April 6, 2018

Via Email (BPAFinance@bpa.gov)

U.S. Department of Energy
Bonneville Power Administration
Transmission Services

Re: Comments of Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. on BPA Proposed Leverage Policy and Financial Reserves Policy Phase-In Implementation

Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. ("Commenting Parties") respectfully submit the following comments in response to the BPA March 20 Leverage Policy Presentation[1] and the BPA March 20 Financial Reserves Policy Phase-In Implementation Presentation.[2] Commenting Parties appreciate the opportunity to submit comments to BPA and look forward to working with BPA on these matters.

I. BPA LEVERAGE POLICY

To the extent that BPA adopts a leverage policy, BPA must do so pursuant to a reasoned decision and comply with the applicable requirements of the Administrative Procedure Act and BPA's governing statutes.

A. The BPA Leverage Policy Would Impose a "Ratchet" on Each Business Line's Debt-to-Asset Ratio and Would Inequitably Require the Transmission Business Line to Bear All of the Responsibility for Revenue Financing for the Foreseeable Future

In general, BPA proposes (i) a goal of a debt-to-asset ratio of 75 to 85 percent by 2028 for each business line and the Agency and (ii) a long-term goal of a debt-to-asset ratios of 60 to 70 percent. BPA proposes to achieve this goal by having ratios for each business line for each rate period that will stay the same or decrease. In other words, BPA proposes a "ratchet," under which, for each business line, the forecasted debt-to-asset ratio for each fiscal year of a rate

1 *Leverage Policy*, dated March 20, 2018, available at https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/frpdocs/20180320-Leverage-Policy-Workshop.pdf (the "March 20 Leverage Policy Presentation").

2 *Financial Reserves Policy Phase-In Implementation Presentation*, dated March 20, 2018, available at https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/frpdocs/20180320-Financial-Reserves-Policy-Workshop.pdf (the "Implementation Presentation").

period would not exceed the forecasted debt-to-asset ratio for the fiscal year preceding such rate period.

BPA's Transmission Business Line currently has a debt-to-asset ratio of about 81 percent, which is squarely within the 2028 goal proposed by BPA. By contrast, BPA's Power Business Line currently has a debt-to-asset ratio of about 97 percent, which far exceeds the 2028 goal proposed by BPA—although BPA projects that this ratio will decline. Under the BPA proposal, the debt-to-asset ratio of BPA's Transmission Business Line could never exceed about 81 percent, whereas the debt-to-asset ratio of BPA's Power Business Line would be allowed—if the projected ratio does not decline as projected—to remain indefinitely at 97 percent. Importantly, even if the Transmission Business Line's ratio meets the 2028 leverage goal, it would be *further ratcheted down* if the transmission ratio falls.

As shown in the March 20 Leverage Policy Presentation, the Transmission Business Line may be required to revenue finance even if its debt-to-asset ratio is within the 2028 goal.[3] In contrast, the Power Business Line may not be required to take any action even though its debt-to-asset ratio is higher than BPA's stated 2028 goal. In short, the BPA proposal provides a mechanism that guarantees that the debt-to-asset ratio of BPA's Transmission Business Line will continue to meet—and may due to the ratchet effect of BPA's proposal exceed—the 2028 goal while providing no mechanism to ensure that the Power Business Line will ever meet the 2028 goal. The result of BPA's proposed leverage policy would be to force the Transmission Business Line to bear all of the responsibility for revenue financing for the foreseeable future to meet the Agency's leverage goal. As discussed below, this would be inequitable and would result in undue transmission rate increases.

The proposed BPA leverage policy also ignores the relationship between the leverage policy and the financial reserves policy and assumes that the same leverage goal is appropriate for each business line, notwithstanding (i) the very high level of financial reserves[4] currently carried by the Transmission Business Line, (ii) the very low level of financial reserves carried by the Power Business Line despite the greater volatility of net revenues of the Power Business Line, and (iii) the possibility that Power Business Line reserves will for some period of time remain below the lower threshold for power reserves. In short, BPA has not presented any detailed analysis of the costs and benefits of adopting its proposed leverage policy, has not demonstrated that its proposed leverage policy is the appropriate approach to the limited Treasury borrowing authority, and has not justified adoption of its proposed leverage policy.

B. BPA Has Not Justified The Need for Its Proposed Leverage Policy

1. BPA's Comparison to Fifty Large Publicly-Owned Utilities Is Misplaced

BPA points to a rating agency leverage perspective and suggests that BPA's debt-to-asset ratio is high in comparison to the "Top 50 [Publicly-Owned] Utilities That Own Generation" as a

[3] March 20 Leverage Policy Presentation at 9.

