean of $300 million and a standard deviation of $150 million.
- Blue line upper graph is the Financial Reserves Surcharge proposal. Red line lower graph is the Financial Reserves Credit proposal (removing NSR forecast from base rates).





Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Actual NSR (Millions)	$216	$293	$374	$284	$138	$384	$357	$333	$181	$235	$319	$405	$228	$176	$348	$448	$249	$269	$424	$361

Decision criteria	Financial Reserves Surcharge	Financial Reserves Credit
Rebuilds Power's reserves	YES 75 percent likelihood $300 million in Power reserves by FY 27.	YES 95 percent likelihood at $300 million in Power reserves by FY 29.
Rate stability	YES One time rate increase from $20 million to $40 million, then rates remain relatively stable as reserves are available for rate stabilization.	NO Customers take on risks that impact financial reserves (including NSR risk) which results in variable effective rates.
Consistent with BP-18 Final ROD, strategic and financial plans	YES 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.	YES From BP-18 Final ROD: We need to have a candid discussion about market prices and BPA's secondary revenue forecast; potentially adopt rate mechanisms with more conservative forecasts; and most importantly, look for ways to offset exposure to the commodity market.
Simple to implement	YES Proposal is straight forward and does not require additional resources to implement.	YES Uses existing rate mechanisms to implement (RDC).

Next steps

- Please provide any comments on the proposals or proposal alternatives to BPA by Thursday, March 8. Send comments to: BPAFinance@bpa.gov
- Follow-up workshops scheduled for March 20 and April 9 (if needed).