Comments & Responses

September 15, 2021

Theme	Comment/Request	BPA Response/ Approach
Public Process	Comment Period: Extend the one week informal comment period following each workshop to allow external stakeholders time to provide high quality responses	The current approach for the workshops in January through March is informal and flexible enough to accommodate this request, to a degree. External stakeholders are welcome to submit comments and feedback outside the proposed one week comment period, however, BPA may not be able to respond to those comments in the next workshop. BPA proposes to maintain the existing structure, and to use the first few minutes of each public workshop to share how external stakeholders can provide their feedback or questions: • Verbally in workshops • In writing after workshops • Written feedback after the one week requested deadline will still be accepted, but BPA may not be able to respond to it in the next workshop.
	External Stakeholder Presentations: There was a verbal question in the workshop asking whether or not external stakeholders would have the opportunity to make their own presentations during the workshops in January through March.	BPA will build an opportunity for external stakeholder presentations into the schedule and will outline the parameters at the November 16th workshop. Additionally, BPA welcomes feedback during workshops and comments and feedback after workshops for consideration in the development of policies and metrics pertaining to the stated scope of the Financial Plan refresh project.
	Timeline: Requests grounding sessions be expedited and substantive workshops begin in December to allow more time for policy and metrics work.	BPA needs to maintain the current schedule. BPA is using the time through December to complete analysis and draft proposals and will not be ready to enter into substantive workshop discussions before January. Additionally, workshop attendance in December will likely be low due to holidays and people taking leave.

Theme	**Comment/Request**	**BPA Response/ Approach**
Debt & Borrowing Authority	Credit Rating Agencies: Questions submitted regarding rating agencies' views on several areas including, federal and nonfederal debt; leverage and the potential $10 billion increase to borrowing authority; and whether rating agencies more concerned with the debt to asset ratio or the adequacy of rates to service debt.	Credit rating agencies are independent of BPA. Each rating agency has its own model for developing a rating. Financial strength, e.g. liquidity, leverage, debt service coverage, is one of a number of factors considered in a rating determination. Much of this information is provided in the credit ratings which are posted to bpa.gov. Like many entities, establishing policies that support financial health is a focus for BPA.
	Revenue Financing: Comment encouraging BPA to expand on its assertion that revenue financing of long-term capital assets is consistent with "the lowest possible rates" and provide rate impacts associated with all of its financial plans.	BPA believes that revenue financing, as a general rate tool, is available for asset investment funding and is permissible under its statutory authorities, which speak to *lowest possible rates consistent with sound business principles*. Following our usual protocols, BPA intends to provide its legal basis for revenue financing in rates when proposing specific proposals in appropriate forums. BPA does not intend to provide a full rate impact assessment on all financial plans. This would take too much time and too many resources to complete given the level of complexity for each customer based on product mixes. BPA does intend to provide rules of thumb measures to gauge the potential impact to rates, if time and resources are available.
Capital Related	Spending Levels: Attention to persistently high capital spending forecasts. Policy/Process: Concerns about access to capital and leverage need to be incorporated into spending decisions, not just when making funding decisions after the fact.	BPA continues to mature its asset management program, which includes understanding asset investment needs and resulting financial implications. The IPR is the forum for customer engagement on specific spending levels. BPA regularly considers the implications to financial metrics from various capital spending levels. Regardless, BPA will take this feedback into consideration as it considers its capital workshop materials, and as it considers approaches to further its financial health balanced against other impacts.

Theme	Comment/Request	BPA Response/ Approach
	Specific request that BPA address the following topics related to Capital Investment: • Assumptions regarding incremental revenue from upgrades for new transmission interconnection and transmission service requests • Costs of lease financing compared to debt financing • Costs of Secondary Capacity Model Program (including a comparison of projected costs of hiring additional FTE for BPA to complete that work with BPA resources) • Estimates of revenue lost from delays in completing network upgrades • Estimates of the cost and revenues associated with transmission upgrades needed to meet Oregon and Washington clean energy goals	BPA will discuss lease financing and debt financing in the debt and borrowing authority workshops. BPA will discuss generally expand versus sustain investments in the capital workshops, but is not intending to discuss incremental revenues from specific types of capital projects during this process. The others areas noted are covered in existing workshops, such as the QBR Technical workshops, pre-rate case workshops and the IPR. These are out of scope for this project.

Theme	Comment/Request	BPA Response/ Approach
FPR Scope, Objectives, & Guiding Principles	Scope Concern: Concern that the scope falls short of the BP-22 settlement commitments.	BPA believes the current project scope does encompass all areas outlined in the BP-22 Settlement, which stated: *The refresh effort will include consideration of, among other things, Bonneville's financial health, including access-to-capital issues, sustainable capital funding approaches, long-term debt management, and other financial objectives. As part of the public process for the refresh effort, Bonneville will include discussion and consideration of issues related to Bonneville's borrowing authority and the use of revenue financing as a source of capital funding.* The workshops are designed to address these issues specifically, and there is a direct link between our commitments in the rate case to our planned pubic process scope. Debt and borrowing authority workshops will include access to capital and sustainable capital funding practices; revenue financing as a source of capital funding is a part of that discussion. Moreover, these workshops will cover the accounting and ratemaking treatment for revenue financing. Additionally, capital workshops will address other pertinent financial health objectives.
	Scope Consideration: Request for inclusion of additional topics. • Revenue financing • Debt repayment methodology – specifically early repayment • Performance metrics per business line • General alignment with industry standards for like entities • Full suite of financial statements for each business line	BPA believes it has included most of these topics in the current project scope, please see list below: • Revenue financing – *Included.* • Debt repayment methodology – specifically early repayment – *This is included in revenue financing discussions.* • Performance metrics per business line – *This is included in capital portion.* • General alignment with industry standards for like entities – *This is included in grounding sessions.* • Full suite of financial statements for each business line – *This will be handled within another work stream on a longer-term timeline than the Financial Plan Refresh project.*

Theme	Comment/Request	BPA Response/ Approach
Explicit Requests for Information	Additional Information Requests: Provide a written document followed by a presentation with an opportunity to ask follow up questions on the topics below: 1. Assumptions regarding life of assets 2. Assumptions regarding the repayment period of debt 3. Assumptions regarding depreciation 4. Regional Cooperation Debt and Debt Optimization, including benefits and costs by business line 5. Debt Optimization, including benefits and costs by business line 6. To the extent the assumptions (or inputs used) are different for Power and Transmission, BPA should provide a narrative explaining the reasons. BPA should also explain how these topics impact rates. The goal is for all customers to have a clear understanding of – and confidence in the fairness of – the assumptions underlying the financial models that feed into BPA's ratemaking process.	Some of these topics will be discussed in the forthcoming workshops. Specifically debt repayment, depreciation and asset life (items 1 -3) will be touched on in one or more workshops. BPA believes this will get at the heart of what is being asked in item 6. Regarding the costs and benefits of Regional Cooperation Debt and Debt Optimization (items 4 and 5), these topics are not within the scope of the Financial Plan Refresh project. However, BPA will cover the costs of different capital financing tools as part of this process. BPA encourages the stakeholder to re-raise these issues in future workshops if/when topics applicable to these areas arise.
Financial Policies	General Comment: Policies must set goals over the long term and be flexible enough to adapt to short-term needs without sacrificing long-term financial health metrics.	BPA agrees and strives to develop reasonable policies that achieve long-term goals with short-term flexibility.

Comments & Responses

October 19, 2021

Row #	Stakeholder	Comment	BPA Response
1	NIPPC	Please record the workshops and make the recordings available to stakeholders. The functionality is available within WebEx. Having access to recordings after the meetings offers stakeholders valuable flexibility in participating in this process.	BPA has discussed this but is not going to record the FPR workshops. We do not currently record most of our public meetings. We want the FPR workshops to include an open exchange between BPA and its stakeholders. We want all parties to comfortably share information or views that may reflect preliminary thinking. Recording the meetings could have a chilling effect on our discussions. BPA does not believe the potential benefit in terms of convenience outweighs the dampening effect it could have on our important and in-depth discussions.
2	NIPPC	BPA consistently describes Transmission Services as a "Net Borrower," but BPA has only shared data related to debt incurred from 2010 to 2020 (with a forecast for the time period from 2021 to 2040). Please provide additional years of historical data related to debt levels. It would be helpful if BPA would provide additional data on historical debt levels and extend the graphs in Slides 9-12, and 14-16 back to 1937 – or the earliest years for which data is available.	The following data are readily available: • Outstanding long-term liabilities by business unit is available on bpa.gov, files back to 1997. • For an explanation of federal appropriations, see BPA's FY20 and FY21 audited financial statements, Note 8.
3	NIPPC	BPA sets its capital spending program every two years in the Integrated Program Review process. Please explain how BPA has calculated the debt levels used in the forecast for the period 2021 to 2043. • Is the debt forecast limited to capital spending to maintain or replace the existing grid? • Does the forecast contemplate expansion of the grid to meet state public policy goals related to clean energy?	The forecasted debt issuance aligns to the capital investment plans outlined in Strategic Asset Management Plans (10 year plan). For years 11 and beyond we apply an inflation assumption. The details of SAMP for the upcoming two years (what capital investments are planned, whether sustain vs. expand, and other details) are covered in the IPR process. While there may be limited discussion on such issues as part of the capital workshops in the January – March timeframe, we do not intend to address

Row #	Stakeholder	Comment	BPA Response
			them in detail in the FPR process.
4	NIPPC	On Slide 12 of the October 19 presentation, Power's "Debt" includes Federal Appropriations. Are these appropriations debt? Please explain the purpose of these appropriations, and if they are debt, please provide details regarding the repayment obligation.	Appropriations are subject to the same repayment period conditions as bonds, e.g. maximum of 50 years but may be shorter if the underlying asset category has a shorter life. Interest rates are assigned based on the provisions of the Bonneville Refinancing Act of 1995. Transmission no longer has appropriations.
5	NIPPC	On Slide 15 of the October 19 presentation, BPA indicates that without the Infrastructure Bill, no additional Borrowing Authority is anticipated. Other than revenue financing, what alternative sources of capital is BPA pursuing for funding Power and Transmission Assets?	BPA is continuing to assess projects eligible for lease purchase funding. The 1974 Transmission Act gives BPA the ability to lease-purchase transmission-related capital projects. Within this process, our focus is on setting up sustainable capital funding approaches first, then determining what funding gap is left to address.
6	NIPPC	On Slide 18, the statement is made that "Moody's uses a variation of the Debt to Asset ratio with a focus on industry medians." Please compare and contrast BPA's calculation with Moody's calculation.	Variations in how an entity calculates "debt to asset ratio" appear to be common. BPA's calculation can be found in rate case revenue requirement documentation (Power in Table 3I; Transmission in Table 3-8). Some key distinctions between BPA's and Moody's calculations are that (1) Moody's includes a calculation of working capital on the asset side, which BPA does not do, (2) Moody's includes net pension liabilities as debt which BPA does not do, and (3) BPA includes deferred borrowing on the debt side, which Moody's does not.
7	NIPPC	BPA cited to credit agency rating reports on slides 17 to 19. Please provide additional information related to BPA's understanding of those reports:	Understanding and applying industry practices, as appropriate, aligns with our statutory authorities, which speak to lowest possible rates consistent with sound business principles. The slides

Row #	Stakeholder	Comment	BPA Response
		1. Of the public power entities BPA compares itself to, how do they compare to BPA in terms of gross revenue by business line, relative size of owned transmission assets, and federal financial backing? Is BPA an outlier in any of those regards? 2. Has BPA evaluated how its leverage practices compare to other large power marketers and transmission operators within the US and internationally who are not local consumer-owned utilities? 3. Why should BPA customers have confidence that the comparable entities are, in fact, comparable?	cited include quotes and data from ratings agencies that included BPA within various categories of comparable entities. BPA was included in these categories because it met the same criteria as the other included entities. The information provided at the Oct 19th meeting shows that, across multiple categories, BPA's current capital financing practices make it an outlier.
8	NIPPC	On Slide 20, several of the bullets are in quotation marks. What is the source of these quotes?	The quoted statements were direct citations from three Pacific Northwest utilities from publicly available work products: one was from a white paper on capital and two were from utility-issued official statements. Similar statements can also be found in official statements, strategic and financial plans, cost of service analysis/studies, and budget documents from other PNW utilities.
9	NIPPC	On Slides 21 and 22, BPA asserts conclusions for industry practice. What is the basis for these conclusions? Does BPA consider the utilities that employ these capital financing practices to be comparable to BPA? If so, please explain why they are comparable to BPA.	The descriptions of utility practice were informed by utility cost of service studies, other publically available documents produced by regional utilities, and utility training offered by trade associations (e.g. APPA).
10	NIPPC	On Slide 26, BPA indicates that the repayment period is 35 years for transmission and 50 years for power. Please explain why the repayment	Fifty years is the maximum allowable period. It can be shorter if the assets in the category have a shorter service life. Transmission repayment periods have

Row #	Stakeholder	Comment	BPA Response
		periods are different. Also, how is the repayment period shortened or lengthened when the term of debt used to pay for transmission and power assets is less than the stated repayment period or longer than the stated repayment period?	fluctuated over time, generally between 40 and 45 years, as the estimated average life of assets changed. BPA started using 35 years for transmission about two decades ago because it resulted in lower debt service costs over time. See the BP-22 Revenue Requirement Study for each business unit, section 1.2.2.2 within both documents, for a longer discussion on this topic.
11	PPC	PPC would like to express particular appreciation for the inclusion of asset management metrics in this process. Exploration of additional program and budget execution metrics (beyond capital) within BPA's overall program cost goals would be a valuable addition to the process – PPC anticipates preference customer proposals in this area, which we see as consistent with the scope proposed by BPA.	We received comments supporting the scope of the FPR, importance of grounding sessions, and importance of continued focus on cost management and value delivery. Thank you for these comments; BPA believes we are aligned.
12	PPC	Although not explicitly within the scope of the Financial Plan Refresh, we stress that affordability, cost management, and delivery of customer value must continue to be fundamental goals.	See #11
13	PPC	Overall, the scope and timeline of the process appears reasonable. Common "grounding" in key data and trends will enable more productive discussion among customers.	See #11
14	NRU	When discussing debt to asset ratio during the workshop, BPA staff commented that "lower is always better". NRU would like to point out that this isn't always true and implies that zero debt is the best possible financial scenario for BPA. NRU encourages the use of phraseology like "a debt to asset ratio that is too high is	It was not our intention to imply that a lower ratio is always better or that zero debt outstanding is the best scenario for BPA. We agree that a debt to asset ratio that is too high is unhealthy.

