

Seattle City Light's comments on financial reserves and leverage policies

City Light thanks BPA for providing the opportunity to review and provide input to BPA's financial policies. City Light supports BPA's goals in the Strategic and Financial Plans and is particularly appreciative of BPA's commitment to provide competitive power products and services. We look forward to working with BPA to help it achieve its stated goals.

Comments applicable to both Financial Reserves and Leverage policies

City Light requests that BPA add more time to consider the options, costs, and benefits of its proposed policies before making any decisions. We recognize BPA would like to have decisions on its financial policies in time to add to revenue requirements for the BP-20 rate period, however, these policies will have long-lasting impacts, and require thorough evaluation. BPA could make decisions on the financial policies at the same time it concludes the pre-rate case workshops. This would allow customers to assess all proposals and changes and the subsequent results to Power and Transmission costs and rates.

At the same time, BPA is proposing the leverage and financial reserves policies. BPA is also proposing some changes, including the Strategic Plan, Financial Plan, Transmission Business Model, and Grid Modernization. Individually and collectively, these new proposals will affect annual spending, capital spending, and revenue requirements. City Light requests that BPA prepare a comprehensive assessment of all proposals for customers so that they can make an informed decision.

City Light requests that BPA estimate and consider the costs and benefits to customers of these proposals. The financial reserves presentation discusses only the costs of different options. Since the proposals have different characteristics and likelihood of goals being met, they also likely have different benefits. Leverage provides some information about changes to revenue requirements, however, not enough for us to assess the costs and benefits. Further, BPA is proposing each policy isolated from its effects on rates and competitiveness as well as other constraints, especially access to capital and borrowing authority. City Light requests that BPA consider a comprehensive financial policy, or that each policy should be cost-effective for customers paying for them.

Comments on Financial Reserves Policy

City Light is concerned about BPA Power's sustained and unplanned decline in financial reserves for risk. City Light supports BPA making prudent changes to ensure adequate financial reserves.

City Light requests that BPA do more analysis investigating the causes of the decline in BPA Power's financial reserves. The results of this analysis should support the development of solutions appropriate to those causes.

The BP-18 rates include a \$20 million/yr. cost for Planned Net Revenues for Risk (PNRR) to non-Slice customers that BPA could remove in future rate cases. City Light requests that BPA compare all financial reserve policy options to a change from \$0 PNRR or whatever it will be called in the future.

City Light requests that BPA consider an alternative to the annual surcharge in the event reserves fall below the minimum in the future. A recovery of \$340 million in one year from non-Slice customers would be a substantial cost, and one that is difficult to plan for and manage. Please consider an option similar to the present CRAC where BPA could recover some costs in the following year and additional costs in the second year.

City Light thanks BPA for providing the spreadsheets used to calculate some of the reserve surcharge scenarios and agreeing to perform a backcast. City Light requests that BPA provide additional information about the inputs, particularly natural gas prices and power market prices.

Comments on Leverage

BPAT and the federal agencies underspend capital allocations year-over-year yet the policy proposal assumes 100% spending. FY 2017 total actual capex was \$156 million less than planned; total capex for FY 2018 is forecast to be \$110 million less than planned at the start of the year. City Light requests that any leverage policy make some consideration for the likely event that this underspending will continue.

BPA should provide an independent assessment of capitalization metrics. BPA is relying heavily on the rating agencies for capitalization metrics. The rating agencies combine federal and non-federal agencies even though they have distinctly different governing bodies and policies. BPA and customers should work cooperatively to select the metric(s) that provides the appropriate cost and risk to customers.

City Light agrees that reducing capital spending does not provide much help with achieving leverage targets. Reducing capital spending provides help with access to capital, which BPA acknowledges as an important goal. BPA should consider either a separate access to capital policy or combine that goal with leverage policy. The two are closely linked.

City Light looks forward to the further consideration and development of these matters.

Please contact me if you have questions or want more information.

Thanks

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