[4] As used in these comments, "financial reserves" refers to financial reserves available for risk.

basis for adopting its proposed leverage policy.[5] However, most of the fifty publicly-owned utilities are municipal utilities with business models and financial backing that are not comparable to BPA. Most notably, BPA has a substantial amount of federal debt that is subordinate to BPA's non-federal debt (to which credit ratings apply) and that can be deferred if necessary: "This deferral ability provides BPA a major source of financial flexibility under extreme situations . . . ."[6]

This BPA attempt to rely on a comparison to the "Top 50 [Publicly-Owned] Utilities That Own Generation" as a basis for adopting its proposed leverage policy is misplaced. There has been no showing that BPA needs to adopt a leverage policy.

2. Any BPA Concerns Regarding Its Credit Rating Do Not Support the Proposed Leverage Policy

Credit rating concerns should not dictate adoption of BPA's proposed leverage policy, for a number of reasons. First, BPA has adopted a financial reserves policy that, if properly implemented, should increase BPA's days' cash on hand, which should alleviate any credit rating concerns BPA may have.

Second, it should be recognized that most of the largest public power utilities have a *lower* credit rating than BPA. In the BPA March 2, 2018 Leverage & Financial Reserves Policy Comments & Responses,[7] BPA presents an extensive list of public power electric utilities with generation assets.[8] An examination of the group of the 20 largest public power utilities (by outstanding debt) on that list indicates that (i) BPA and Tennessee Valley Authority ("TVA") are the only federal agencies in the group and are, by far, the two largest, (ii) the only utility in that group with a *higher* credit rating (one notch) than BPA is TVA, and (iii) three-quarters of the utilities in the group have a *lower* credit rating than BPA.

Third, it appears BPA's reliance on third-party borrowing may be less than was previously anticipated: (i) as recently as BP-18, BPA contemplated that about 50 percent of its transmission capital investments would be lease financed,[9] but BPA now indicates that only about 25 percent of its transmission capital investments can be lease financed,[10] and (ii) BPA indicated at the March 20, 2018 workshop that it may not be practicable to extend WNP-1 and WNP-3 borrowings.

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5 *Leverage Policy*, dated March 2, 2018, at 16, available at https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/frpdocs/20180302-Leverage-Policy-Workshop.pdf (the "March 2 Leverage Policy Presentation").

6 Moody's Investor Service Credit Opinion, *Bonneville Power Administration* at 5 (Feb. 8, 2018), available at https://www.bpa.gov/Finance/FinancialInformation/Debt/RatingAgencyReportsArticles/Moody's%20Credit%20Opinion%20Report%20Final%202.9.18.pdf (the "Moody's Report").

7 Available at https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/frpdocs/March%202%20Comments%20and%20Responses%20FINAL.pdf

8 *Id*. at 10-12.

9 *See, e.g.,* BP-18-FS-BPA-09 at 18.

10 March 2 Leverage Policy Presentation at 13.

Fourth, it is not clear that debt-to-asset ratio is an appropriate metric to address what appears to be BPA's fundamental financial problem—the pending exhaustion of Treasury borrowing authority.

Finally, BPA's own analysis indicates that the leverage policy is unlikely to meaningfully improve BPA's coverage ratios. Specifically, BPA's own analysis indicates that, on a forecasted basis, the proposed leverage policy would only reduce BPA's debt-to-funds available for debt service ratio ("Debt to FADS Ratio") from approximately 11 to 10.5.[11] As indicated in the March 20 Leverage Policy Presentation, Debt to FADS Ratios of between 8 and 12 are firmly within the same "A rating" credit band, and the slight improvement from 11 to 10.5 would likely have no impact on BPA's credit rating.[12] Again, there has been no showing that BPA needs to adopt a leverage policy.

C. Reliance on Revenue Financing Under the Proposed Leverage Policy Would Create Inequities; To the Extent the Policy Relies on Increased Revenue Financing, It Should Allocate Responsibility for the Increased Revenue Financing to Each Business Line In Proportion to Its Outstanding Treasury Borrowing

It appears that BPA contemplates increased use of revenue financing to alleviate the pending exhaustion of Treasury borrowing authority. Reliance on revenue financing creates inequities. BPA's proposed leverage policy would create substantial intergenerational inequity by requiring current customers to pay for capital assets that will benefit current and future generations of customers. Under BPA's proposed leverage policy, a business line would be forced to revenue finance even substantial, unexpected capital expenditures if failure to do so would increase the debt-to-asset ratio of that business line. BPA has not adequately assessed the effect of its proposed leverage policy (and the extensive revenue financing that it would likely require) on BPA rates.