Row #	Stakeholder	Comment	BPA Response
		unhealthy".	
15	M-S-R	M-S-R thinks that the traditional cost of capital does not only include interest expense but also must include some recognition of revenue requirement for equity like capital. M-S-R also observes that in its experience, equity capital is more costly than debt capital. Therefore, the graph in slide 14 is incomplete.	It is not clear what this means or how it would be done. BPA has no equity holders. It does not have stockholders like an IOU or members like a co-op.
16	M-S-R	M-S-R's observation of slide 16 is very positive. It indicates that BPA's balance sheet is much stronger than it was 10-15 years ago. It also is M-S-R's observation that going forward BPA's balance sheet remains quite strong. Therefore, it appears that leverage is not a material concern with respect to BPA's financial health.	While BPA's total debt balance may be lower than the peak, the two business units have differing trajectories. Transmission's debt balance has grown significantly. Power's has declined. Slide 16 does not mean that leverage is not a material concern. As noted in other slides, BPA is an outlier regarding leverage.
17	M-S-R	M-S-R has reviewed some of the rating agency opinions and does not conclude that leverage is a primary concern. Rather the "willingness to impose adequate rates" and the maintenance of "adequate liquidity" are the primary concerns of the rating agencies. They are the primary concerns because the primary focus of the rating agencies is the probability of bondholders being paid interest and principal in a timely manner.	BPA has never said that leverage is the primary concern of rating agencies. Leverage is a concern, one of many. Rating agency reports may focus on different issues from year to year, emphasizing different issues. We pointed to rating agency perspectives and how BPA compares against other utilities as a way of thinking about sound business principles and industry practices.

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18	M-S-R	Fourth, M-S-R does not consider Publically Owned Utilities ("POUs") and/or Investor-Owned Utilities ("IOUs") as "peers" to a sovereign of the United States. IOUs and POUs have an obligation to make principal and interest payments in a timely manner. In the event such payments are not made, there typically are default provisions that are triggered. M-S-R is not aware of any similar provisions with respect to BPA's borrowing from the Federal treasury. M-S-R also thinks that there are governing boards that represent the interests of electric customers. Revenue financing cannot be imposed without the affirmative consent of these boards. M-S-R is not aware of any similar protection of customers with respect to BPA's imposition of revenue financing—it is a unique right of a sovereign entity. The asset base for such utilities also differ from that of BPA, with local resources meeting local needs, as opposed to BPA's high voltage transmission system forming the backbone for regional transmission.	BPA recognizes there are differences between IOUs, POUs, and a Federal Power Marketing Administration like BPA. Nonetheless, credit rating agencies include BPA in certain categories for purposes of their comparisons, which is evidence that those entities are in some ways comparable. In some respects, BPA faces more oversight than a POU. While POUs may have boards, and BPA an Administrator, BPA has a far more complex and inclusive rate process than any POU. BPA rate proceedings are conducted pursuant to federal statutory rules and then submitted to FERC for review and approval, something that POUs do not do. BPA is also subject to Congressional oversight unlike POUs. As for defaulting on bond payments, BPA is able to defer Treasury payments, but it is not without cost or risk. Deferred principal and interest must be repaid before any other Federal debt. It is not discharged as may occur in a bankruptcy proceeding. The last BPA deferrals led to repeated attempts to dismantle the agency.
19	M-S-R	What are the appropriate inclusive costs associated with financial capital (direct and indirect)?	It is not clear what this means. BPA's capital spending includes both direct and indirect dollars sometimes referred to as fully loaded cost. BPA's rate cases, budgeting, and borrowing is based on the fully loaded cost.

Row #	Stakeholder	Comment	BPA Response
20	M-S-R	Given BPA's projected level(s) of capital expenditures and past level(s) of leverage, is leverage likely to be a material concern over the next 10-15 years?	Slide 16 of the October workshop shows that both Power and Transmission appear to be on trajectory to meet or beat the mid-range target of 75-85% by 2028. Transmission's leverage ratio, however, stays relatively static and at no point reaches the long-term target of 60-70%. Furthermore, the leverage metric in the 2018 Financial Plan was intended to achieve low interest expense and financial flexibility. Given that, despite flat leverage, Transmission's debt outstanding levels and interest expense are forecasted to continue to climb, additional strategies should be considered to meet the intended purpose.
21	M-S-R	If BPA has adequate levels of reserves and adequate rates to cover program costs, will the rating agencies be concerned about BPA's leverage ratio?	Each rating agency has its own model for developing a rating. Financial strength, e.g. liquidity, leverage, debt service coverage, is one of a number of factors considered in a rating determination. In recent years rating agencies have mentioned financial reserves, and leverage as areas of concern. BPA believes managing its leverage, along with other financial measures, to remain financially healthy is a sound business practice regardless of whether the rating agencies identify this concern going forward.
22	M-S-R	Who are legitimate "peers" to BPA?	No two entities are exactly alike. BPA has some unique attributes, and some attributes that are similar to other entities. The slides recognize that BPA meets the criteria to be included in certain credit rating agency categories.
23	M-S-R	Is BPA's debt (to the Federal treasury) more akin to preferred stock or senior debt?	It is like neither. BPA's priority of payments makes Treasury debt subordinate to all other costs.

Row #	Stakeholder	Comment	BPA Response
24	M-S-R	If BPA's borrowing authority is increased by $10 billion, how should this impact BPA's capital financing policies?	Additional borrowing authority will address the near-term need to take immediate rate action to maintain a buffer of $1.5 billion in available borrowing. However, alleviation of this issue does not change BPA's commitment to develop sustainable, long-term policies on capital financing practices. Those policies will be designed to ensure BPA's balance sheet and overall financial health remains sound for decades to come.
25	M-S-R	Slides 10-13 and 15-16 reflect projections of debt financing and resulting borrowing authority availability. What are the capital spending assumptions underlying those debt projections? When were they made? What alternatives were considered? What projects are included? Do the changes to the energy markets and resource preferences result in changes to those assumptions?	Capital spending forecasts are from the IPR and IPR2 processes which provided spending forecasts for BP22.
26	M-S-R	Slide 14 reflects projected interest expense. What interest rate assumptions underlie the projections? What are the expected rate impacts?	The interest rate forecast is the same as the one used and documented in BP22.

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27	M-S-R	Slides 19-22 reflect data on industry practices for capital financing. Which utilities are included in the studies?	The Fitch peer study includes data on 50 public utilities across the US that receive credit ratings. It includes retail, wholesale, generating and transmission cooperatives, and distribution cooperatives. Moody's analyzes the financial positions of the top 50 public utilities that it rates. As for the regional utilities, BPA has found information on all of the PUDs in the PNW, about 1/3 of the municipals, and one cooperative. We also found information on six California utilities that purchase products from BPA.
28	M-S-R	Slide 24 – Please explain how the $187.4 million of forecast revenue financing for Transmission was derived. Also, what is meant by "About $110 million of total revenue financing was used to offset poor financial performance."	The $187.4 million includes revenue financing actually included in rates. The majority is from BP-20 and BP-22 which was driven by the leverage policy or settlement agreements. Regarding the $110 million, it is the amount of revenue financing that was included in rates, but in the end not used for revenue financing, but instead as a source of liquidity to offset lower-than-forecast revenues.

Comments & Responses

November 16, 2021

Row #	Stakeholder	Comment	BPA Response
1	Powerex	Powerex would find it beneficial if BPA could provide additional context surrounding the "higher of" methodology, specifically its origins and rationale for adopting it.	BPA must set rates to recover its costs and to recover the Federal investment in the power and transmission systems. It is also subject to commercial accounting requirements and obligated to use FERC's system of accounts. BPA has long interpreted its statutory requirements to set rates so that they recover its accrued expenses and its cash needs (i.e. debt repayment). The earliest expressions of this are in BPA's 1945 Annual Report.
2	Powerex	Could BPA expand upon how elimination of the "higher of" methodology would affect rate-setting? It would be helpful to understand how setting rates based exclusively on a cash accounting methodology—in lieu of the "higher of" methodology—would impact BPA's rate-setting.	It is likely that a cash-only test would have little if any impact on the total revenue requirement. Cash requirements dominate Power's total revenue requirement as is evidenced by the large minimum required net revenues in BP22. For Transmission, the repayment hardwires would be eliminated which would reduce repayment but this would almost certainly be reversed by the Leverage Policy. Transmission leverage is currently expected to stay roughly level with hardwires in place. Removing them would worsen Transmission's leverage picture and result in revenue financing to fill in for the missing debt repayment.
3	Powerex	Could BPA please explain generally how it addresses depreciation of Power assets owned by other federal agencies, like the Corps and Bureau of Reclamation?	Power rates recover the costs of the Federal Columbia River Power System (FCRPS) of which Corps and Reclamation assets are a part. These assets are depreciated as if they were BPA-owned, over a 75 year period.
4	Powerex	Could BPA please further elaborate or explain if BPA uses PFIA funding for federal assets, and if so, does BPA include depreciation for these assets in rates, and how does BPA treat the	Customer financed PFIA assets are BPA-owned. There are two basic categories – those that result in revenue credits for the customer (e.g. LGIA/SGIA/LLIP) and those that have

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		salvage value for these assets?	no credits (the rest of PFIA). These assets are depreciated like all other BPA Transmission plant. The depreciation of PFIA investments that have no associated credits is excluded from rates.
5	Powerex	Could BPA please address whether eliminating hardwiring would result in a build-up of financial reserves?	See the response to Question 2. Theoretically it is possible that eliminating hardwiring could result in higher reserves. This seems highly unlikely for Transmission because it is highly likely that the Leverage Policy would trigger and counteract the elimination of the hardwires. There is no hardwiring for Power because cash flow is already driving its rates.
6	Powerex	Please clarify what the interest rate and the adder are for BPA's Treasury Borrowing.	BPA's current interest rate forecast was published in the BP-22 Power and Transmission revenue requirement documentation. The adder above Treasury varies based on the maturity and the year in which the bonds are forecast to be issued. Spreads are as little as 0.02% for 6 month maturities and as high as 0.51% for 30 year maturities. On an actual basis, these spreads will vary based on a variety of influencing factors.
7	Powerex	Could BPA please identify its inflation assumption (and source for such assumption) that was relied upon to calculate the forecast debt-to-asset ratio (through 2043/2044)?	Inflation was not directly applied to the debt to asset ratio calculations. Inflation was used to estimate future capital spending. The inflation rates are the GDP deflater forecast in the interest rate forecasts used in the BP-22 rate case, noted in Question 6.
8	Powerex	Powerex would appreciate further discussion as to why BPA changed the repayment term from 45 to 35 years for Transmission. Could BPA return to a repayment period of 40-45 years? If not, would BPA please elaborate?	BPA shortened the repayment period for Transmission nearly 20 years ago because it lowered total debt service costs. For most of the 1980's and 1990's, the repayment period fluctuated between 40 and 45 years. We could lengthen it to the maximum

