October 13, 2020


In the September 29, 2020 workshop, BPA summarized several long-term strategic financial issues it recently identified, notably a lack of near-term access to capital. BPA also provided its proposed remedy—significant increases to Transmission customer rates in BP-22 and beyond in the form of substantial amounts of "revenue financing". Powerex is significantly concerned with BPA's proposal, as well as BPA’s framing of the issue at hand. If adopted, BPA's proposal will cause significant rate shock, and it would violate the fundamental principles of intergenerational equity and inter-business line equity. Accordingly, Powerex urges BPA to forgo the significant, proposed revenue financing in BP-22, provide additional information on alternative solutions, and initiate further discussion on these long-term issues with customers. Powerex offers the following comments detailing our concerns.

Background

In the recent IPR, BPA explained that it is forecasting approximately $4.1 billion over the next 10 years in Transmission capital investments. In the September 29, 2020 workshop, BPA further revealed that Transmission will be a net borrower of an additional $2.1 B over the next ten years, resulting in large fixed costs and therefore reduced financial flexibility for the Agency. BPA reported that it is seeking an approach to capital financing that "ensures BPA maintain at least $1.5 B of available (Treasury) borrowing authority," which has historically been retained for liquidity purposes.

Comments

Powerex appreciates BPA continuing to raise its debt concerns with customers, and Powerex appreciates that BPA requires reasonable financial policies, including policies around debt management and liquidity. However, Powerex is concerned about how BPA has framed the issue at hand, as well as with BPA's proposed solution.

BPA's Issue is Access to Capital, not Transmission's use of the Treasury Borrowing Authority

For nearly two decades now, BPA has raised concerns, held workshops, and implemented policies to address its access to capital and debt concerns. For instance, BPA has in recent years held processes related to access to capital, capital investment review, debt optimization, financial reserves and leverage, and strategic capital discussions. Clearly, BPA is challenged by the limits of Treasury Borrowing Authority and access to third-party debt.

At the most recent workshop, BPA presented its overall access to capital issue as a "problem driven by Transmission", with a narrative that Transmission is a "net borrower" of the Treasury Borrowing Authority, and thus the Transmission business line holds sole responsibility of freeing up Treasury Borrowing Authority to retain BPA's desired $1.5 B cushion. Powerex takes issue with BPA's focus on preserving the self-imposed $1.5 B Treasury Borrowing Authority and believes this focus to be overly narrow and to overlook other important factors of BPA's total debt portfolio.

It should be noted that this narrative ignores the fact that BPA has shifted Power's debt portfolio away from U.S. Treasury bonds to other forms of non-federal debt available to BPA (such as debt instruments available with the Columbia Generating Station operated by Energy Northwest). Therefore, by focusing only on Treasury Borrowing Authority, BPA is not considering its total debt portfolio and potential forms of liquidity and is instead narrowing the issue to Transmission's use of the Treasury Borrowing Authority. But, Transmission is only "using up" the Treasury Borrowing Authority because

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2 Id.
of the mechanics and purposes of BPA’s Debt Optimization program (2004 – 2017) and more recently, Regional
Cooperation Debt, both of which were intended to maintain access to Treasury borrowing. Powerex believes this
narrative inappropriately characterizes the capital and liquidity issues as a “Transmission problem” while placing
the responsibility of maintaining BPA’s total Agency liquidity needs largely on Transmission customers.

Instead, the real issue BPA faces is that BPA is apparently struggling to access capital at reasonable rates in the amount
required for its total capital requirements. In response, BPA must manage its debt holistically and explore all available
opportunities to access to capital to fund the total capital program. BPA should not cherry-pick which business line is
responsible for an arbitrary, self-imposed $1.5 B Treasury Borrowing Authority target based on how BPA chooses to
allocate debt instruments.

Powerex therefore requests that BPA detail to customers its efforts and challenges to access capital to meet its total
capital requirement. As recently as 2018, Staff offered a “Summary of Potential Tools” that identified potential methods
to strengthen BPA’s financial health and access to capital financing. Powerex suggests it would be helpful to update
this presentation to reflect current benefits and obstacles with each solution identified, and requests that BPA hold a
customer workshop to present this update for discussion.

**BPA’s Proposal Violates Rate-making Principles**

Powerex believes BPA’s proposal to significantly increase transmission rates in the form of revenue financing violates
several core rate-making principles. The rate shock of a potential 20% rate increase in a single rate case, with the
potential for future cumulative increases in subsequent rate-cases, is obvious. But the proposal also violates the
principles of inter-generational equity, and inter-business line equity, and should therefore be rejected.

### i. Intergenerational Equity

Over several years, BPA’s revenue financing proposal will cause today’s customers to finance capital assets that may
have an expected life of 45 years or longer. Future generations of customers will benefit from these assets and they
should contribute to their costs. Powerex believes it is a violation of the principle of intergenerational equity for BPA to
fund investments in long-life assets at the exclusive expense of current customers through revenue financing. BPA
should appropriately be recovering the costs of assets, including interest and principal, over the lifetime of those
assets.

