AWEC

Alliance of Western Energy Consumers ◆ 818 SW 3rd Avenue, #266 ◆ Portland, OR 97204 ◆ 971-544-7169 ◆ nwenergyusers.org

December 2, 2020

Via Electronic Submission

John Hairston
Interim Administrator and Chief Executive Officer
Bonneville Power Administration
911 NE 11th Avenue
Portland, OR 97232

Re: November 19, 2020 Presentation on RDC Calculation and Intended Use

Dear Administrator Hairston:

The Alliance of Western Energy Consumers ("AWEC") appreciates the opportunity to provide feedback regarding Bonneville Power Administration's ("BPA" or "Agency") calculation and intended use of the Reserves Distribution Clause ("RDC") presented to stakeholders during the November 19, 2020 Quarterly Business Review ("QBR") workshop.

Generally, BPA's financial condition improved this year with both Power and Transmission performing beyond expectations. For FY2020, results show an RDC of approximately \$80m. Specifically, "Agency ACNR is \$110.8m over the Agency Threshold [and] Transmission ACNR is \$79.7m over the Transmission Threshold."[1/] Thus, the Transmission RDC is \$79.7m. In light of BPA's announcement during the September 29, 2020, workshop that the Agency is on course to exhaust its federal borrowing capacity—driven by Transmission's activity as a net borrower—the Administrator proposes to apply the entire RDC amount towards paying down Transmission debt outstanding.

BPA has stated that absent immediate action, the Agency "projects to have less than \$1.5B of remaining borrowing authority in 2024."[2/] In other words, BPA would surpass its self-imposed Financial Plan limit of \$6.2B in outstanding bonds, as shown on slide 63 of the September 29th presentation because BPA has a statutory \$7.7B borrowing authority limit. At the November 12, 2020 follow-up workshop, BPA Staff explained that it also proposes to include \$45 million/year of revenue financing for debt relief in Transmission rates, which translates to 4.5 percentage points of the proposed 11.6% rate increase in the BP-22 Initial Proposal for Transmission. At the same time, BPA Staff has indicated that it intends to include as much as \$90m in revenue financing or debt prepayment on the Power side, rather than following standard ratemaking process and passing those funds back to customers through a net secondary credit, notwithstanding Power's position as a net re-payer of debt. In addition, customers have been unanimous in requesting that BPA look to non-rate solutions such as lease

1/ Id.

2/ Bonneville Power Administration, TC-22, BP-22 and EIM Phase III Customer Workshop, at slide 61 (Sep. 29, 2020).

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financing, capital reductions, and other options just as any preference customer would have to do before passing an impact of this magnitude through to its end users. Finally, some stakeholders in the Region appear to be pushing for a congressional expansion of BPA's borrowing authority, which would change the timing, if not the ultimate trajectory, of Transmission's borrowing issue.

At this time, stakeholders are commenting on only one of these tools: use of the RDC funds. Reducing debt is clearly among the high-value uses of RDC funds that the Administrator has the discretion to select. However, should the Administrator apply the entire RDC amount for debt reduction in 2021, this use of funds should be recognized by the removal of additional revenue financing in BP-22 when the Agency is already facing significant rate pressures in the Transmission Business Line. Balance between BPA's financial condition and the financial circumstances of both customers and stakeholders must be better reflected in the Initial Proposal, and in consideration of the RDC use. Cost of capital for BPA customers and their consumers is not zero.

Because it appears that BPA has moved ahead with revenue financing in the recently published Initial Proposal rate schedules, AWEC recommends that the Administrator split the reserves between rate relief and debt reduction. Applying $40m of the $80 million RDC toward rate mitigation would eliminate approximately 4 percentage points of the proposed 11.6% increase on Transmission rates, while applying the remaining $40m towards debt reduction would represent a meaningful first step toward tackling the borrowing authority issue. Such an amount is both a substantial and tangible relief to rate payers at a time when the entire Region is experiencing tough economic conditions and facing a significant Transmission rate increase in BP-22. During the BP-22 proceeding, stakeholders would then be able to holistically consider all of the options available to manage BPA's shrinking borrowing authority, rather than stacking unaffordable rate increases on customers in isolated processes.

AWEC does not believe that BPA should make the decision to apply the entire RDC to outstanding debt in isolation of other vital upcoming processes such as BP-22, IPR2, and long-term financial health discussions set to begin in FY2021. The Administrator's decision in this matter should tie together these monumental financial decisions with a broad view of the Agency and Region's financial situation. AWEC hopes that BPA will provide a far deeper level of analysis and evidence in its Initial Proposal than what has been prepared and presented to date. The effects of each of the mechanisms that are being separately considered should be explicitly tied together. Failure to do so will likely inhibit the ability of customers to form a holistic understanding of these interrelated topics.

/s/ John Carr
Executive Director
Alliance of Western Energy Consumers