NW Power and Conservation Council

BPA Finance Staff,

I attended both the March 2nd and March 20th workshops and previously submitted comments based on the March 2nd workshop and appreciate your responses.

It is clear that BPA needs to address expeditiously the concerns expressed by the three major bond rating agencies. The lack of significant reserves in the Power Division and the high debt-to-equity ratio are signs not of imminent insolvency but rather of the deteriorating fiscal health of the BPA.

The Northwest Power and Conservation Council has not debated or taken any Council position on the current proposed reserve and leverage policies. Therefore the comments, concerns and questions I am submitting today should be considered submissions solely from me.

While I believe Bonneville's need to address cash reserves, particularly in the Power Business Line, is critical, my comments today will be limited to the leverage discussion.

1. Comment / Question: Transmission Scenario 3 (Page 10 of handout) would be the most fiscally prudent option of those presented to address the need to sustain and expand the transmission system.

   I realize that to keep the debt-to-asset ratio in Transmission from exceeding approximately 80 percent it will require a corresponding increase in transmission rates. What level of debt repayment, revenue financing, and responsible reductions in capital outlay would result in a debt/asset ratio of 75 percent and what rate adjustment would be necessary to be at that level in 2028?

2. Concern: For the Power Business Line, Bonneville appears headed to adopting the base case scenario that will reduce the debt-to asset ratio to approximately 80 percent by 2028. This strategy may reduce the level of concern expressed by the three major bond rating agencies, but it will still leave a very high debt burden on the Power Business Line and necessitate higher rates than would be necessary than if the BPA were more aggressive in reducing Power's debt burden over the next 10 years.

   While the BPA's mission is to keep rates economical and as low as possible, it must also function in a fiscally prudent manner and recover all the costs associated with the system, including the amortization of capital costs over a reasonable number of years. Although efforts that BPA has made under Debt Optimization and the Regional Cooperative Debt Program have allowed BPA to pay down higher interest, Federal Appropriation Debt and maintain Treasury borrowing capacity, Bonneville has also been under pressure to consistently move principle payments forward in order to minimize rate increases in the short term that will lead to higher costs and higher than necessary rates in the long term. For example, if BPA had levied a 5 percent surcharge on power rates to reduce debt over the last 10 years it would have generated approximately $1.2 billion (without compounding rate increases during that period). In addition, interest costs over that period would have been reduced by probably almost $200 million (at 4 percent) and there would be no need for future interest payments on this debt.

Moving principle payments forward by refunding and reissuing debt was necessary to a certain degree, however it can be abused if its purpose becomes transferring obligations to the future to prevent making hard decisions in the present.

3. Questions: The Debt for Nuclear Project 1 has been restructured so that only a minor principle payment of approximately $1.3 million will be made between now and 2022. The current agreement with Energy Northwest is to pay off the remaining Project obligation of approximately $795 million (July 30, 2017) by 2028. Under the leverage proposal BPA ultimately adopts, what portion of this obligation will be repaid by 2028?

4. Question: Likewise, it is now my understanding that soon there will be a refinancing of the debt service for Nuclear Project 3 that will also limit principle repayment for this obligation to approximately $1.3 million between now and 2022. The current agreement with Energy Northwest is to pay off this obligation of approximately $1.011 billion (July 30, 2017) by 2028. Under the leverage proposal BPA ultimately adopts, what portion of this obligation will be repaid by 2028?

5. Question / Comment: Both Nuclear Projects 1 and 3 never produced an asset for the public, only a liability that had to be repaid. It has been 35 years since construction was terminated on both projects. Under the current proposal significant additional principle reduction of the remaining liability will not occur until almost 40 years after construction was terminated. If this debt is extended beyond 2028 then it will be more than 45 years to retire this liability. The current standard for amortization of a power asset is 50 years. I do not know what the standard should be for a debt that has never been an asset to the system. I realize that a case can be made that the deferral of principle payments on Projects 1 and 3 debt to enable the early repayment of other debt puts into question whether the remaining debt on Projects 1 and 3 should be attributable to those Projects or whether it has become a line of credit for BPA. When does BPA/ Energy Northwest plan to retire this liability?

6. Question / Comment: Nuclear Project 2, the Columbia Generating Station, has an outstanding debt liability of approximately $3.489 billion (July 1, 2017). This debt substantially increased beyond forecasts in 2012 when Energy Northwest incurred debt of approximately $748 million for the Depleted Uranium Enrichment Program. Like all nuclear power plants, CGS will require significant ongoing capital improvements over the next 10 years. CSG's license was recently extended through 2043 and this was the basis for extending the debt liability for CGS through 2044. BPA's agreement with Energy Northwest requires the debt associated with the CGS to be retired by 2044. It appears under the Regional Cooperative Debt agreement BPA and Energy Northwest will refund and reissue some of the debt outstanding for CGS to reduce principle payments between now and 2020. Does BPA anticipate retiring all debt associated with CGS by 2044? Is there any portion of Energy Northwest's debt liabilities for CGS that are not the liabilities of BPA?

7. The debt for CGS has largely been going in one direction… up. A recent publication by BPA indicated that Energy Northwest will debt finance capital improvements vs revenue finance the improvements for the foreseeable future. What does BPA believe the outstanding debt for CGS will be in 2028? And at that level of debt does it anticipate having adequate revenue to retire the debt by 2044?

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Northwest Power and Conservation Council