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			allowable period of 50 years since the weighted average life of Transmission assets is 51 years. As noted in BP-22 testimony, lengthening the repayment period may have little impact on repayment results since the model schedules repayment of all Federal debt in less than current repayment period of 35 years. A key point to remember is that the repayment model is used for a very narrow purpose, essentially to set the minimum repayment. External factors, such as the leverage policy or borrowing authority availability, can cause BPA to raise repayment levels above the minimums set by the model.
9	Puget/Pacificorp	Is it BPA's view that BPA's determination of revenue requirements based on the higher of forecasted cash flow and forecasted accrued expenses is (a) required by statute or (b) permitted but not required by statute? Please explain.	Statutes require that BPA's rates must be sufficient to recover total system costs and to ensure the repayment of the Federal investment over a reasonable number of years. BPA has determined that its "higher of" test ensures BPA meets both requirements.
10	Puget/Pacificorp	Could BPA determine revenue requirements based on forecasted cash flow, as is done by the other PMAs? Please explain	This is not BPA's interpretation of its statutes. In a given rate period, forecasted cash flow could be lower than what is required to recover forecasted accrued expenses, thereby failing to meet BPA's interpretation of the statutory requirement to recover total system costs.
11	Puget/Pacificorp	If BPA has paid for an asset with reserve or revenue financing, why is it appropriate to include depreciation on that asset in determining revenue requirement?	Depreciation is an expense in FERC's system of accounts, which BPA is obligated to follow. As noted in the workshop, depreciation does not represent the original cost of the asset but rather the loss of value of an asset including its end of life cost. Depreciation may recover much more or much less than the original investment cost. With the exception

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			of contributions in aid of construction (equivalent to BPA's PFIA), we are not aware of any utility that adjusts the amount of depreciation in rates for assets funded with cash, either reserves or revenue financing, rather than debt.
12	Puget/Pacificorp	When and how does BPA propose to address the applicable provisions of the recently-adopted Infrastructure Investment and Jobs Act?	BPA has already started implementing the provisions of the Act. We began with the grounding workshops before the bill even passed into law. BPA will conduct workshops in FY 2022, particularly the Financial Plan refresh sessions on capital financing, borrowing authority, and capital project prioritization.
13	NRU	BPA's recent increase in borrowing authority of $10 billion should not change or skew the process to identify appropriate capital and debt management practices.	BPA agrees with this sentiment.
14	NRU	BPA's recent increase in borrowing authority should not dampen interest in lease purchase financing if the project in its entirety can be completed more cost effective by utilizing lease purchase financing. o Examples of potential efficiencies are less regulatory burden; customer contractors can construct facilities at a lesser rate; and the potential for tax-exempt financing through a third party or access to grant or other non-reimbursable funds.	BPA agrees with the sentiment of exploring cost-effective lease options.
15	NRU	It is reasonable for the recent increase in borrowing authority to influence the timeframe or trajectory to achieve financial goals identified through the financial plan refresh process.	This aligns with our message during BP-22, that is, that an increase in borrowing authority does not change our intent to focus on developing sustainable capital financing practices, but does give us flexibility on the speed at which we head toward that goal.

Comments & Responses

January 12, 2022

Row #	Stakeholder	Comment	BPA Response
1	WPAG	Please confirm the list of Asset Categories subject to the Strategic Asset Management Plan process and any Asset Categories that are not?	The following Asset Categories go through the SAMP process: Transmission, Federal Hydro, Facilities, EF&W, IT, Fleet, and Security. The Columbia Generation Station Asset Category does not participate in BPA's SAMP process. Columbia Generation Station has its own, mature asset management program.
2	WPAG	Please provide a list of prioritized assets for one of the Asset Categories subject to the Strategic Asset Management Plan and then a companion list of this same population of assets that made it into the Asset Plan and ultimately in to Integrated Program Review budgets.	Our SAMPs discuss an overall strategy, and not a full list of projects/assets needed to implement that strategy. Asset Plans do identify specific projects to implement the SAMP's strategy for assets, but do not contain a complete list of projects/assets that tie directly to the IPR budgets. In the February 9th workshop, managers for each Asset Category will discuss how they create the capital forecasts that are included in the SAMP and IPR budgets.
3	WPAG	Please give an example of a change that happened to Integrated Program Review budgets because of customer feedback on Strategic Asset Management Plan or Asset Plan prioritization.	SAMPs were first shared for BP-22, and we did not have specific customer feedback on the SAMP during the SAMP public workshops or IPR. BPA's Asset Plans are internal documents on which BPA does not seek customer feedback. SAMPs are plans, not authorizing documents. These plans are an input to the IPR process where stakeholders can provide comments and suggestions, and such feedback can result in changes to IPR budgets. Most recently, during BP-22, BPA incorporated a Transmission capital lapse factor of $73 million for rate setting purposes as a result of the IPR-2 process.
4	WPAG	Give an example of an asset that was a priority in the BPA 2018-2023 Strategic Plan, went through the	The 2018-2023 Strategic Plan identifies high level organizational Strategic Goals and Objectives; it does not identify or prioritize

Row #	Stakeholder	Comment	BPA Response
		entire process and is now in service.	specific assets or projects. For example, Strategic Goal 2 of the 2018-2023 Strategic Plan is to "Modernize Assets and System Operations," with Objective 2b: "Modernize federal power and transmission system operations and supporting technology." The Dworshak Tailrace Gantry Crane $1.88 million (direct) project is an example of a project that supports this objective and is now in service. This project was identified in the 2018 Strategic Asset Plan with spend to start in FY19. The project was completed in October of 2021. The primary objective of this project was to provide a reliable tailrace gantry crane to support operations, maintenance, and emergency activities for units and other associated systems which require dewatering.
5	WPAG	Give an example of an asset that was not a priority in the BPA 2018-2023 Strategic Plan, went through the entire process and did not get ratepayer funding.	The 2018-2023 Strategic Plan and SAMPs do not include a list of specific projects/assets. Rather, the Strategic Plan provides organizational strategy, and the SAMPs provide high-level, long-term actions plans. Individual assets or groupings of assets included in Asset Plans should align with the high-level guidance from the Strategic Plan and SAMPs. Inclusion in an Asset Plan does not mean a project has been approved. As discussed on slide 29 of the January 12th presentation, all capital projects require a business case and are approved by business unit executives. A recent example of a project that did not initially get approved is the Midway-Ashe double circuit line rebuild. It initially was not approved due to unfavorable economics. However, it was approved later when economics improved.
6	NIPPC	Does BPA intend the SAMP to help anticipate future incremental demand for transmission capacity? If not, how does BPA incorporate that kind of anticipatory	At a high level, the SAMPs do reflect the anticipated future incremental costs and demand for transmission needs. However, such issues are addressed in more detail in our Transmission Plan, *available at*

Row #	Stakeholder	Comment	BPA Response
		information, if at all, into its capital investment plans?	https://www.bpa.gov/transmission/CustomerInvolvement/TransmissionPlan/Pages/default.aspx. Acknowledging the many uncertainties that exist in the evolving energy industry, the Transmission Plan is a 10-year outlook, and is a robust yet flexible forecast of Transmission needs as stated in the Transmission Plan. The Transmission Plan is refreshed annually and documents Transmission needs from the annual reliability system assessment, transmission service requests, new generation, and line & load interconnection requests.
7	NIPPC	NIPPC had previously asked how BPA was able to forecast its transmission capital requirements for 20 years out. BPA responded: The forecasted debt issuance aligns to the capital investment plans outlined in Strategic Asset Management Plans (10 year plan). For years 11 and beyond we apply an inflation assumption. Please provide the inflation assumption formula that BPA applies to the SAMP 10 year plan for years 11 to 20. Is the inflation assumption applied only to year 10 investment; or to the average investment for years 1 to 10. Or is there some other formula? Given the "lumpiness" of large new transmission assets (or other grid assets like the proposed Vancouver Control Center), NIPPC would be concerned about a formula that applies an inflation assumption to a single year's capital requirement.	The inflation rates are from BPA's official interest rate forecast which was published in the BP-22 rate case. As for the inflation calculations, year 11 is based on the last year of the IPR capital forecast. Year 12 is inflated from Year 11, and so forth.
8	NIPPC	NIPPC is concerned that the sharing of draft Transmission SAMPs which outline transmission infrastructure	BPA will consult with its SOC compliance office to ensure that the internal distribution of draft Transmission SAMPS complies with SOC rules.

Row #	Stakeholder	Comment	BPA Response
		maintenance, repair and replacement for the coming rate period may provide BPA's marketing employees with early notice of transmission outages and line de-rates in violation of the Standards of Conduct rules. With this advance notice, BPA's market function could have a head start over other market participants in making alternative transmission arrangements. Please explain how sharing the draft SAMP is consistent with, and does not violate, the Standards of Conduct.	

Comments & Responses

January 26, 2022

Avista et al. Comments:

Commenting Parties' February 9 comments state, "BPA's practice of determining revenue requirements based on the higher of forecasted accrued expenses or forecasted cash requirements ("higher of" methodology) raises important issues that must be examined with a view to revising the Bonneville revenue requirement methodology to avoid overstating the cost of asset acquisitions in revenue requirement." Commenting Parties argue Bonneville should abandon its higher of methodology, and that if Bonneville retains its methodology, Bonneville must record a regulatory liability to account for MRNR.

Bonneville Response:

Bonneville's use of the "higher of" methodology is not an issue that Bonneville is deciding as part of the Financial Plan Refresh, and staff continue to believe that the methodology is consistent with Bonneville's statutory authority. Even if Bonneville were considering a change, however, the Commenting Parties acknowledged that the issue would have to be determined through the 7(i) ratemaking process.

Bonneville is to set rates "with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles." Transmission System Act §9; *see also* Flood Control Act §5. Section 7(a) of the Northwest Power Act reiterates that Bonneville's rates shall be established in accordance with those statutes. The Ninth Circuit explained the broad latitude afforded by these statutes in *Cal. Energy Comm'n v. Bonneville Pwr. Admin.,* 909 F.2d 1298, 1308 (1990).

> [T]he statutes do not dictate that BPA always charge the lowest possible rates. 16 U.S.C. §838g directs that rates be set 'with a view to encouraging…the lowest possible rates to consumers….' The words 'with a view to encouraging' do not constitute a statutory command that the prices charged to consumers always be the lowest possible. Moreover, nearly every action by BPA has some arguable impact on future rates. If the strict interpretation of the 'lowest possible rates' standard advanced by DSI were accepted, the discretion that Congress vested in the Administrator would be eliminated. In addition, the direction to charge the lowest possible rates is tempered by the addition of the clause 'consistent with sound business principles.' 16 U.S.C. §838g.

In accordance with this broad discretion, Bonneville has set rates to recover, in addition to its minimum repayment study costs, costs associated with risk mitigation and financial health, supported by a business rationale.

Bonneville's "higher of" methodology sets rates for a given rate period at levels forecast to recover an amount of revenue sufficient to both meet its cash needs and recover its accrued expenses. That is, Bonneville does not intentionally set rates requiring Bonneville to defer Treasury payments, and Bonneville does not intentionally set rates to operate at a net loss. To the extent revenues sufficient to meet Bonneville's forecast repayment costs and all other cash needs for financial health and to mitigate the risk of deferring payments to the U.S. Treasury (Test 2) would still result in a net loss for a given rate period, Bonneville sets the revenue requirement to be neutral from an Income Statement perspective

(Test 1) for that rate period. The presence of MRNR means forecasted cash needs (Test 2) are determining the revenue requirement.

Bonneville's long-standing policy has been that it is consistent with sound business principles to set rates to avoid operating at a loss from an Income Statement perspective. Bonneville's "higher of" methodology—which Bonneville has been using for the past 40 years—achieves this outcome. This long-standing policy is also not contrary to any Bonneville statute; Bonneville's statutes do not require it to set rates to intentionally operate at a net loss. Moreover, FERC has reviewed and approved Bonneville's approach and "higher of" methodology in the order cited by Commenting Parties.

> [T]he Commission has concluded that Bonneville's filing is not double-counting. The depreciation component is not added to the repayment (amortization) component but the greater of annual depreciation or amortization expense is included in the income statement to demonstrate the adequacy of current revenues, thus enabling Bonneville to satisfy both DOE, using repayment accounting, and its independent auditors, using depreciation accounting. Bonneville's *approach* is reasonable and *this methodology* does not result in revenues in excess of Bonneville's repayment requirement.

54 FERC ¶ 61,235 at 61,692 (1991) (emphasis added).

Bonneville is also not deciding, as part of the Financial Plan Refresh, whether to record revenue financing or MRNR as a regulatory liability. This is also a rate case issue. Nonetheless, BPA staff disagree that Bonneville is required to record revenue financing or MRNR as a regulatory liability. The Financial Accounting Standards Board (FASB) lays out the GAAP basis for regulatory assets and liabilities in Accounting Standards Codification (ASC) 980. It describes regulatory liabilities as generally falling into three categories:

1. Refunds of amounts previously collected from customers (*e.g.*, revenues billed as subject to refund, balancing accounts related to decoupling mechanisms, over collection of expected tax payments);
2. Current collections for future expected costs (*e.g.*, contingency costs, storm repair costs);
3. Refunds of gains (*e.g.*, investment income, sale of assets).

