



April 6, 2018

Via Electronic Submission

Mary Hawken
Executive Vice President and Chief Financial Officer
Bonneville Power Administration
911 NE 11th Avenue
Portland, OR 97232

Re: Bonneville Power Administration's Proposed Leverage Policy

Dear Ms. Hawken:

The Alliance of Western Energy Consumers ("AWEC," formerly known as the Industrial Customers of Northwest Utilities and the Northwest Industrial Gas Users) appreciates this opportunity to provide comments on the Bonneville Power Administration's ("BPA") new leverage policy. AWEC is a non-profit trade association representing large energy users in the Pacific Northwest, including direct-service customers of BPA. Accordingly, AWEC's members may be directly and significantly impacted by the implementation of BPA's proposed leverage policy. AWEC looks forward to working collaboratively with BPA as it looks for solutions that will strengthen its financial health and diversify its access to needed capital.

AWEC appreciates the leverage policy proposal that BPA presented to the region on March 20, 2018. Generally speaking, AWEC is supportive of BPA developing some kind of financial leverage policy through this process. From AWEC's perspective, it is appropriate for BPA to focus on the long term to improve its overall leverage position. AWEC notes similarities in this proposal to the manner in which the Tennessee Valley Authority ("TVA") looks at its overall debt obligations. AWEC believes it is proper for BPA to manage its business by focusing on overall leverage, rather than antiquated repayment study methodologies that may no longer provide the best metrics for analysis of BPA's financial strength.

In addition, AWEC views the increased focus on leverage as an important step towards enabling BPA to self-issue its own debt obligations, similar to TVA. Given the amount of low cost capital available through global markets, the borrowing limitations imposed on BPA seem somewhat arbitrary. AWEC recommends that as part of the current process, BPA investigate, and discuss with stakeholders, the question of whether the ability to self-issue debt should be one of the end goals of this initiative. If BPA needs to issue debt to finance its capital program, or to refinance existing obligations, it may make sense that BPA should simply issue the debt, provided that its overall leverage position is healthy.

Notably, many of the utilities to which BPA has compared itself as it investigates appropriate financial reserves levels have this capability. It would seem logical that BPA should not have to go through the complex accounting and sleeving arrangements that it has had to deploy in the past simply to access capital markets.

With respect to BPA's proposed policy, however, AWEC requests that BPA further clarify and consider how Fish and Wildlife expenditures and associated debt obligations might be considered when evaluating BPA's leverage on the power business line.

In the March 20, 2018 workshop, BPA Staff indicated that the Debt-to-Asset Ratio on Page 6 of the presentation included the liabilities, but not the assets, associated with the Fish and Wildlife program. In its March 2, 2018 presentation, BPA indicated that it would exclude non-revenue producing assets in calculating leverage ratios. AWEC would like BPA to further discuss the treatment of the Fish and Wildlife expenditures and obligations in BPA's overall leverage policy. Specifically, AWEC would like BPA to provide further detail surrounding the assets and liabilities involved in the capitalized portion of the Fish and Wildlife program and the impacts of those assets and liabilities on BPA's overall leverage position.

On the asset side, AWEC would like to further understand the balances and types of Fish and Wildlife assets that have been created through the Corps of Engineers, Department of Reclamation, and U.S. Fish and Wildlife Service, in addition to those assets issued through BPA's direct expenditures. If possible, providing the Fish and Wildlife balances at a more granular level would be useful in further evaluating how those assets should be considered when evaluating BPA's overall financial health. For example, it is unclear how much of the capital is devoted to hard assets (such as a fish passage, hatchery, reclaimed wetlands, etc.) and how much is devoted to intangible activities, such as performing environmental studies.

On the liability side, AWEC would like to better understand the amount of debt involved with the Fish and Wildlife program, and whether that debt is derived from appropriations, treasury bonds, or some other source. Information regarding the originating agency (i.e., the Corps of Engineers, the Department of Reclamation, and the U.S. Fish and Wildlife Service), as well as interest rates and terms, would also be useful in understanding how those obligations should be considered when thinking about BPA's overall leverage position on the power side.

In AWEC's experience, investor-owned utilities uniformly include capitalized fish and wildlife investments, such as fish passages and relicensing costs, in rate base, and regularly earn a return on these assets. It would be difficult to argue that those sorts of fish and wildlife investments do not have any value, and therefore, should be summarily excluded from rate base of investor-owned utilities. Indeed, if those fish and wildlife investments are not made, a utility will not be able to continue operating the hydro facility.

As has been noted in the past, AWEC is concerned with the overall cost of BPA's Fish and Wildlife Program. Notwithstanding, AWEC also recognizes there is value that is provided to the region associated with keeping our rivers clean and healthy, and ensuring that hydro facilities are able to continue to operate. While the cost of the program may be high and it may be difficult to quantify its value, AWEC believes that some value associated with the Fish and Wildlife program may be appropriately considered when evaluating the leverage ratio on the power side. Or, in the alternative, if those assets do not have value, then it might be appropriate to separately consider the repayment obligations associated with those investments, outside of the leverage calculation in the power business line.

Finally, AWEC continues to have concerns regarding the financial reserves proposals that are under consideration. We look forward to seeing the ongoing contributions to this issue by BPA Staff and other stakeholders, and intend to weigh in on these matters further in upcoming comments.

AWEC appreciates this opportunity to provide comments and looks forward to working with BPA Staff through the development of these policies.

/s/ John Carr

Alliance of Western Energy Consumers