Comments of the
M-S-R Public Power Agency
Financial Reserves Distribution

The M-S-R Public Power Agency[1] (M-S-R) appreciates the opportunity to comment on the appropriate business line-specific investment of Transmission Business Line's excess financial reserves for risk.

BPA's Financial Reserves Policy provides that if a business line is above its upper threshold, and the agency is above its upper threshold, then the Administrator shall consider investing the excess amounts in "business line-specific purposes including, but not limited to, debt retirement, incremental capital investment, or rate reduction."[2]

During the November 19, 2020 Quarterly Business Review workshop, BPA reported that it expects the Agency to be $110.8 million above the Agency upper threshold, and Transmission to be $79.7 million above its upper threshold.[3] BPA proposes to assign the entire $79.7 reserves distribution to the early retirement of debt, but invited customer comments on the intended use of the excess reserves.[4] M-S-R understands that despite the proposed use of reserves distribution to lower debt BPA does not intend to modify its forthcoming BP-22 rate proposal that includes significant levels of revenue financing for the Transmission Business Line.

M-S-R is concerned with the proposed use of the reserves distribution to reduce debt. The Reserves Distribution Clause triggered for Transmission because Transmission's positive net revenues accumulated above Transmission's target

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[1] The M-S-R Public Power Agency ("M-S-R") is a joint powers agency formed by the Modesto Irrigation District, and the Cities of Santa Clara and Redding, California, each of which is a consumer owned utility. Beginning with a 2005 contract, M-S-R obtained contractual rights to the output from some of the first large scale wind resources developed in Washington State. M-S-R and its members currently have rights to 350 MW of wind generation in Washington and Oregon, which its members use to serve their customers and meet California's Renewable Portfolio Standards. Those customers ultimately bear the cost of the Bonneville Power Administration ("BPA") Transmission and ancillary services rates and charges.

[2] Financial Reserves Policy, Section 3.4.1 (Financial Reserves Distributions), Administrator's Record of Decision – Financial Reserves Policy Phase-In Implementation, Appendix 1 (September 2018).

[3] November 19, 2020 Quarterly Business Review Technical Workshop at slides 17-18.

[4] *Id.* at slide 19.

threshold. In practical terms, this means that Transmission's customers have provided more revenues than were necessary to meet actual Transmission expenses. Simply stated: Transmission rates were higher than necessary to meet BPA's costs.

The most logical and equitable way to address this over-collection is to return the revenues to those who were over-charged. While it is not administratively practical to go back several years and provide a refund to the customers who were over-charged, the option of a rate reduction provides a reasonable alternative to actual refunds. M-S-R suggests a reasonable practical solution is to return the excess revenues to current Transmission customers over a relatively short time of two to four years. While the approach would not provide a perfect match between over-charged customers and those receiving the benefits, it would be a reasonable approximation.

This approach comports with the ratemaking concepts of intergenerational equity and cost causation by returning the excess collections to the generation of customers that caused the excess to accumulate through the above cost rates they paid. It also provides relief to Pacific Northwest region utilities and BPA's ratepayers affected by the COVID-19 pandemic, and it supports the economic engine of the northwest, infusing additional funds into the economy through a temporary reduction (credit) in rates. M-S-R notes that BPA suspended the collection of the reserves surcharge from Power customers to provide economic relief and asserts that doing so through the reserves distribution clause would be similarly effective.

By comparison, BPA's proposed use of the funds to repay debt will be inconsistent with intergenerational equity and cost causation, and will provide negligible relief to ratepayers and the region's economy. Debt reduction will extend the "refund" over the next 20-30 years through a modest reduction in future interest expense. Debt reduction does not materially benefit the current generation of customers whose payment of excessive rates funded the excess reserves. Rather, debt reduction will benefit a future generation of ratepayers, not the ratepayers funded the excess reserves. As such, the proposed debt repayment fundamentally fails the test of intergenerational equity and cost causation.

The proposed debt repayment is not equitable because it makes no attempt to compensate those who were overcharged. Instead, it perpetuates the inequity by extending (perhaps by 20-30 years) the refund from the overcharges.

Finally, the proposed debt repayment is not consistent with BPA's goal of being an engine for regional economic development. Currently, the federal government is considering additional stimulus to enhance the prospects that the economy will recover from Covid shock. The proposed debt reduction does just the opposite. It withholds funds from the region and transfers them to the federal treasury. This is the exact opposite of current macro-economic policy.

Given the proposed debt repayment is inconsistent with intergenerational equities, cost causation principles, and regional economic development, it is reasonable to ask why it has been suggested. The answer seems to be: the debt repayment provides a modest increase in BPA's federal borrowing headroom.

M-S-R recognizes that BPA has an access to capital concern that needs to be addressed strategically. However, the proposed use of excess reserves to repay debt is at best only a bandaid on access to capital. The solution to access to capital is not to mask the issue in tertiary financial issues such as leverage or reserves distribution. Instead, hard questions need to be asked and answered. Imposing significant over-charges on current customers in the hope that the access to capital issue will vanish is unfair to current customers and potentially a disservice to future customers. It is also harmful to a region recovering from a major economic shock.

M-S-R encourages BPA to refund the overcharges to current customers over the next two to four years in the form of a rate credit. M-S-R also encourages BPA to engage its customers now on a thoughtful consideration of how best to meet the future capital requirements of the region without unfairly taxing current customers.