Revenue financing does not fit into any of these categories. As noted in several workshops, revenue financing and depreciation are different costs. Including revenue financing does not mean that Bonneville is collecting revenue to recover future depreciation expense (#2). There is no prior collection to refund (#1). It is not a gain to be distributed (#3). Moreover, while it is not uncommon for utilities to finance capital investments with cash, we are not aware of any utility creating a regulatory liability or otherwise offsetting depreciation of cash-financed investments.

In the January and February workshops, Bonneville described an initial approach to sustainable capital financing to pursue specific financial goals, namely moving away from 100% debt financing, achieving net neutral borrower status, and reducing business unit leverage to 60% over the next 20 years. Under such an approach, forecast cash needs (Test 2) would determine the revenue requirement, *i.e.,* cash needs for the rate period would be greater than expected accrual expenses. Reducing non-cash expenses (such as depreciation expense) by amortizing a regulatory liability would not reduce the total revenue requirement.

Row #	Stakeholder	Comment	BPA Response
1	NRU	NRU appreciates BPA's efforts to update its Financial Plan. To date, NRU sees alignment between NRU's financial refresh principles (outlined in a letter submitted January 22, 2022) and the goals that BPA has established to guide its financial refresh process.	Thank you for your comment.
2	Snohomish	Snohomish supports the goals and framework described in the workshop. In particular, Snohomish is encouraged to hear commitment from the Agency to move away from 100% debt financing to revenue financing a portion of Power and Transmission capital. This is standard utility practice. In general, Snohomish finds the methodology meets the goals and principles of sustainable capital financing as laid out in the workshop. The methodology looks promising to achieve the net neutral borrower goal, but would need periodic reassessment, possibly every rate period, to reflect changing conditions.	Thank you for your comment. We agree that periodic review of the policy, goals and metrics is a prudent, and aligns with the standard business practice of "plan, do, check, and adjust". We are interested in hearing ideas about ways to include, within the policy, flexibility to respond to changing circumstances.
3	Avangrid et al.	Overall, the Bonneville Financial Plan Refresh Presentation outlined an "Initial Approach" or "Goals" with respect to (i) revenue financing of 10 to 20 percent of "total capital", (ii) net neutral borrowing position, and (iii) 60 percent leverage ratio (debt to assets). Bonneville should explain how its "goals" or "approach" with respect to the Financial Plan Refresh are intended to affect the scope of issues in rate cases. In that regard, the Financial Plan	BPA would implement the policy in future rate cases absent a determination by the Administrator that the policy must be modified. For example, under the Leverage Policy, the rate case will not revisit whether BPA should allow a business line's debt-to-asset ratio to increase rate-period to rate-period. However, the Leverage Policy allows flexibility within rate cases for BPA to take additional actions, determined on a rate-case by rate-case basis, to achieve the mid- and long-term targets. The scope of rate case issues would depend on the terms of the policy. To that end, we are

Row #	Stakeholder	Comment	BPA Response
		may inform Bonneville's initial proposal in rate cases but cannot and should not limit the scope of Bonneville's rate cases, which are statutorily defined.	interested in hearing ideas about ways to include, within the policy, flexibility to respond to changing circumstances.
4	Avangrid et al.	At the Workshop, Bonneville provided overarching goals and principles for the Financial Plan Refresh, including achieving a leverage ratio no higher than 60 percent by 2040. According to Bonneville, this goal is a clearer articulation of the 2018 Financial Plan's long-term goal, which has been updated to ensure a net neutral borrowing position. The 2018 Financial Plan includes a mid-term goal of achieving a debt to asset ratio of 75 to 85 percent by 2028 and 60 to 70 percent over the long term. Bonneville's Leverage Policy also adds a near-term requirement of not allowing the debt-to-asset ratio to increase from rate period to rate period. NIPPC's presentation at the Workshop included an in-depth analysis of Bonneville's credit ratings, concluding that there is no compelling need to reduce Bonneville's debt to asset ratio much below 80 percent. In light of these statements, Commenting Parties ask that Bonneville respond to the material presented by NIPPC and explain whether 60 percent remains a reasonable leverage goal.	BPA continues to believe that the short-term goal of 60% debt-to-asset ratio is appropriate, as described in the January 26th workshop. The NIPPC presentation argued that reducing leverage would not improve BPA's credit rating, which was not BPA's intent. The Financial Plan objective is to "maintain high investment-grade ratings," not to improve BPA's ratings. Furthermore, our focus on reducing leverage has important benefits such as improving financial flexibility, reducing interest expense, and reducing exposure to a changing interest rate environment. BPA believes managing its leverage, along with other financial measures, to remain financially healthy is a sound business practice, commonly used across the utility industry. The NIPPC presentation refers to four other utilities. It was noted that they are not perfect comparisons, just as BPA has noted that there are no perfect comparisons among public utilities. All four are dependent on debt for capital financing, as is BPA, and as it will continue to be even with a capital financing policy. Three of the four utilities are entirely or majority owned by foreign governments (this includes government pension funds). All three appear to be regulated like an investor owned utility in the U.S. Unlike BPA, all three pay significant dividends to their owners, which provides an incentive to maximize borrowing. The government owners are able to adjust the dividend paid by the utility to meet the financial needs of the utility or the government. The Norwegian government, for example, cut the dividend from Statnett in half in 2014-18 when the utility had ramped up its construction

Row #	Stakeholder	Comment	BPA Response
			program, which appears as if the government was allowing the utility to use revenues to support the capital spending. The fourth utility, TVA, is unlike the other three with very little regulatory oversight. Like BPA, it does not pay a dividend to the Federal government. In recent years, TVA has dramatically increased debt repayment to improve its balance sheet. TVA is able to include in its rates "such additional margin as the TVA Board may consider desirable for investment in power system assets". The NIPPC paper notes that TVA has a debt to asset ratio in the mid-60's. (pg 21) To the extent these entities are comparable, the comparison supports taking action. Although other credit positives may compensate for BPA and these European entities' poor leverage position and prevent a downgrade, none of the reports suggest that an 80% leverage is a good thing. Fingrid demonstrates that new builds for renewable development, with a heavy reliance on debt, can strain financial metrics, which supports BPA taking steps to maintain financial flexibility. Hydro-Quebec has lower leverage than BPA (around 70%), even with much stronger government support than BPA. Moody's and S&P set Statnett's 80% leverage at the stand-alone equivalent of Baa2 and BBB levels. TVA has leverage in the 60's. These examples suggest BPA has room to improve on leverage for financial health. BPA agrees that there is no perfect peer for BPA to measure against, but we do find it reasonable to look at the utility industry in general to help gauge our direction. As discussed in the Jan 26th workshop, BPA is not aiming to be overly aggressive on its leverage goals, and is comfortable being at the upper end of the spectrum for what is considered financially healthy for leverage goals, and to take a long-term approach to achieving this goal.

Row #	Stakeholder	Comment	BPA Response
5	Avangrid et al.	Bonneville describes its updated leverage goal as closer to industry norms, without being overly conservative. Based on comments made during the workshop, Bonneville appears to have focused mainly on utilities in the Pacific Northwest when considering industry norms. NIPPC's presentation concludes that when compared to a more appropriate set of peers, including global transmission operators with connections to their host government, Bonneville's leverage appears more in line with its peers and more defensible. Commenting Parties ask Bonneville to consider this information provided by NIPPC and explain whether its presentation of industry norms remains reasonable and/or may be overly conservative.	The grounding presentation in October 2021 included comparisons to public utilities across the U.S. The pool included the largest public utilities in the U.S. TVA was in that pool and had notably better metrics that BPA. Bonneville believes that the comparisons to public utilities is reasonable. Ratings agencies include BPA in certain categories because they believe BPA has characteristics that are comparable to the other entities in the categories. Fitch includes BPA in its *Public Power-Peer Review* reports. Moody's includes BPA in its *Public Power Sector-in-Depth* reports. While BPA is not identical to any specific public utility, or even to the other power marketing administrations or TVA, ratings agencies believe these categories are a useful point of comparison. BPA's non-federal debt programs involve debt issued by non-federal entities, the repayment of which is secured by BPA's financial commitments. Such debt, issued by Energy Northwest, Port of Morrow, Oregon, and Idaho Energy Resources Authority, is issued in the municipal debt market. Although BPA itself is not a municipality, investors in that market will be comparing this debt backed by BPA against other municipal debt in making their investment decisions.
6	Avangrid et al.	Bonneville should explain why a 10 to 20 percent revenue financing goal is reasonable and consistent with the statutory requirement to establish rates to recover its costs (including amortization of the Federal investment over a reasonable period of years) in accordance with sound business principles.	BPA believes that an in-depth discussion of this principle is more appropriately addressed in the context of a Record of Decision. In general, though, it is BPA's view that adopting reasonable financial policies that support BPA's long-term financial health falls within the Agency's authority to set rates consistent with sound business principles. Among other reasons that this policy would be supported by sound business principles are the following: • BPA has discretion in how it chooses to

Row #	Stakeholder	Comment	BPA Response
			finance its capital needs. BPA is not required to 100% debt finance its capital program. Revenue financing is one way BPA can pay for its capital needs. • How the utility industry as a whole functions can help inform whether a practice is consistent with sound business principles. Not relying entirely on debt to finance capital construction is a common industry practice. It is quite common to rate finance 40-60% of capital investments. • Revenue financing 10-20% of the capital program moves BPA away from the costly practice of 100% debt financing, and is principled to ensure that customers in each rate period contribute. Revenue financing will achieve our objectives of net neutral borrower status and 60% leverage at a measured pace that will take 20 years to achieve. This balances the benefits of lower costs, increased financial stability, and financial flexibility with near-term rate impact and intergenerational equity.
7	Avangrid et al.	Bonneville should explain why a net neutral borrowing position Goal is reasonable. Zero increase in net borrowing appears to be arbitrary and unnecessary, particularly in light of the recent, very substantial increase in Bonneville borrowing authority. For example, if Bonneville's revenues and capital investments were to increase by 10 percent why shouldn't Bonneville's net borrowing position increase?	Debt financing virtually 100% of the capital program has increased Transmission's total debt outstanding by $2 billion over the past 10 years, and Transmission debt is expected to grow by another $2 billion. It is also important to note that the majority of Transmission's capital investments are replacements of existing assets and facilities and not expansion projects. A net neutral borrowing position will arrest the growth of Transmission's debt and ensure a more consistent cost of service over time, rather than requiring future rates to deal with an ever increasing debt service load. BPA's access to a higher U.S. Treasury borrowing

Row #	Stakeholder	Comment	BPA Response
			limit does not mean we should immediately use it all. Our goal is to manage this access and our overall debt portfolio responsibly. BPA is unaware of any other utility that allows its debt outstanding to grow unchecked. We suggested a phase in approach to move to a net neutral borrowing position and 60% leverage that ensures incremental rate impacts are limited to roughly 1% or less. Taking a net neutral position will ensure we drive toward the 60% leverage target. Ideally, the capital financing policy will include some flexibility for periodic assessment of progress and changing circumstances. Periodically revisiting our goals is a prudent and a standard business practice – the "plan, do, check, and adjust" model. We would like to hear ideas on ways to include such flexibility within the policy.
8	Powerex	Powerex was intrigued by the credible presentation and report from Mr. Oosterveld. Powerex would appreciate BPA providing a detailed response to the presentation and materials, and how this type of analysis will be incorporated or accounted for in the pre-rate case workshops and the rate case for BP-24.	See response to Avangrid et al., line 4.
9	NRU	As expressed in NRU's financial refresh principles, our members are interested in further developing parameters that should be applied when BPA proposes the use of revenue financing.	We understand this question to be referring to the principles identified in the first NRU comment, but would like to hear more if "parameters" refers to something different. Regarding NRU's interest in using revenue financing to pay for shorter-lived assets, BPA believes that there is benefit in retaining the flexibility to use the funds for any asset. For instance, interest rates tend to grow as the maturity of the debt lengthens. Given this, it is more beneficial to use revenue financing in lieu of high interest, long-term debt rather than to avoid lower interest, short-term debt.

