

December 2, 2020

*Submitted electronically*

**RE: Transmission's Reserves Distribution Clause (RDC)**

Northwest Requirements Utilities (NRU) submits these comments in response to the proposal shared by BPA on November 19th regarding the triggering of the Reserves Distribution Clause (RDC) for Transmission Services based on FY 2020 financial results. NRU supports BPA's proposal to apply the entirety of Transmission's current \$79.7M RDC toward debt reduction, provided that this is consistent with BPA's Financial Plan.

**Background**

NRU represents the interests of 55 Load Following, NT customers. Combined, NRU members comprise 29% of BPA's Tier 1 load and provide about \$600M of annual Power revenues to BPA. NRU members contribute over \$80M per year of revenues to Transmission Services, including their NT contracts and Power's use of Transmission included in the Tier 1 rate.

Given that NRU members rely on BPA Power and Transmission for all or most of their power supply and transmission, the agency's long-term financial health, affordability and reliability are of utmost importance to these utilities.

The agency and its customers have invested years in analyzing the agency's financial health, developing objectives and metrics and implementing policies to achieve those goals. These objectives and metrics are outlined in BPA's Financial Plan that was adopted in 2018. The agency established three broad financial health objectives:

- Cost management discipline
  - Program costs
  - Capital investments
  
- Financial resiliency
  - Liquidity

- Debt utilization
- Debt capacity
  
- Independent financial health assessment

Since adoption of the Financial Plan in 2018, Power customers have borne increased costs and undertaken supportive actions to meet the objectives, as discussed below. It is critical that Transmission customers similarly undertake actions to support the agency's financial objectives.

### **Power Customers Have Diligently Supported BPA's Financial Health Objectives**

In the past couple of years, Power customers have taken direct action to support the agency's financial health objectives. Regarding the first objective of cost management discipline, Power customers have engaged directly with BPA to find opportunities to reduce costs and reprioritize capital investments. Similarly, Power customers have supported BPA's progress towards all three subcategories of the second objective of financial resiliency, including:

- BPA's Financial Reserves Policy (FRP) has been used to meet the "liquidity" objective. The 2018 Financial Plan warned that it might take "15 years" for Power to reach its minimum threshold of 60 days cash on hand (DCOH).<sup>1</sup> In fact, only a couple of years later, Power now exceeds the lower threshold and is sitting squarely within the "target" range of 90 DCOH at 95 DCOH.<sup>2</sup> This is in part due to Power customers building Power's financial reserves via direct infusion of cash. In BP-18, Power customers paid an additional \$20M per year via the Tier 1 rate to support Power reaching its lower threshold of 60 DCOH. In BP-20, the FRP Surcharge was implemented to collect up to \$30M per year until Power reached its lower threshold (the Surcharge was paused due to the economic devastation caused by the COVID-19 pandemic).
  
- BPA's Leverage Policy has been used to meet the "debt utilization" objective for Power Services. Power has been and continues to be on track to meet the "debt utilization" objective, as measured by its declining debt-to-asset ratio.
  
- Finally, Power customers directly supported the "debt capacity" objective by agreeing to the Regional Cooperation Debt (RCD) 2.0 program proposed and

---

<sup>1</sup> BPA's Financial Plan, page 10.

<sup>2</sup> FY2020-Q4 Quarterly Business Review, page 16.

adopted in 2018. This freed up an additional \$3.5B of debt capacity. Attached to these comments is a copy of the letter NRU submitted in support of RCD 2.0, including the qualifications for support.

### **Transmission Customers Must Similarly Support the Agency's Financial Health Objectives**

During the September 29th workshop, BPA staff shared that BPA is, once again, running out of debt capacity, even with the RCD 2.0 extension supported by Power customers. The loss of debt capacity is driven by Transmission Services being a net debt borrower. Transmission has net borrowed approximately \$2.1B since 2010 and is forecast to net borrow approximately \$2.1B in the next ten years.<sup>3</sup> This tremendous level of borrowing means the agency is forecasted to run out of Borrowing Authority by 2024, which would immediately impact the agency's ability to reliably and cost-effectively maintain its power and transmission assets.<sup>4</sup>

### **NRU Conditionally Supports the Proposed Use of Transmission's RDC**

During the November 19th workshop, BPA staff proposed to apply the entirety of Transmission's current \$79.7M RDC toward debt reduction. NRU supports this proposal, provided it is consistent with BPA's Financial Plan. NRU observes that BPA's proposal would restore some debt capacity and reduce interest expense, which appears to be consistent with the stated goals of the Financial Plan. If BPA carries out this proposal, NRU requests that BPA pay off the highest-cost debt first.

### **Comprehensive Financial Strategy Is Necessary**

BPA has adopted several policies to guide its financial strategies, including its Strategic Plan, its Financial Plan, the FRP and the Leverage Policy. Substantial progress has been made towards achieving many of the stated objectives, particularly by Power customers. Nonetheless, significant issues remain, particularly in Transmission, leading to a renewed risk of diminishing debt capacity. NRU urges BPA to work with customers to develop a comprehensive financial strategy that begins with a review of existing policies and progress and outlines next steps specific to Power and Transmission. Integral to this should be (a) a return to the Financial Plan's commitment to consider an "all of the above" capital-financing strategy, (b) the development and execution of strategic asset management plans that properly prioritize and execute

---

<sup>3</sup> September 29, 2020 BPA workshop, page 56.

<sup>4</sup> This includes preserving \$1.5B of Borrowing Authority per BPA's Financial Plan.

capital investments, and (c) recognition of the extensive investments Power customers have already made towards supporting the agency's financial health. It is imperative that Transmission customers undertake meaningful actions to support the agency's financial health as the agency is, indeed, one single agency.

