

Comments Regarding Proposed Use of Reserves Distribution Clause Funds

PPC appreciates this opportunity to comment on BPA's proposed use of financial reserves arising from the Reserves Distribution Clause (RDC) event for Transmission Services based on FY 2020 financial results.

BPA's Financial Reserves Policy provides thresholds to define the level of financial reserves to support the agency's liquidity goals as well as mechanisms for when reserve levels are above or below those thresholds. The RDC provides for BPA to use excess financial reserves for rate relief, debt repayment, or other "high value purposes" contingent on a two part test where the individual business line and the agency as a whole must be above minimum thresholds. BPA is proposing to use all of the \$79.7 million for early repayment of Transmission-related debt, which is within the Administrator's discretion.

In consideration of the totality of BPA's current rate and financial situation, the proposed use of Transmission RDC amounts is reasonable in this specific circumstance. Although as a general matter, PPC believes that the highest value use of excess financial reserves is rate relief for Northwest utilities and the communities they serve, several factors support use of the funds for debt repayment in this instance. First, BPA is facing acute limitation to its access to U.S. Treasury Borrowing Authority, which is driven by expanding net borrowing by the Transmission business line. Further, Transmission rates are currently set below cost under the BP-20 settlement agreement, meaning that reserves are already being used for rate relief at about \$55 million per year on a planning basis.

It is also important that the decision for use of RDC funds not be considered in isolation. Use of excess Transmission financial reserves for debt repayment should explicitly reduce the need for proposed revenue financing of capital investments in the BP-22 rate proceeding. Further, the question of how to use these financial reserves along with the ongoing challenges for access to capital highlights the urgency for progress on prioritization and cost management within the transmission asset management program.

Finally, we must further emphasize that the use of reserves for debt repayment in this instance is highly situational and does not have precedential value for future RDC events. Although paying down debt does provide long-term rate savings, BPA must explicitly consider its customers' opportunity cost of capital in evaluating the tradeoffs between different uses of RDC funds.

Thank you for your consideration of these comments.