Row #	Stakeholder	Comment	BPA Response
			Furthermore, restricting the use of revenue financing might also create added complexities in managing our debt portfolio.
10	NRU	Also, in response to the Northwest and Intermountain Power Producers Coalition presentation on January 26, NRU would appreciate more information to support the appropriateness of BPA's goal of achieving a leverage ratio of no higher than 60% by 2040.	See response to Avangrid et al., line 4.
11	NIPPC	NIPPC requests that BPA revisit the analysis underlying its 2018 Financial Plan and the Plan's conclusion that a 60-70% debt-to-asset ratio is an appropriate target for BPA.	See response to Avangrid et al., line 4.
12	NIPPC	NIPPC requests that BPA provide the documentation that explains how BPA determined that the industry average debt-to-asset ratio is 54% and why the debt issuers who make up that average are comparable to BPA as a borrower.	In the October 16 grounding workshop, BPA provided information from reports by two credit rating agencies, Moody's and Fitch, on the state of public power. They are based on public utilities with bond ratings and include BPA and TVA. In the Moody's assessment of leverage, BPA was significantly outside the norm, with a debt to asset ratio significantly higher than the average for large public utilities with generation. In Fitch's assessment of debt to funds available for debt service (FADS), BPA was significantly higher than the norm (which is where TVA lay). We are unsure of the reference to the "industry average debt-to-asset ratio is 54%"; we do not believe our presentations made such a reference.
13	NIPPC	NIPPC also asks BPA to provide customers with a comparison of the rate implications to customers (through 2040) if BPA were to set a long-term debt-to-asset target of 60%, 70%, 75%, or 80%. Ideally, this comparison would show both	BPA has not forecast rates prospectively; any analysis would concern incremental cost implications of achieving various debt-to-asset targets. BPA has already shown this analysis in part and will not conduct additional analysis. The grounding session on October 19, 2021, showed Transmission in the 74-75% range. As a

Row #	Stakeholder	Comment	BPA Response
		anticipated revenue financing in dollars and in percentage rate increases for each rate period through 2040.	result, the 75% scenario requested is essentially the status quo, and was shown in the October grounding session. This status quo approach includes only the revenue financing needed to achieve the short-term leverage target (no increase from rate period to rate period). The only way to achieve an 80% target would be to either pay less debt than is currently anticipated or to issue more debt than is actually needed. Either action would significantly worsen the already growing debt level. The January 26th workshop provided the information associated with 60%.
14	NIPPC	NIPPC acknowledges that credit ratings and other capital market perspectives on the agency's financial health are important but not sole inputs into the Administrator's decision about the agency's financial policies. Therefore, NIPPC requests that BPA provide a more detailed financial or legal rationale for why, if a 60% debt-to-asset ratio (or any ratio much lower than 80%) will not materially improve the agency's 2 creditworthiness, such a low leverage target is necessary to set "the lowest possible rates to consumers consistent with sound business principles."	BPA believes that an indepth response to this comment is more appropriately addressed in the context of a Record of Decision. In general, though, BPA has discussed its rationale for aiming for the 60% leverage goal. Virtually no utilities use 100% debt financing because revenue financing is a sound financial practice that builds financial flexibility. 60% leverage is at the upper end of what is considered healthy. It is not too aggressive and our phase-in approach ensures modest rate impacts. 60% leverage and net neutral borrowing position are prudent and reasonable given the level of uncertainty and risk coming at both sides of the business.
15	NIPPC	Development of a more precise and potentially less volatile methodology to forecast capital requirements in years 11-20 rather than an inflation modifier applied to year 10.	BPA is open to suggestions. The current method does not appear to have appreciable volatility.
16	AWEC	If there is a 1% increase to rates associated with this action [revenue financing], what commitment will BPA make to find additional offsetting cost reductions to mitigate the 1% rate increase?	BPA has been controlling its program costs to stay within the "at or below" the rate of inflation objective of the strategic plan. The capital financing proposal is not linked to that objective. Thus, it is not BPA's policy to offset the 1% rate increase with programmatic cost reduction. The limit of no greater than ~1% incremental rate

Row #	Stakeholder	Comment	BPA Response
			increase associated with revenue financing is intended to phase in the need to shift to 20% revenue financing.
17	AWEC	What other actions does BPA envision having to take to address its financial health that would add to the 1% rate increase? Moreover, what are the guarantees that these goals will not be expanded in a rate case or determined to be the wrong metric, resulting in the need for other actions, as was experienced in BP-22? What stress testing has BPA performed to assess the resilience of this framework to function as anticipated in a variety of interest rate/borrowing/capital budget environments?	At this time, we do not anticipate any other actions. As with all policy setting, it is possible that adjustments would be necessary or desirable in the future. BPA is also considering ways to include some flexibility in the policy for periodic assessment of the objectives, progress, and current circumstances. BP-22 was unique, responding to what was then a looming borrowing authority shortfall and with the realization that the Leverage Policy was not working as expected. The capital financing policy could be far simpler to implement than the Leverage Policy. As mentioned in the January 26th workshop, the revenue financing could be calculated on either historical capital spending or projected spending. As capital spending (actual or forecast) grows or shrinks, the amount of revenue financing would grow or shrink.

Comments & Responses

February 23, 2022

Financial Plan Refresh
Public Comment Summary
February 23, 2022

Row #	Stakeholder	Comment	BPA Response
1	RNW and NRDC	BPA recently received increased borrowing authority in the federal Infrastructure Act, which is intended to facilitate transmission improvements. We believe that the borrowing authority should be used as intended, to upgrade and expand BPA's transmission system, and not simply used as a tool to improve BPA's leverage ratio. Studies in both Washington and Oregon show that expanded transmission and regional interconnection will be necessary to meet state clean energy policies. RNW and NRDC are concerned that BPA's plan for achieving a "net neutral" borrowing position may conflict with the type of investment that is needed to achieve the region's clean energy mandates and goals.	First, we disagree with the suggestion that Bonneville is using borrowing authority "to improve BPA's leverage ratio." Obtaining additional borrowing authority has no impact on leverage, but additional borrowing authority does improve Bonneville's access to capital position. Use of borrowing authority does not improve leverage; use of borrowing authority equates to issuing debt, therefore the use of borrowing authority places upward pressure on leverage. Bonneville fully intends to use borrowing authority to finance upgrades and expansion of the transmission system. Under the initial sustainable capital financing proposal, Bonneville would continue to utilize a significant amount of federal debt. 80-90% of transmission capital spending would be financed with debt. As discussed in response #2, we do not believe a sustainable capital financing policy would be "roadblock" to decarbonization efforts.
2	RNW and NRDC	BPA's focus on aggressive debt reduction may conflict with clean energy policies, as it will make investments in new infrastructure in the near term more difficult and will increase transmission costs for renewable resources necessary to meet 100% clean energy policies. Given the federal clean energy policy goals, BPA should be working to aid states in their efforts to decarbonize the electricity sector rather than being a roadblock to those efforts. We greatly appreciate your efforts at	Bonneville does not believe a capital financing policy would be a "roadblock" to decarbonization efforts. The initial approach for a sustainable capital financing policy does not attempt to limit capital investments. Furthermore, it proposes to restrict revenue financing to no greater than about 1% incremental rate impact per rate period. Therefore, revenue financing would be constrained under an increasing capital investment scenario. We are also considering ways to include appropriate flexibility within the policy to respond to changed circumstances, such as changing capital

Row #	Stakeholder	Comment	BPA Response
		working towards decreasing BPA's debt. We ask that BPA consider the role they play in decarbonization of the electricity grid and work to ensure there is not a conflict between the financial goals and the infrastructure investments needed in the region.	investment forecasts. Decisions about building transmission facilities and other infrastructure investments are not driven by capital financing. The Jan. 12 and Feb. 9 workshops discussed Bonneville's capital planning processes.
3	RNW and NRDC	BPA should provide more details on why it chooses to set its long-term target at 60% for its debt-to-asset ratio. This goal seems rather aggressive, given that BPA is shifting from a three-year debt ratio average of 85%. BPA should evaluate these goals compared to the "industry average" for federally-supported public entities similar to BPA, without the inclusion of other utilities such as co-ops or investor-owned utilities that do not share a similar federal backing as BPA.	As discussed in the Jan. 26th workshop, the "60% leverage by BP-40 target" is a clearer articulation of the current Financial Plan goal, and we would achieve this goal over the course of 20 years. As noted, we think it is reasonable to consider practices within the broader utility industry when setting rates as low as possible consistent with sound business principles. Regarding other federally-supported public entities, as noted in the earlier grounding workshops in October and November 2021, leverage calculations vary slightly from entity to entity. It is difficult to perfectly compare leverage calculations to Bonneville because of differences in how data is reported. However, all four agencies do make available annual financial data, either through in annual report or a 10-K filing with the SEC. By our calculation, TVA's ratio was about 61% as of FY 2020. The ratios for WAPA, SWPA, and SEPA may not be comparable without additional detail because their annual reports show "payable to U.S. Treasury," which include more than just the repayment of debt associated with capital investment. For example, this category includes interest owed to the Treasury. The PMAs receive appropriations for all of their costs, which must be repaid from revenues, so they may consider all costs payable to the Treasury. If we were to assume that SWPA and SEPA were only reporting payables associated with debt repayment—which does not appear to be the case—their ratios would be 100% and 129%

Row #	Stakeholder	Comment	BPA Response
			respectively. WAPA, which has other long term liabilities unlike SWPA and SEPA, had a leverage ratio was about 49% as of FY 2020. If we were to combine the data for the three PMAs and TVA, the combined leverage ratio would be about 64%.
4	RNW and NRDC	Mr. Oosterveld presented a case for why BPA's "industry average" included entities not comparable to BPA, and offered a suggestion for which utilities should be included in a peer group. We agree that BPA may be comparing itself with the wrong peer group and consequently imposing unnecessary rate impacts through 2040.	Please see Bonneville response to January 26th comments, row #4.
5	RNW and NRDC	We request BPA further evaluate the potential rate impacts and revenue financing required for each rate period through 2040 under scenarios ranging from 60% to 80% and consider how each scenario may impact the ability of BPA customers to meet their clean energy mandates.	Please see Bonneville response to January 26th comments, row #13.
6	Avista, MSR, PGE, PSE	The February 23 Presentation did not provide an adequate opportunity for informed discussion of comments submitted prior to the workshop that directly relate to topics raised in the February 23 Presentation, inasmuch as those comments were not posted prior to the presentation. BPA should provide a forum for informed discussion of those comments after posting them.	The February 23rd workshop was structured in the same manner as other Financial Plan Refresh workshops. That is, Bonneville posted materials in advance, allowed for questions and comments during the workshop, requested feedback on the workshop content be submitted during the two-week comment period that followed, and is responding to those comments. The March 23rd workshop will also include time to discuss prior presentation topics, comments, and Bonneville responses. Bonneville agreed to hold one or more workshops to discuss the accounting and ratemaking treatment of revenue financed assets. In the Feb 23rd workshop, we explained Bonneville does not agree there is a

Row #	Stakeholder	Comment	BPA Response
			"double recovery" issue. We described the mechanics of the "higher of" methodology, including the impact of revenue financing. We explained our expectation that the power revenue requirement will continue to be set based on cash needs for the foreseeable future, and that financial plan goals will result in the transmission revenue requirement also being set based on cash needs for the foreseeable future. Finally, we discussed why we are not inclined to develop an offset to depreciation expense. Moreover, the issues raised by Commenting Parties are not being decided as part of the Financial Plan Refresh, but rather, would be determined through the 7(i) ratemaking process. That forum provides additional process, as well as a context where these concepts are being applied.
7	Avista, MSR, PGE, PSE	The "reasonable period" established by statute for amortization of the Federal investment represents a period of years that is neither unreasonably long nor unreasonably short. Establishing BPA rates based on an amortization of the Federal investment over an unreasonably short period of years violates the statutory requirement. During the February 23 Presentation, BPA staff appeared to suggest that this statutory standard should be interpreted as establishing only an upper bound on the "reasonable period" for amortization of the Federal investment--in essence construing the statutory language "over a reasonable period of years" as meaning "within a reasonable period of years" with no lower bound on the period of years.	Bonneville is not defining the "reasonable period of years" standard as part of the Financial Policy Refresh process. However, this standard has not prohibited Bonneville from repaying Federal investment earlier than 50 years, and has not prohibited the use of revenue financing or reserve financing. We also do not believe it prohibits the levels of revenue financing contemplated under the initial approach shared at the Jan. 26th workshop. This standard has also been discussed in Section 4.3.5.1 of the Leverage Policy ROD, and in BP-22 rebuttal testimony, Fredrickson *et al.,* BP-22-E-BPA-36 at 26. Section 4.3.5.1 of the Leverage Policy ROD states: "The statutory language ("reasonable period of years") has been interpreted by

Row #	Stakeholder	Comment	BPA Response
			Bonneville and the Department of Energy for many years to mean establishing the maximum time frame over which Bonneville must repay Federal investment in Federal assets (typically a maximum of 50 years or less). Significantly, the statutory language does not dictate how Bonneville must finance its capital programs.” BP-22 rebuttal testimony, Fredrickson *et al.,* BP-22-E-BPA-36 at 26, states: “The ‘reasonable number of years’ standard refers to the allowable time to repay the funds that the Federal government has invested in BPA’s power and transmission systems. In other words, it is referring to the allowable repayment period for Congressional appropriations and U.S. Treasury bonds. The repayment period is viewed as a maximum over which the debt must be repaid. Power’s Federal debt must be repaid within 50 years; Transmission’s within 35 years. There is no restriction on whether debt can be repaid faster. Indeed, since its creation, BPA has often repaid its Federal debt faster than the maximum repayment period. For example, the recently completed first phase of Regional Cooperation Debt (RCD) refinancing resulted in the early repayment of 2.7