BPA's proposed leverage policy is inequitable because it fails to allocate responsibility for increased Agency revenue financing to each business line in proportion to its outstanding Treasury borrowing. For example, the policy would likely impose *substantial* revenue financing requirements on the Transmission Business Line and *no* revenue financing requirements on the Power Business Line for the foreseeable future. This would be particularly inequitable because a fundamental BPA financial issue is the pending exhaustion of its Treasury borrowing authority, and the burden of alleviating this issue should not fall solely on the Transmission Business Line.

If BPA were to rely on revenue financing, the responsibility for such revenue financing should be equitably allocated between the two business lines. Because the amount of outstanding Treasury borrowing authority by each business line represents its use of that borrowing authority, responsibility for revenue financing by a business line to alleviate the shortage of Treasury borrowing authority should be allocated to that business line in proportion to its outstanding

[11] March 20 Leverage Policy Presentation at 5.

[12] *Id*.

Treasury borrowing.[13] Under this approach, each business line would revenue finance an amount of its capital assets as necessary to achieve that proportion.

D. If BPA Retains the Proposed Debt-to-Asset Ratio Test for Each Business Line, BPA Should Revise the Test to Provide That the "Ratchet" Will Not Be Applied If the Business Line Has a Ratio that Meets the Goal

A business line with a debt-to-asset ratio that meets the 2028 goal should not be burdened with revenue financing.[14] If BPA retains the proposed debt-to-asset ratio test for each business line, BPA should revise the test to provide that the "ratchet" will not be applied if the business line has a ratio that meets the goal.[15] This revision should help prevent arbitrarily decreasing the ratio required of a business line (and hence help prevent the arbitrary impositions of a revenue financing requirement on that business line) that is meeting the leverage goal.

E. BPA Should Use Non-Federal Borrowing to the Extent Practicable, in Light of the Limit on Treasury Borrowing

BPA projects that it will lease finance 25 percent of transmission capital investments, which is apparently the extent BPA believes will be practicable. In light of the limit on Treasury borrowing, BPA should attempt to achieve non-federal financing for the each business line to the extent practicable. For example, BPA should extend WNP-1 and WNP-3 borrowing to the extent practicable. This approach should help relieve pressure on the federal borrowing authority for BPA.

II. BPA FINANCIAL RESERVES POLICY PHASE-IN IMPLEMENTATION

A. Power Business Line Financial Reserves Are Disproportionately Low and Should Be Increased: BPA Should Adopt the Financial Reserves Surcharge Proposal

Increasing Power Business Line financial reserves is important to Transmission Business Line customers because (i) business line reserve levels are linked in the Financial Reserves Policy to Agency financial reserve levels and (ii) BPA's Transmission business line currently bears a disproportionate share of the responsibility for maintaining overall Agency financial reserves and in turn a disproportionate share of the burden of maintaining the Agency's preferred

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[13] Currently, outstanding Treasury borrowing is approximately equal between the two business lines, so each business line would be responsible for approximately half of the revenue financing responsibility. *See* March 2 Leverage Policy Presentation at 4.

[14] As used in these comments, "revenue financing" is a general reference to (i) a mechanism that funds capital assets without financing them over a reasonable period in light of the useful life of the capital assets, such as funding capital investments from current revenues or from financial reserves, or (ii) a mechanism that repays Treasury obligations earlier than they would otherwise would be paid, in order to address leverage requirements or to increase access to Treasury borrowing authority.

[15] Under this revision, a business line's debt-to-asset ratio could increase if, after such increase, the ratio would be projected to be 80 percent or less in any fiscal year.

credit rating.[16] Disproportionate reliance on one business line's financial reserves is inequitable.[17]

The Power Business Line has greater volatility in financial reserves than the Transmission Business Line.[18] In light of this greater volatility, it is particularly important that Power Business Line financial reserves not remain disproportionately low. In that regard, FitchRatings has recently indicated that "[a]bsent a notable increase in the power business line reserves, a rating downgrade is likely."[19]

BPA should adopt or reaffirm a goal that Power Business Line financial reserves will be at least equal to the lower threshold for that business line by 2028. BPA is proposing 2028 as the time by which a goal should be met for leverage, and BPA should adopt or reaffirm 2028 as the time by which the financial reserves of each business line will be at least equal to the lower threshold of financial reserves for that business line.

