



*Energizing Life in Our Communities*

December 2, 2020

Bonneville Power Administration  
905 NE 11<sup>th</sup> Ave  
Portland, OR 97232

Via email: [TechForum@bpa.gov](mailto:TechForum@bpa.gov)

**RE: Comments regarding the Transmission Reserve Distribution Clause Application Options**

Snohomish appreciates the opportunity to provide feedback to the Bonneville Power Administration (Bonneville) regarding the Transmission Reserve Distribution Clause (RDC). Snohomish offers these comments to propose specific areas of focus within the issue that Snohomish believes are critical to Bonneville's continued relationship with customers. In addition to these comments, Snohomish also fully supports the comments provided by the Public Power Council.

During its most recent Quarterly Business Review, Bonneville reported that overall agency reserves, and transmission reserves specifically, had increased to the point where the Reserves Distribution Clause (RDC) for the transmission business line has triggered. This is welcome news as the region, and the country, continue to experience difficult economic situations due in large part to the ongoing global pandemic. All load-serving utilities, including Snohomish, offered significant and sustained relief to customers to help them through these difficult times. Bonneville's decision on how to redistribute the increased reserves must reflect the economic pain of those customers.

**Application of the Transmission RDC**

Bonneville is proposing to apply the full value of the RDC toward debt reduction for the transmission business line. Snohomish believes this approach may be appropriate, but has specific conditions that should be met in order to best accommodate customers' needs in the BP-22 rate case, as well as position Bonneville for success in future rate cases. These conditions are as follows:

**1. Bonneville should apply the RDC to provide Direct Reduction in Revenue Financing**

Bonneville is facing significant borrowing authority constraints, which has moved Bonneville to propose large volumes of revenue financing. While revenue financing will temporarily mitigate these constraints, the direct result is a potentially significant upward rate pressure.

If the value of the RDC is applied to repay transmission system debt, Bonneville must be explicit that the repayment displaces finance-related spending in the BP-22 rate case. This will help reduce the immediate rate pressure faced by the region. If Bonneville applies the RDC to existing transmission system debt / borrowing, it would alleviate borrowing authority pressures but would appear to provide little to no immediate rate relief.

To this end, Bonneville must also be transparent about how the RDC is applied; the reduction in BP-22 revenue financing should be clearly documented as a direct result of the application of the RDC. Snohomish would like to see a clear accounting of the amount of the RDC, how that amount is applied, and how much revenue financing was displaced. Snohomish does not support continued revenue financing so long as there are remaining RDC dollars that may help reduce upward rate pressure in BP-22.

## **2. Bonneville should focus on Increasing Cost Management for Capital Spending**

Snohomish recognizes that applying the RDC to offset revenue financing in BP-22 provides a short-term benefit and pushes longer-term financial considerations into the future. This action should only be taken in combination with a strong plan to address those future financial considerations by increasing agency financial transparency and implementing cost control metrics.

Bonneville's ongoing challenges accessing capital highlight the urgency for visibility into, and improvement of, project prioritization and cost management within the transmission asset management program. If RDC dollars are to be spent on near-term relief, Bonneville must commit to a transparent process of prioritizing capital projects as well as modernizing its capital budget process following the BP-22 rate case. While this commitment should include discussions with customers to help scope the process prior to its implementation, Snohomish offers the following initial context:

### *Project Prioritization*

Project prioritization includes ranking or tiering projects in terms of need. This need could include system reliability, consequences of failure, or other factors identified by Bonneville so long as the criteria used for ranking is transparent. Once the projects are ranked, an appropriate prioritization should include an analysis of the impacts to the system and to Bonneville's customers if some, or all, of the projects are not undertaken. This will permit Bonneville to clearly and transparently evaluate all projects and their associated costs, including identifying which projects are critical and which may have more flexible timelines. While Bonneville has taken initial steps towards this in the Strategic Asset Management process, more work is needed sharing the results and making clear connections to capital budgeting efforts.

### *Capital Budgeting*

Cost management and capital budgeting are important levers to help correct debt and borrowing authority concerns. Bonneville should update how it goes about budgeting for capital projects.

Capital budget levels should be based on project prioritization and ability to execute. Traditional budgeting is focused on ensuring each project does not exceed its budgeted amount. This often results in the business line budgeting for projects that BPA does not have the capability to complete within the budget's timeframe. By ensuring that Bonneville's budget is aligned with its ability to execute the right projects within the budget period, the resulting budget may yield cost savings to increase the agency's financial maneuverability. Snohomish would be happy to discuss this issue further with Bonneville, and share its own recent experiences pursuing this budgeting approach.

### **Summary**

Snohomish views the current RDC discussion as unique and specific to the circumstances surrounding it, rather than a precedent setting decision that should set a path for future decisions. Specifically, by utilizing the RDC in BP-22 to offset revenue financing, Bonneville would position itself to provide immediate rate relief to utilities struggling under the conditions created by the pandemic, while giving itself time to adjust its internal processes for future success. Implementing the proposed revisions to budgeting and planning will set Bonneville on a path that will help address its borrowing authority limits, as well as its ability to responsibly and accurately budget and set rates. Further, improving Bonneville's cost control and budgeting methodologies will contribute to potential debt reduction in BP-24 and beyond.

Snohomish appreciates the opportunity to comment on these issues. If you have any questions on our proposals, please do not hesitate to contact us.

Sincerely,



Jason Zyskowski  
Assistant General Manager,  
Power, Rates & Transmission Management  
Snohomish PUD