Row #	Stakeholder	Comment	BPA Response
			billion dollars of Congressional appropriations. In the case of revenue financing, BPA is not borrowing from the Federal government. There is no Federal investment to repay. The 'reasonable number of years' standard is not applicable."
8	Avista, MSR, PGE, PSE	BPA should provide adequate rationale and support for the "Goals" and "Initial Approach" outlined in its January 26, 2022 Financial Plan Refresh Presentation (particularly given the recent substantial increase in BPA's borrowing authority) and demonstrate that they are consistent with the statutory standards applicable to BPA rates. Regardless, such "Goals" and "Initial Approach" cannot preempt or supplant the requirement for a full and complete justification of BPA rates pursuant to section 7 of the Northwest Power Act.	The Jan. 26th workshop provided an overview of why these goals are important, and Bonneville responded to related comments. Bonneville has also discussed these issues in developing the Leverage Policy and in the BP-22 rate proceeding.
9	Avista, MSR, PGE, PSE	BPA's discussion of "double recovery" during the February 23 Presentation did not address the stated concern that Minimum Required Net Revenue ("MRNR") leads to an overstatement of revenue requirements over time that result in rates that are set to collect more than BPA's costs.	Bonneville disagrees. Our presentation did address this topic, and in it we disagreed with Commenting Parties' premise. MRNR does not represent accelerated depreciation. Bonneville's costs are not limited to the results of the repayment methodology. Bonneville's long-standing methodology sets the revenue requirement at a level sufficient to recover its costs for each rate period, including costs associated with debt repayment, risk mitigation, financial health, and depreciation expense.
10	Avista, MSR, PGE, PSE	BPA should abandon its higher of methodology and determine revenue requirements based on forecasted cash requirements; if BPA retains its higher of	Please see Bonneville's response to Commenting Parties' February 9 comments, posted as *BPA response to Avista group comments*, under the Jan. 26 Workshop

Row #	Stakeholder	Comment	BPA Response
		methodology (which it should not), BPA must accrue a regulatory liability for MRNR and reduce the revenue requirement in subsequent rate period(s) to account for the MRNR. In any event, if the accrual and amortization of such regulatory liability is not effective in eliminating the overstatement of revenue requirement, BPA should abandon the higher of methodology and determine revenue requirement based on forecasted cash requirements.	section.
11	Avista, MSR, PGE, PSE	It seems rather arbitrary and unreasonable to propose no increase in borrowing when BPA was just given such a substantial increase in borrowing authority. At a minimum, the increased borrowing authority should be addressed by BPA in the context of explaining (i) why it does not appear to be taken into account in establishing the "Goals" and "Initial Approach" and (ii) why it does not permit appropriate adjustments to the "Goals" and "Initial Approach" that would benefit BPA customers and still be consistent with "sound business principles."	In the BP-22 rate proceeding, Bonneville stated that even if we gained additional borrowing authority, we would still pursue development of sustainable capital financing and debt management practices. Additional borrowing authority was very welcomed, and while it resolved our access to capital challenges, it did not address other concerns. Under the initial approach discussed at the Jan. 26th workshop, borrowing and debt outstanding will increase. Transmission's debt outstanding is forecast to grow by about $1 billion dollars. The additional borrowing authority allows us to construct a phase-in approach over a longer timeframe that has rate impact considerations at the forefront, while still achieving our long-term goals. The initial approach shared on Jan. 26th achieves these goals over a 20-year period. We have requested feedback on potential modifications or alternatives to the initial approach, and are considering ways to include appropriate flexibility in the policy to respond to changed circumstances.
12	Avista, MSR, PGE, PSE	During the February 23 Presentation, BPA staff initially appeared to suggest that the principle of regulatory liabilities under the FERC Uniform System of	Bonneville is not deciding, as part of the Financial Plan Refresh, whether to record revenue financing or MRNR as a regulatory liability. This is a rate case issue.

Row #	Stakeholder	Comment	BPA Response
		Accounts was not applicable to the "higher of" methodology used by BPA to establish revenue requirements and, thus, rates. Later, they seemed to assert that, even if the principle is applicable, it would only apply if the BPA Administrator (as the regulator of BPA) elected to make such an accrual. The positions taken by BPA staff are misplaced and fail to recognize that each time application of the "higher of" methodology results in the collection of MRNR, a regulatory liability must be accrued by BPA because that MRNR represents a clear acceleration of expenses for ratemaking purposes to a period earlier than when those same expenses would be recognized under the accrual method of accounting. As explained by BPA in the February 23 Presentation, "MRNR is a cash requirement added to the Income Statement to ensure that revenues will be sufficient to meet cash flow needs."17 The practice of using MRNR to generate cash that is otherwise not available in the accrual-based Income Statement in order to repay debts in periods earlier than called for by the Income Statement results in an acceleration of expenses contemplated by the Uniform System of Accounts. The regulatory liability principle is applicable to BPA's ratemaking process through the FERC Uniform System of Accounts, and BPA cannot simply say that it does not have a regulatory agency that takes rate actions and therefore the requirement to accrue regulatory liabilities does not apply. The accrual of regulatory liabilities where contemplated by the FERC	MRNR is not an expense. As the name suggests, "minimum required net revenues" is a net revenue target. It represents the net revenues necessary to ensure there is adequate cash flow to meet Bonneville's cash needs. MRNR is not the acceleration of depreciation expense. There is no direct relationship between depreciation expense and debt. Depreciation exists regardless of decisions regarding how to finance capital investments. As has been noted in several public workshops, the total amount of depreciation associated with an asset will be different than the original cost of the asset, and is completely disassociated from the source of financing for that asset. As discussed in Bonneville's response to Commenting Parties' Feb. 9th comments (posted under the Jan. 26 Workshop section on bpa.gov), Bonneville staff does not believe revenue financing fits the criteria for a regulatory liability as described in ASC 980. Further, while the Administrator's decision to create a regulatory liability is informed by FASB guidance, the Administrator has discretion in whether to create, and how to structure, a regulatory liability. When Bonneville creates a regulatory liability, it is included in the appropriate FERC account. FERC's system of accounts defines what a regulatory liability is, but it does not obligate Bonneville to create one.

Row #	Stakeholder	Comment	BPA Response
		Uniform System of Accounts is not optional to BPA.	
13	Avista, MSR, PGE, PSE	Further, BPA's failure to accrue regulatory liabilities under these circumstances would mean that BPA is failing to track generation and transmission revenues, costs, and resulting surpluses/deficits as required by FERC.18 Under the Northwest Power Act, FERC reviews BPA's rates to ensure they comply with specified statutory standards. Under this limited review, FERC has ordered BPA to separately account for power and transmission revenues and deficits, including the tracking of deficiencies or surpluses in transmission revenues and whether they are collected or credited to the appropriate customer class.	We do not understand Commenting Parties' argument. Revenue financing is tracked by business unit. Whether revenue financing is recognized in the year it is charged, or over some undefined period as would occur with a regulatory liability, this does not affect the tracking by business unit. Further, as defined by FERC, Bonneville's separate accounting analysis is backward looking, showing actual financial results by business unit. It is based on the same data as appears in Bonneville's end of year financial statements.

Comments & Responses

March 9, 2022

Financial Plan Refresh
Public Comment Summary
March 9, 2022

Row #	Stakeholder	Comment	BPA Response
1	NRU	NRU supports the concepts presented at the March 9 workshop in both the BPA presentation and the Public Power Council and Snohomish Public Utility District presentation to increase budget and project execution. NRU lauds BPA's commitment to improving its execution compared to rate case forecasts.	Thank you for your feedback.
2	NRU	NRU is interested in exploring parameters that would apply to years in which customers may receive refunds associated with surplus financial reserves. Currently BPA's proposal focuses on limiting the amount of revenue financing to less than a 1% rate increase, considering years in which the Cost Recovery Adjustment Clause may be triggered to collect additional funds from customers. NRU recommends that, in years in which customers may receive a refund associated with surplus financial reserves through the Reserve Distribution Clause, the Administrator retain discretion to allocate the surplus reserves to pay down debt up to a certain dollar amount, and anything exceeding that point to partially be allocated to debt and partially allocated to a customer refund.	To clarify, this is not precisely what BPA proposed. The 1% incremental rate impact limitation is when a business unit is revenue financing at 20% of its total capital program. The incremental rate impact limitation is designed to moderate the impact from the capital financing policy of a large increase in revenue financing. The 1% incremental rate impact limitation does not apply when a business unit is at the base level of revenue financing, which is 10% of its total capital program, and would call for the same amount of revenue financing without regard to any risk adjustments mechanisms that might trigger for application to rates in that rate period. BPA will take NRU's RDC concept under consideration. We note that the administrator currently has flexibility to apply a portion of an RDC Amount to debt repayment and another portion to rate reduction, and it may be prudent to continue to allow this flexibility to respond to current circumstances.
3	NRU	NRU is interested in hearing from BPA whether the metric enhancements proposed by the Public Power Council and Snohomish appear to provide a good start to achieving its commitment.	BPA appreciates their input and is reviewing and considering the PPC and Snohomish feedback, especially regarding budget execution.

Comments & Responses

March 23, 2022

Financial Plan Refresh
Public Comment Summary
March 23, 2022

Row #	Stakeholder	Comment	BPA Response
1	AWEC	AWEC acknowledges BPA's continued commitment to communication and transparency with stakeholders throughout the Financial Plan Refresh process.	Thank you for your feedback.
2	AWEC	In addressing the borrowing authority forecast, BPA provided a graph that set forth "BP22 Final Proposal," "BP22 Final + 25% Capital Increase" and "BP22 Final + "Proposed Cap Financing Policy" relative to total borrowing authority. In the notes section, BPA stated that, "BP22 assumes $40m/year revenue financing per business unit through 2023, RCD2 through 2030, BP22 lapse factor for that rate period only, and no new lease financing[.]" AWEC requests additional explanation and definitions regarding this note, including an explanation of what is meant by "BP22 Final Proposal" and "BP22 lapse factor," particularly as they relate to the graph provided.	"BP22 Final Proposal" refers to repayment results starting with those for the BP22 Final Proposal that are extended through 2044. The study assumes the full implementation of the Regional Cooperation Debt Phase 2 refinancings with Energy Northwest through 2030, and BPA capital investments from the 2021 IPR with the out-year investments inflated using the inflation forecast from BP22. This forecast included a lapse factor for Transmission-related capital, as agreed to in IPR 2 process. From the IPR 2 Close-out Report: "Bonneville agrees that for this rate period a lapse factor would be reasonable and the agency will assume a 10% lapse factor in the Transmission capital program used for rate setting. This adjustment reduces the Transmission direct capital spending by $73.4 million over the BP-22 rate period." The only revenue financing assumed is that from BP22, consistent with Section 1 of the Settlement Terms for Rate Issues for FY 2022-2023, and any required by the Leverage Policy's near-term target thereafter. "BP22 Final Proposal + 25% capital increase" is the above scenario except that each year of the capital investment forecast is inflated by 25%. "BP22 Final + Proposed Cap Financing Policy" is the first scenario except that it reduces

Row #	Stakeholder	Comment	BPA Response
			borrowing by the amount of revenue financing under the initial approach described in the January 26th workshop.
3	AWEC	Regarding the leverage ratio, BPA previously stated that its long-term target was within the 60%-70% range contained in the 2018 Financial Plan. AWEC therefore requests that BPA provide in writing a clear articulation of BPA's business principles served by moving away from 100% debt financing, and why a leverage ratio no higher than 60% by BP-40 aligns with its business principles.	The January 26th workshop discussed our goals and principles, including why these goals are important, and how our initial approach for discussion responded to key themes we have heard.
4	AWEC	Regarding the leverage ratio, AWEC also requests an explanation as to whether other alternatives, such as a leverage ratio of 70%, were considered and the results of that analysis. If they were not considered, AWEC requests an explanation for BPA's decision not to conduct such analysis.	Please see the attachment at the end of this document.
5	AWEC	Regarding the leverage ratio, to better help stakeholders understand BPA's goal of achieving a leverage ratio no higher than 60% by BP-40, AWEC requests that BPA explain why the utilities it considered in its analysis are appropriate, and why and how other utility practices regarding leverage ratios are applicable or relevant to BPA, given its unique circumstances.	Please see BPA's response to Avangrid *et al.,* row 4, in the January 26 BPA Responses document. This can be found on the Financial Plan Refresh webpage under the heading "January 26 workshop."
6	AWEC	AWEC appreciates that BPA is taking steps to create a process that avoids similar borrowing authority issues from the past. AWEC agrees that given BPA's recent additional borrowing authority through the Bipartisan Infrastructure Deal, there does not seem to be sufficient need to determine an allocation methodology approach in the	Thank you for your feedback.

