

COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP ON PROPOSED LEVERAGE POLICY AND REVISIONS TO RESERVE POLICY

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The Western Public Agencies Group (“WPAG”) appreciates the opportunity to submit these preliminary comments on the Bonneville Power Administration’s (“BPA”) proposed revisions to BPA’s Financial Reserve Policy (“FRP”) and proposed Leverage Policy.

A. Proposed Framework for the Financial Reserve Surcharge Proposal.

Our understanding is that BPA intends to replace its current Cost Recovery Adjustment Clause (“CRAC”) mechanism with a new financial reserve surcharge. Under the proposal, when Power Service’s financial reserves are below the lower threshold of 60 days cash on hand under the FRP (approximately \$300 million) but above the amount necessary to satisfy BPA’s Treasury Payment Probability standard (“TPP”) (currently zero dollars), the surcharge would trigger by the lesser of \$40 million or the amount necessary to meet the lower threshold. When financial reserves attributed to Power are below zero dollars, the new surcharge will trigger for the amount of reserves needed to get back to zero plus \$40 million. BPA proposes to cap the surcharge at \$340 million/year.

In the BP-18 rate case, WPAG argued that BPA should not apply the same CRAC mechanism in support of the FRP as it does for the TPP standard on the basis that the FRP and TPP are for different purposes. Without a more nuanced CRAC mechanism, we argued, BPA could trigger a CRAC for hundreds of millions of dollars in order to meet the FRP’s lower threshold even in those circumstances where the TPP standard is satisfied. Our initial thinking is that BPA’s financial reserve surcharge proposal largely addresses this concern by significantly lowering the amount of the surcharge in those circumstances where Power’s financial reserves are below the 60 days cash lower threshold but the TPP standard is met. While we recommend that the \$40 million proposal is too high (as further discussed below), we are supportive of the general framework of BPA’s proposal to have separate surcharge caps for TPP and FRP purposes.

On the other hand, in those instances where Power’s financial reserves are below zero dollars, we note that BPA’s new financial reserve surcharge proposal would trigger dollar for dollar to recover the first \$300 million needed to satisfy the TPP standard and then add another \$40 million on top of that for FRP purposes. This is in contrast to the current CRAC mechanism, which would collect the first \$100 million of any shortfall dollar for dollar and then fifty cents on every dollar thereafter until the total CRAC amount for the given year equals \$300 million.

So, for example, if Power’s financial reserves are negative \$300 million, under the new financial reserve surcharge proposal the surcharge would trigger for \$340 million to be recovered entirely in one fiscal year compared to \$200 million under the current CRAC mechanism. While we do not like the idea of the CRAC triggering for \$200 million under such circumstances, we prefer a potential surcharge of \$340 million even less. Under this example, a \$200 million increase in rates would already place a substantial weight on BPA’s Power customers and the

region's economy. The current CRAC methodology seeks to balance this hardship with the objectives of the TPP standard by pushing recovery of the remaining \$100 million into a second fiscal year. This not only diffuses the financial harm of the CRAC and gives opportunity to the providence a new water/market year can bring, but it also ensures that BPA will satisfy the TPP in two years. BPA should seek to bring a comparable balance to its new financial reserve surcharge proposal by similarly capping the total surcharge amount at \$300 million with the first \$100 million recovered dollar for dollar and any additional amounts recovered fifty cents on the dollar.

B. Proposal to Increase Surcharge to \$40 Million/Year.

In its adoption of the FRP in the BP-18 Final Record of Decision, BPA decided to phase-in the lower threshold for Power Services by including \$20 million in Planned Net Revenue for Risk ("PNRR") in Power rates each year until the lower FRP threshold for Power is met. Under the proposed financial reserves surcharge, BPA would double the annual amount included in Power rates for purposes of meeting the lower threshold to \$40 million.

We do not believe that BPA has presented a sufficient business case to justify this change. Indeed, just the opposite. The main reason BPA adopted the FRP was to maintain its credit rating based on the assumption that it would become increasingly reliant on non-federal borrowing in the future and, therefore, if its credit rating were to be downgraded it would see harmful increases in its non-federal borrowing costs. However, the most recent information provided by BPA indicates that it expects to use substantially less non-federal borrowing in the future than what it projected in the BP-18 rate case. For example, BPA is now indicating that it will lease finance only 25 percent of its Transmission capital program compared to the 50 percent it projected in the rate case. In addition, BPA is also projecting substantially less refinancing of regional cooperation debt than what it was projecting in the rate case for the period from 2018 to 2027. Together these factors indicate that the impact of a credit rating downgrade would be less than what BPA projected and relied upon when adopting the FRP.

For instance, whereas BPA was projecting that a credit downgrade would increase Power's borrowing costs by an average of approximately \$16.1 million/year from 2018 to 2027, under BPA's new non-federal borrowing assumptions, the projected average has decreased to approximately \$9.2 million/year for the same time period. This downward trend indicates that the business case for BPA's inclusion of \$20 million in Power rates for FRP purposes is itself deteriorating and that its proposal to increase that amount to \$40 million is unsupportable from a cost benefit perspective and, therefore, unjustifiable.

C. Leverage Policy Proposal.

The WPAG utilities are still reviewing BPA's leverage policy proposal and will submit more formal comments during the next comment period in May. However, our initial thinking is consistent with BPA's presentation of this issue in that the policy should target activities of the respective business lines that degrade BPA's debt to asset ratio (i.e., instances where a business line is a net borrower), but take no action where a business line's activities are already improving or, at the very least, not increasing BPA's debt to asset ratio.