To this end, NRU's conditional support for the current proposal does not imply that our organization will support any or all future use of RDC funds for debt reduction; the agency must independently analyze any future RDC funds applications, informed by a comprehensive financial strategy. Relatedly, given the importance of how any RDC is used in the future, NRU requests that BPA provide at least ten business days for customer comment.

### **Conclusion**

Thank you for the opportunity to submit comments. We look forward to continuing to work with BPA and customers to ensure the agency can continue to provide reliable and affordable power and transmission services.

Sincerely,

A handwritten signature in black ink that reads "Megan Stratman". The signature is fluid and cursive, with a long horizontal stroke at the end.

Megan Stratman  
Rates and Policy Director

September 25, 2018

Sid Morrison  
Chair, Energy Northwest Executive Board  
Energy Northwest P.O. Box 968  
Richland, WA 99352-0968

**Re: Regional Cooperation Debt Program**

Chair Morrison:

Northwest Requirements Utilities (NRU) is a trade association that represents the interests of 53 Load Following, NT transmission customers of the Bonneville Power Administration. NRU members purchase over 25% of BPA's Tier 1 power and rely on BPA's Network Transmission service to be available to serve peak loads.

The purchase of power and transmission from BPA is the largest item in NRU members' budgets and constitutes the largest component of their retail rates. Any rate increases from BPA ultimately flow through to NRU members' retail customers. Therefore, BPA's ability to offer cost competitive and highly reliable power and transmission services is of the utmost importance to NRU members.

A key component to BPA's financial health is its ability to access low cost, low risk financing. BPA is capital-intensive and its assets are aging and need to be replaced.

NRU and its members have invested much time and energy in understanding BPA's financial situation, capital plans and various financing options, including the proposed extension of the Regional Cooperation Debt (RCD) program. NRU recognizes the successful history of the RCD program and collaboration with Energy Northwest, which has benefited the region through substantial interest expense savings and restoration of Borrowing Authority from the U.S. Treasury.

NRU has worked closely with the Public Power Council (PPC) to evaluate the proposed RCD Term Sheet between Energy Northwest and BPA and develop modifications to address public power's concerns. NRU has reviewed and supports the PPC Recommended Term Sheet that was included with PPC's letter submitted on September 24, 2018 (and is reattached to this letter).

NRU's support of the proposed RCD program is based on the following understandings:

- BPA will provide transparent reporting of the repayment obligation between Power and Transmission rates for RCD transactions;

- BPA will hold a comprehensive public process by calendar year-end 2025 to review BPA's access to capital situation and strategy;
- BPA will continue to scrub its capital budgets, paying particular attention to prioritization of investments and historic execution rates; and
- RCD financing further reduces the risk of revenue financing in Power rates.

NRU believes the PPC Recommended Term Sheet adequately captures these understandings. As such, NRU supports using the RCD program to access up to \$3.5 billion between FY 2021 and 2030, per the terms and conditions stated in the September 24, 2018 PPC Recommended Term Sheet (attached).

In conclusion, NRU expresses sincere appreciation for the work and support provided by the Energy Northwest Board and staff and BPA to help the region understand the proposed RCD program, analyze its risks and benefits and be able to develop a position of support.

Sincerely,



Megan Stratman  
Rates and Policy Director  
Northwest Requirements Utilities

CC:  
Members, Energy Northwest Executive Board  
Brad Sawatzke, Energy Northwest  
Brent Ridge, Energy Northwest  
Garry Rosman, Participants Review Board  
Elliot Mainzer, Bonneville Power Administration  
Michelle Manary, Bonneville Power Administration  
Scott Corwin, Public Power Council  
NRU Members

**PPC Recommended “Term Sheet”  
2021-2030 Regional Cooperation Debt Program**

- Each bond financing transaction must be approved by the EN Executive Board.
- Characterization of extended EN debt as “regional cooperation debt” where practical and germane.
- Bonds issued will not have maturities beyond July 1, 2044.
- Sustainability and Continuity
  - BPA will provide annually to EN information on BPA’s financial operations with respect to regional cooperation debt refinancing and address the following, either in presentation or in an Appendix to include:
    - Debt Management Actions (Report on past and upcoming regional cooperation debt transactions)
    - BPA strategic and financial plan metrics to include:
      - Access to capital (\$1.5 billion of Treasury borrowing authority)
      - Days liquidity on hand (Goal of 60 days cash on hand per business line)
      - BPA’s budgets
        - Rate Case
        - Start of Year
        - Current Forecast
      - Trajectory of debt-to-asset ratio
    - Planned action to include revenue financing of capital investments in current or upcoming rate periods for the purpose of access to capital (including early repayment of debt for the purposes of access to capital) by business line
    - Transparent reporting of repayment obligation between Power and Transmission rates for regional cooperation debt transactions. This information may be maintained and provided through BPA’s public website.

- Planned action to include revenue financing of capital investments or early debt repayment in current or upcoming rate periods for the purpose of maintaining access to capital may be a factor considered by the EN Executive Board when approving bond transactions.
- BPA will engage with its public power and cooperative customers and hold a public process by calendar year-end 2025 to conduct a comprehensive review of BPA's access to capital situation and strategy. This assessment will include evaluation of the ongoing role and value of the RCD program in BPA's access to capital strategy.
- Revenues freed up from Energy Northwest's Columbia, Project 1 and Project 3 tax-exempt regional cooperation debt issuance not related to Energy Northwest's Columbia capital needs will be used to repay, within a reasonable period of time, an equal amount of federal debt or used for directly funding BPA capital investments. Any deviation from these uses of freed up revenues would be structured in a manner that provides the most overall benefit to the region, as determined through a public process involving BPA customers.