Row #	Stakeholder	Comment	BPA Response
		event of a borrowing authority issue at this time.	
7	AWEC	Regarding the borrowing authority framework: It is unclear from the materials provided what size is necessary to trigger a "BA shortfall." AWEC requests that BPA clarify this term. AWEC also suggests that BPA explore a *de minimis* level at which the process would not be triggered. For example, a threshold of $5 million forecasted borrowing authority shortfall outside of the 10-year rolling period would not trigger the proposed borrowing authority framework process to take place. AWEC requests that BPA commit to comment periods following at least two workshops held to consider borrowing authority analysis and potential actions, including but not limited to allocations methods and access to capital issues.	"BA shortfall" refers to whenever BPA forecasts it will have less than $1.5 billion of federal borrowing authority available. We agree with AWEC that not every potential shortfall should demand the same response. We expect the process to be informed by the size of the shortfall. However, considering it does not appear that BPA will face a borrowing authority shortfall for several decades, we prefer to allow future Administrators to determine procedural details to meet those circumstances rather than set a *de minimis* threshold or determine the number of workshops.
8	AWEC	Regarding Financial Plan Refresh proposals: Given the substantial stakeholder interest in flexibility as it relates to post-2028 contracts, AWEC recommends that BPA include a process to revisit the Financial Plan Refresh proposals in the near term in order to ensure that proposals balance customer interests with BPA's goals.	We recognize that BPA's financial policies will influence customer consideration of post-2028 contracts. While we are not planning a comprehensive financial policy review ahead of the next long-term power sale offering, we acknowledge that a fundamental change to risk volatility might warrant revisiting existing interrelated policies. Over the past six months, our current effort has sought to engage with stakeholders to develop a policy that is durable in making measured progress towards our long-term goals and in allowing flexibility within the policy to respond to changing circumstances. We understand that the interplay between BPA's financial policies and the post-2028 contract conversation is an important issue and we look forward to continuing the dialogue on this topic.

Row #	Stakeholder	Comment	BPA Response
9	AWEC	Regarding Financial Plan Refresh proposals: AWEC further recommends that BPA consider including in the debt management proposal the ability for BPA to override the policy in specific circumstances or limit the rate impact to .5%, for example.	Thank you for your feedback. BPA is considering a range of options for providing the Administrator flexibility.
10	AWEC	Regarding Financial Plan Refresh proposals: AWEC requests further explanation from BPA on how the flexibility afforded by the Bipartisan Infrastructure Deal was considered in developing its proposals.	The Bipartisan Infrastructure Deal (BID) eliminated the immediate threat of running out of borrowing authority. It did not change BPA's interest in improving the agency's financial health. Bonneville must still focus on prudent debt management and sustainable capital funding practices. As discussed at the January 26th workshop: – *Without* the added borrowing authority, the severity of the problem likely would have resulted in actions that would have a major and immediate rate impact for both Power and Transmission in BP-24 and beyond. – *With* the added borrowing authority, we are able to construct a phase-in approach over a longer timeframe that has rate impact considerations at the forefront, while still achieving our long-term goals.
11	AWEC	Regarding Financial Plan Refresh proposals: AWEC requests analysis comparing the use of actual capital spend versus forecast capital spend to determine the appropriate amount and method for revenue financing.	We are continuing to consider whether to use actuals or forecast. For example, the calculation could be based on the average actual capital spending over the last 3 years or on the forecast of capital spending for the upcoming rate period. It is unclear what analysis is being requested. Our initial approach was informed by forecasts. The use of actuals or forecast would affect the amount of revenue financing calculated for each rate period. The actual debt incurred and assets acquired would impact the leverage ratio. If the use of actuals produces a lower revenue financing

Row #	Stakeholder	Comment	BPA Response
			amount, it could prolong the ramp up and delay when the leverage target is achieved. Even if actuals are used for the calculation of revenue financing, a forecast would of course still be needed to determine whether a business unit is on track to reach 60% leverage by 2040-41.
12	AWEC	AWEC requests that BPA provide written answers to questions asked during the Financial Plan Refresh Workshop and make such responses publicly available, similar to BPA's Public Comment Summary document.	We are unsure what additional follow up is being requested. We have tried to provide an open means of communication and offered several ways of addressing questions/comments. BPA has allowed for open Q&A during all workshops, along with the ability to submit any further questions and comments after each workshop. We have provided written follow-up to these questions and comments. On occasion when BPA has not been able to provide a response during a workshop, we have also followed up with a written response.
13	NIPPC	BPA's proposed new leverage and revenue financing policies appear to ignore the agency's fundamental financial strengths (sovereign-backed grid operator, natural monopoly on transmission network, carbon-free generation, increased borrowing authority, and other financial policies supporting BPA's financial health). Taken together, these strengths distinguish BPA from the municipal utilities against whom BPA is attempting to measure itself.	BPA has not ignored its financial strengths. We seek to reinforce and build upon them. Regarding comparisons to other utilities, we have not limited ourselves to comparisons to municipal, cooperative, and public utilities. We have also considered the differences and comparability of the four entities suggested by NIPPC. Please see BPA Response to January 26th Workshop Comments, Avangrid *et al.,* Row 4. As noted in previous responses, WAPA and TVA—two entities with comparable, yet distinct, structures and relationships to the Federal Government as BPA—ended FY20 with leverage ratios of 49% and 61% respectively, significantly lower than BPA. Under the initial approach for sustainable capital financing, BPA would not reach its 60% leverage goal for nearly 20 years. Our purpose in pursuing a capital financing policy is not to improve our credit rating or to follow the lead of municipal utilities. Our

Row #	Stakeholder	Comment	BPA Response
			purpose is to improve BPA's financial flexibility and to prudently manage our debt outstanding, both of which help to ensure a consistent cost of service over the long-term. We have compared and contrasted the practices of other entities that are comparable, yet distinct, to ensure our approach is reasonable. And we recognize that our approach may be a credit positive as third parties independently review BPA's financial health and risk profile. In fact, the most recent April 2022 ratings report from Moody's notes that "Since 2018, BPA has implemented policies that sought to improve or stabilize BPA's standalone credit strength. Such policies and goals include but are not limited to the establishment of a financial reserve policy, a long-term goal to reduce BPA's debt to asset ratio to around the 60% to 70% range, and partial rate funding of capital expenditures. We see these goals and policies as an important foundation to the turnaround of BPA's financial performance since 2019 and a material weakening of these credit support features could offset the benefits of the borrowing line increase."
14	NIPPC	NIPPC calculates that the revenue financing proposed by BPA in order to meet its proposed 60% target adds up to $1.6 billion collected by BPA over the next 9 rate periods (about $500 million from the Power Business Lind and $1.1 billion from the Transmission Business Line).	The total revenue financing cited by NIPPC is slightly low. Transmission would collect approximately $1.75 billion, and Power would collect approximately $770 million, for a combined total of about $2.5 billion in revenue financing. Of note, BPA would collect these amounts with or without revenue financing. Revenue financing does not change the overall size of BPA's capital program, although it does result in significant avoided interest expense accumulating over time. Under the levels of revenue financing in the initial approach discussed at the January 26th workshop, and

Row #	Stakeholder	Comment	BPA Response
			using the BP-22 interest rate forecast, Transmission's interest expense in BP-40 would be about $65 million/year lower than would otherwise be expected, with a cumulative savings of about $590 million. For Power, its interest expense would be about $28 million/year lower in BP-40 than otherwise expected, with a cumulative savings of about $316 million.
15	NIPPC	NIPPC would like BPA to share their analysis assessing a 70% leverage target and for BPA to explain why this is not appropriate given it is part of the range provided in the 2018 Financial Plan.	Please see the attachment at the end of this document.
16	NIPPC	Regarding the $40 million of annual revenue financing included in the BP-22 settlement: The Settlement states that it "establishes no precedent." Access to capital was an issue cited as driving the need for the BP-22 revenue financing, with the additional borrowing authority, access to capital is no longer a problem. The appropriate baseline for comparing the effect of BPA's proposed leverage policy on future rate cases is a baseline that lacks revenue financing.	BPA is not assuming that the BP-22 settlement is precedent. However, when calculating the incremental impact from rate period to rate period, it is appropriate to compare against the posted rates. Our initial approach considered the incremental rate impact in shaping a phase-in to reach our goals. We also note that, under the existing Leverage Policy, achieving the near-term target (not allowing leverage to increase from rate-period to rate-period) is forecast to result in $56.2 million of revenue financing per year for Transmission in BP-24.
17	NIPPC	Recommendation: BPA's historic debt-to-asset ratio in the 80% range should continue because would not have an impact on the Aa credit ratings assigned to BPA. Nor would it have impact on BPA's financing costs given BPA pays close to the federal interest rate, not a market rate, whether the ratio is 60% or 80%.	As discussed above in row 13, the reasoning behind our 60% debt to asset goal is to improve our financial flexibility and to prudently manage our debt outstanding, both of which help to ensure a consistent cost of service over the long-term. Our focus is not on improving our credit rating, although we do believe our proposed policy approach is credit supportive. Our most recent rating, issued by Moody's, stated that "BPA's rating is likely to be upgraded if BPA maintains or expands its credit supportive goals and policies under its new financial plan, while having access to the larger borrowing line." We also disagree that credit

Row #	Stakeholder	Comment	BPA Response
			ratings do not impact the cost of debt, as implied. While it is true that it is difficult to pinpoint the exact basis point impact of high investment grade ratings, the accepted sentiment is that higher ratings generally equate to lower interest rates.
18	NIPPC	Recommendation: An extensive review by BPA of the existing major credit factors should be undertaken to better understand Moody's and Fitch's credit assessments and this review should include communication with the agencies (See scorecard in Appendix 2). This could include meetings with rating agency officers beyond the current analysts assigned to BPA, given what appears to be a potential lack of understanding of the structure and comparability of their calculations of BPA financial metrics.	BPA regularly meets with the senior credit analysts at each of the rating agencies, along with other senior and executive level rating agency members who participate in the credit committee meetings. BPA has considered its credit factors. As discussed above, while our approach is likely a credit positive, our purpose is not to achieve a higher credit rating.
19	NIPPC	Recommendation: If BPA does adopt revenue financing, it should be geared towards transitioning of the electric industry to manage electrification of the transportation and building sectors or "green bond projects" that have lesser useful lives and are focused on industry transition due to climate change concerns and decarbonization efforts.	Capital planning and what projects BPA decides to invest in are separate and distinct decisions from the form of financing used to fund such projects. The source of funding is not an impediment to changes in the utility industry. Moreover, BPA does not finance at the individual project level; we take a portfolio approach to the funding and debt management associated with capital assets.
20	NIPPC	Recommendation: The introduction of revenue financing should be incremental and tied to ensuring its rate impact is small. For example, BPA should adopt constraints such that any rate change should not affect the scoring in the Moody's scorecard, should have only a gradual impact on rates, and should be subject to frequent revisitation (for example, biennially during the rate case cycle).	Our initial approach considered incremental rate impact, and we are considering ways to allow flexibility within the policy to respond to extraordinary circumstances.