BPA should adopt the financial reserves surcharge proposal, but the business line upper threshold should be revised as discussed below. Further, the level of the financial reserves surcharge should be revisited if it appears that Power Business Line financial reserves will not increase to the lower threshold for the business line within 10 years.

B. If BPA Fails to Allocate Responsibility for Revenue Financing in Proportion to Outstanding Treasury Borrowing, BPA Should Revise the Upper Threshold Test for Financial Reserves During Phase-In to Ameliorate the Inequities of the Leverage Policy (Which as Discussed Above Should Be Modified to Eliminate the Ratchet for a Business Line That Meets the Leverage Goal)

As discussed above in section I.C, BPA should under the leverage policy allocate responsibility for revenue financing in proportion to outstanding Treasury borrowing. However, if BPA fails to do so, BPA should, at least, revise the upper threshold test for financial reserves during phase-in to partially ameliorate the inequities of the leverage policy.

Under the BPA proposals, the Transmission Business Line would be required, under certain circumstances, to carry financial reserves in excess of the business line upper threshold and potentially revenue finance to avoid an increase to the business line's debt-to-asset ratio, even if such ratio, as increased, would fall within the 2028 goal. As discussed above, the BPA leverage policy proposal should be modified to eliminate the ratchet for a business line if the business line is meeting its leverage goal. Even with this modification, the Transmission Business Line will be unfairly burdened during the phase-in period for Power Business Line

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16 Wrigley, *et al*., BP-18-E-JP02-01, at page 6, line 22, through page 7, line 3, page 27, lines 16-17 .

17 Wrigley, *et al*., BP-18-E-JP02-03, at page 27, lines 16-17.

18 *Id.* at page 19, lines 15-16; *see also* Harris, *et al*., BP-18-E-BPA-17, at page 12, lines 20-26.

19 FitchRatings, *Idaho Energy Resources Authority* at 3 (Sept. 18, 2017), available at https://www.bpa.gov/Finance/FinancialInformation/Debt/RatingAgencyReportsArticles/Fitch%20Full%20Report%20-%20IERA%209-18-17.pdf (addressing, among other things, BPA's rate case and financial reserve policy adopted in July 2017).

financial reserves by (i) meeting the 2028 leverage ratio goal and (ii) carrying financial reserves in excess of the upper threshold for that business line, while the Power Business Line (a) carries financial reserves far below the financial reserves lower threshold for that business line and (b) has a leverage ratio far above the 2028 goal.

Under BPA's financial reserves surcharge proposal, BPA should be raising $40 million per year to increase financial reserves of the Power Business Line. These increased Power Business Line financial reserves should reduce the amount of Transmission Business Line financial reserves required to be held in excess of that business line's upper threshold. Accordingly, financial reserves equal to the lesser of $40 million per year and the amount of financial reserves of the Transmission Business Line in excess of the line's upper threshold—without regard to the level of Agency reserves—can and should be used to fund transmission capital investment as necessary to meet the revised debt-to-asset ratio test described above. This would help ameliorate the unfair burden on the Transmission Business Line during the phase-in period for Power Business Line financial reserves.

C. In Any Event, BPA Should Avoid Undue Transmission Rate Increases in Implementing a Financial Reserves Policy and Adopting a Leverage Policy

BPA should, in all events, avoid undue transmission rate increases as a result of policy choices made in adopting a leverage policy and implementing the financial reserves policy. In that regard, Scenarios 2 and 3 for the Transmission Business Line[20] show "% Cost Change" for that rate period of 14.4 percent and 13.3 percent respectively. BPA's policy choices in adoption of a leverage policy and implementation of the financial reserves policy should not result in undue transmission rate increases. BPA's Transmission Business Line is bearing a disproportionately large share of the responsibility for maintaining the Agency's financial reserves. BPA's Transmission Business Line currently has a debt-to-asset ratio that is already within the 2028 goal proposed by BPA, and BPA's Transmission Business Life is not solely responsible for the exhaustion of BPA's Treasury borrowing.

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Commenting Parties appreciate the opportunity to submit these initial comments. By return e-mail, please confirm BPA's receipt of these initial comments.

[20] *See* March 20 Leverage Policy Presentation at 10.