Row #	Stakeholder	Comment	BPA Response
21	NIPPC	Recommendation: A mechanism in any revenue financing should provide flexibility to respond to changing events, for example, ramping down the use of current year funds should a major drought or other system-wide challenge take place so financial liquidity can be preserved.	BPA is considering ways to allow flexibility within the policy to respond to extraordinary circumstances.
22	NIPPC	Recommendation: BPA should study more closely the potential merit and impacts of splitting the leverage policy of BPA generation and transmission businesses so that leverage can be more properly assessed.	BPA continues to believe that 60% by BP-40 is a reasonable goal for both business units given our objective to build long-term financial flexibility and prudently manage our debt outstanding to help ensure a consistent cost of service over time.
23	NIPPC	A review of the components of assets is needed to ensure comparability. Only generation related assets of the U.S. Army Corps of Engineers and Bureau of Reclamation are included in BPA debt-to-asset calculation, but one can't generate electricity without the other assets in the federal system. New York Power Authority includes all of its dam and hydro assets in total assets in its debt ratio calculation. Including the non-hydro portion of dams in BPA's combined transmission and generation assets in the debt-to-asset ratio would lower the overall BPA debt-to-asset ratio and could dismiss the current concern over the reported 80% ratio. Possibly if Moody's accepts that the non-hydro assets should also be used, the scorecard factor moves to an A or higher score.	This recommendation appears to be based on a misunderstanding of how BPA calculates leverage. BPA's calculation does include assets regardless of whether they generate or transmit electricity. The calculation includes everything identified as "net utility plant." This includes all assets such as the major facilities like dams, transmission lines and towers, and substations as well as non-revenue generating assets like IT, facilities, vehicles, tools, aircraft, etc.* Regulatory assets are not included in this calculation. Regulatory assets are predominantly Power costs, are not necessary for the production of electricity, and relate to costs that—but for regulatory treatment—would not be considered a capital asset. That is, these costs would traditionally be treated as a period expense but for a decision by the Administrator to capitalize them. We continue to note that we are focused on improving our leverage position for reasons other than achieving a credit rating upgrade, such as improving our financial flexibility and prudently managing our debt to help ensure we can provide a consistent cost of service

Row #	Stakeholder	Comment	BPA Response
			over the long term. *The debt to asset ratio includes the following line items from the balance sheet, found in BPA's Annual Report: – Debt: The current and long-term portions of federal appropriations, borrowings from the US Treasury, nonfederal debt. It also includes deferred borrowing, which is a non-GAAP measure; while not on the balance sheet it is reported in the Annual Report MD&A section. – Asset: Net utility plant and nonfederal generation.
24	NIPPC	A closer examination of the impact of revenue financing on the leverage ratio versus competitiveness factor should be done to ensure BPA's competitive strengths are maintained.	We have considered impacts to competitiveness throughout the Financial Plan Refresh process, including an initial approach designed to limit incremental rate impact to less than ~1%, and takes nearly 20 years to achieve our leverage goals.
25	NIPPC	Putting BPA debt against an estimated value of replacing the critically important BPA transmission system would likely yield an insignificant debt-to-asset ratio. …Like the TANC assessment, if the BPA transmission lines had to be replaced commercially today, it would probably provide a better measure against debt.	Debt-to-asset ratios measure the current asset base compared to the debt it supports. NIPPC's proposal appears to be an apples-to-oranges comparison. If we included the current replacement cost of the asset, we should also include the debt needed to finance it. We are not aware of any entity viewing leverage from this perspective.
26	NIPPC	A review of working capital in the debt-to-asset ratio calculation is needed. It is my opinion that BPA's unique liquidity sources including the Treasury line is undercounted in working capital that is used in the debt ratio calculation. For example, other public power utilities in the debt ratio calculation include commercial paper or lines of commercial credit.	This proposal appears to treat commercial paper and lines of credit (forms of debt) as working capital (a form of financial reserves). They are very different concepts. One is a form of debt. The other is an asset, although not "net utility plant." As discussed in Section 4.3.2.4 of the Leverage Policy Record of Decision, Bonneville's leverage ratio does not include financial reserves as an asset. Our ratio focuses on "net utility plant."

Row #	Stakeholder	Comment	BPA Response
27	PPC	PPC offers conditional acceptance of the general framework for 10-20% revenue financing subject to a 1% rate period incremental rate cap. Requested modifications include: 1. Prioritize liquidity – additional debt payments only made when financial conditions are positive and it would not reduce BPA's reserves for risk. 2. Revenue financing should be based on actual spending rather than forecasts. 3. Policy must be revisited ahead of post-2028 contract period. 4. No net use of borrowing authority over a ten-year period is a reasonable general guideline, but should not be a hard constraint. 5. Increased asset management transparency along the lines of the PPC and Snohomish presentation on March 9 must be concurrently adopted.	Thank you for your comments. Our responses to the requested modifications are below. 1. To clarify, BPA is not proposing to pay down debt. The revenue financing proposal is to generate funds to pay for capital investments, i.e. avoid issuing debt. However, paying down debt with the funds would have the same net impact as avoiding the issuance of debt by paying for construction with the funds. Nevertheless, maintaining liquidity is an important concern and we intend to build in policy flexibility that allows the Administrator to prioritize liquidity over revenue financing in certain circumstances. 2. Please see the response to AWEC, row 11. 3. Please see the response to AWEC, row 8. 4. To clarify, BPA is not proposing "no net use of borrowing authority." BPA sees it as desirable for the business units to not be net borrowers across all sources of debt; in other words, our goal of "net neutral" is from a total debt perspective for each business unit. This is an outcome of achieving our leverage goal. 5. BPA is committed to continued discussion and engagement with customers about our asset management program. We believe the capital performance metrics and targets we plan to propose generally align with the PPC and Snohomish March 9th presentation. We note, regarding Snohomish and PPC's planning capability request, that SAMPs and APs are not focused on identifying specific projects. The IPR process and the quarterly business

Row #	Stakeholder	Comment	BPA Response
			reviews will continue to be important venues for asset management discussions.
28	PPC	PPC has additional questions and concerns we hope to address, including whether 60% is the correct long-term goal for the agency's leverage and how to ensure that the amount of revenue financing included in rates is stable and predictable	As discussed above, we continue to believe our leverage goal is appropriate. We are considering ways to include flexibility within the policy to allow the Administrator to respond to changing circumstances, but recognize that such flexibility impacts stability and predictability.

Revenue Financing to Achieve Different Leverage Targets

BPA has considered a range of leverage targets, including a 70% leverage target suggested by some customers. Changing the leverage target means that two other variables, the amount of revenue financing and the rate at which it ramps up, can change. The table below shows different amounts of revenue financing and ramping rates to achieve different leverage targets. This analysis focuses on Transmission.

To achieve a 70% leverage target by BP-40, Transmission would need revenue financing equal to 5% of its capital program each year. No ramping provision would be needed. The amount of revenue financing is shown below, in comparison to the Leverage Policy's near-term target only, and to the 60% target from our initial approach.

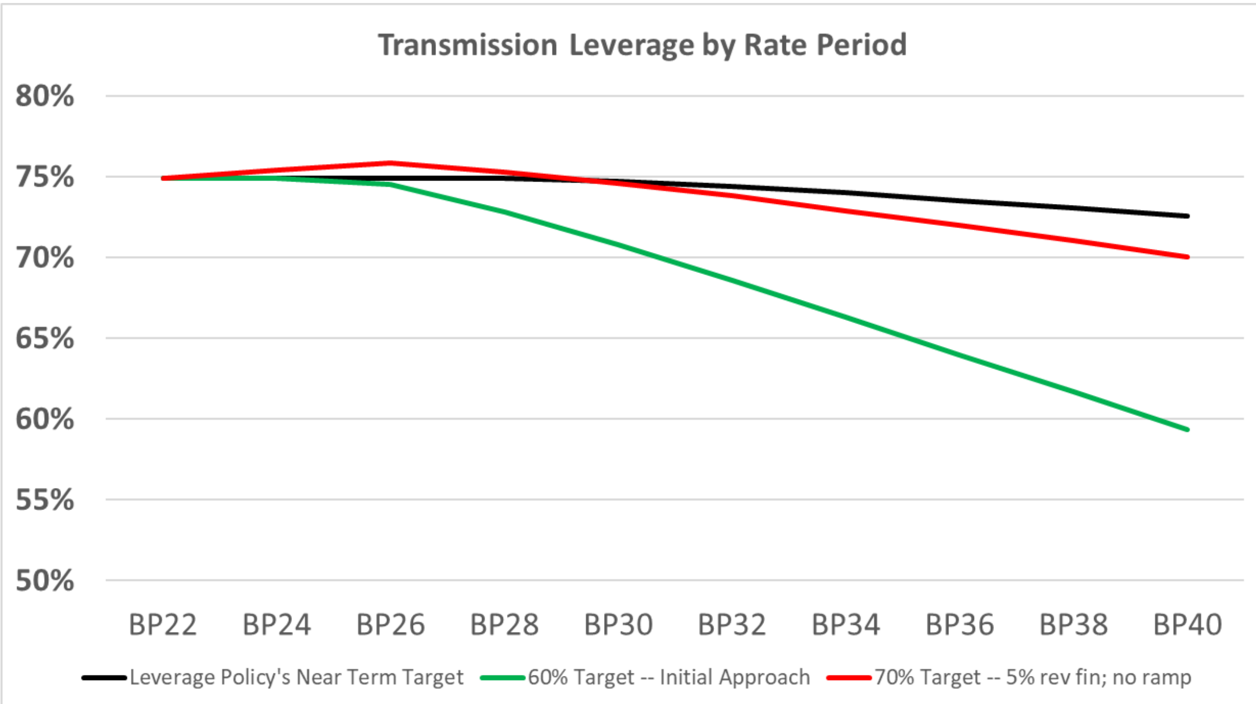
We continue to believe that the 60% target is a reasonable approach to take, particularly because of the long-term nature of the goal and phase in approach that offers modest rate impacts. Our analysis shows that a 70% target does not meet our overall objectives and goals. A 70% debt to asset ratio will not appreciably improve Transmission's financial flexibility and does not appreciably curb the growth in Transmission's debt outstanding, and as a result puts at risk our ability to provide a consistent cost of service over the long term.

The graphs below demonstrate that the 70% scenario barely affects Transmission's outstanding debt and actually performs worse than the existing Leverage Policy at reducing leverage for the next few rate periods.

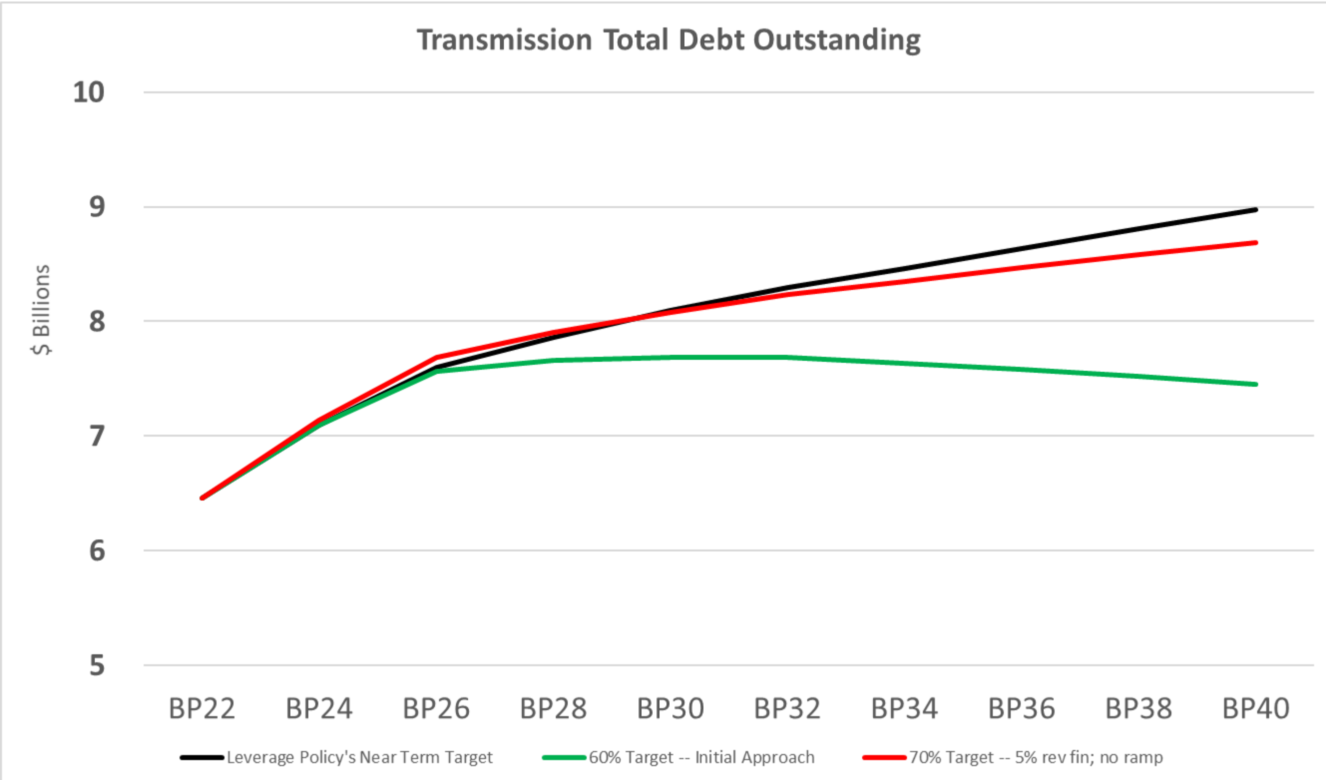
Revenue Financing Amounts	BP22	BP24	BP26	BP28	BP30	BP32	BP34	BP36	BP38	BP40
Leverage Policy's Near Term Target	40,000	56,224	52,542	-	-	-	-	-	-	-
60% Target -- Initial Approach	40,000	55,000	70,000	85,000	100,000	104,467	108,413	112,435	116,540	120,789
70% Target -- 5% rev fin; no ramp	40,000	32,649	31,097	24,829	25,414	26,117	27,103	28,109	29,135	30,197

See related graphs on the next pages.

The 70% scenario's trajectory is only slightly different than the Leverage Policy's near-term target, and has noticeably higher leverage in the first two rate periods.



Regarding debt outstanding, the 70% scenario barely alters the curve forecast from the status quo, e.g. the existing Leverage Policy.



The rate pressure of the 70% scenario is lower than 0% because the expected revenue financing is about $20 million/year lower than what would be require by the existing Leverage Policy's near-term target.