### ii. Inter-Business Line Equity

On top of the issue of BPA’s debt allocation and how that impacts the $1.5 B Treasury borrowing cushion, and BPA’s
proposed solution to raise Transmission rates to preserve that cushion, as noted above, Powerex wishes to highlight
another likely serious violation of inter-business line equity. Specifically, the interplay of the Treasury Payment
Probability (“TPP”) standard, the Reserves Policy (and partial suspension thereof), and the objective of retaining $1.5 B
Treasury Borrowing Authority creates significant inter-business line inequity.

Powerex understands that BPA’s target of retaining $1.5 B Borrowing Authority is a “subjective” target based on BPA
retaining a year’s worth of liquidity ($750 M), plus an additional $750 M in case BPA needs to repay the entire $750 M
Treasury Facility (i.e., in case BPA is not able to repay the Treasury Facility with incoming revenues). Powerex also
understands that when determining the revenue requirements for the business lines, BPA’s models set the
requirements such that each business line will maintain a level of reserves sufficient to assure a 95% probability of
meeting its U.S. Treasury payments in full and on time (the TPP Standard). In this model, BPA historically allocates the
entire $750 M Treasury Facility to Power, which has the effect of reducing Power’s reserves requirement needed to
meet BPA’s liquidity standards. Under this approach, the Transmission business line carries a disproportionate amount
of the financial reserves obligation to ensure BPA meets its debt repayment obligations, and Transmission’s reserves
will continue to build up and be held by BPA until the agency’s total reserve level is adequate (approximately $600 M),
as per the Financial Reserves Policy (FRP).

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4 See Bonneville Power Admin. Debt Optimization and Debt Management Action (Feb. 2005),
5 Bonneville Power Admin., Strengthening Financial Health Capital Financing Workshop (May 22, 2018),
Taken together, these rate-setting and risk assessment processes, combined with BPA’s Transmission revenue financing proposal, result in additional business line inequity because Transmission customers will be providing to BPA hundreds of millions of dollars in revenue financing so that BPA can retain liquidity to backstop the Treasury Facility that it has historically allocated to Power (and will likely do so in future rate cases due to the suspended FRP surcharge). In other words, based on BPA’s financial objectives, Transmission customers can be seen as revenue financing the $750 M to preserve the Treasury Facility for Power while also providing a disproportionate amount of financial reserves in support of the agency’s FRP days’ cash-on-hand requirements (a total sum that could well exceed $1 billion). Powerex believes this aggregate result in practice pushes a disproportionate and inequitable amount of the agency’s liquidity needs onto Transmission customers.6

Powerex believes that each business line must fairly support BPA’s debt and liquidity requirements. Adding significant revenue financing over cumulative rate cases to Transmission rates is not the solution. And here Powerex is not suggesting significant Power rate increases in turn are an acceptable alternative solution either. Indeed, BPA should be managing rate increases appropriately for each business line, including by maximizing the surplus value of the Federal System in markets to the benefit of BPA’s customers. By taking a leadership role in the various market design and evolution efforts occurring in our industry, BPA can work to ensure that full and fair compensation is received for the valuable attributes of the Federal Columbia River Power System, thereby mitigating rate impacts to all of BPA’s customers.

**Additional Information Needed**

Powerex appreciates that BPA has a legitimate access to capital issue. BPA must focus on this issue and seek solutions to access capital for its capital program as a whole. In light of such, on top of the updated Access to Capital options workshop discussed above, Powerex respectively requests that BPA provide additional information to customers in the following areas so that customers may better understand the circumstances and consider potential solutions.

To help clarify the circumstances BPA faces it would for helpful for BPA to:

- Explain further why the lease-purchase program, which has set goals for funding 25% to 50% of capital for Transmission, is “not available in the same capacity as before.”
- Provide additional information and details of the forecasted capital spending for the BP-22 through BP-26 rate periods, and how that spending might be reduced, or work taken on by third parties.
- Provide further explanation of whether the historical under-spend on capital projects is or will be accounted for in future forecasts, especially given the ongoing pandemic-related delays in capital projects.
- Explain the impact on BPA’s debt obligations if it amortized debt associated with Transmission capital expenditures over the average service life of 45 years, rather than 35 years?7
- Provide further explanation of the cost-causation that drives the allocation of each project between business lines. (For example, why are seemingly shared assets, such as the upcoming VCC capital project, proposed to be allocated 100% to Transmission?)

**Considering the Context**

BPA also should consider the overall context of its proposed revenue financing rate increases. The potential 20% or higher rate increases over two rate periods would be in addition to other rate pressures and costs increases expected, which have historically been 2-5% per year. Coupled with these other rate pressures, Transmission customers could be expected to bear a rate increase of 30% or more over four years, with likely further rate increases in successive rate periods. The magnitude of these rate increases could raise questions about BPA’s ratemaking assumptions and the renewal rates of long-term firm transmission and the economic viability of renewable generation seeking to connect to BPA system. Moreover, BPA is expected to join the Energy Imbalance Market (“EIM”) during the BP-22 rate period. As Powerex has previously described at length, inaccurate sub-allocation of EIM charge codes could create incentives for customers to forgo long-term firm transmission reservations, the very source of revenues on which BPA would principally

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6 As Powerex noted previously, performing the TPP analysis only at the agency level would obscure the extent that a business line is relying on the $750 million Treasury Facility to pass the TPP test.

rely for the capital expenditures. These pressures suggest that any approach to debt management and revenue financing be considered in the broader context of the multitude of factors affecting BPA.

Again, Powerex appreciates BPA engaging customers on these important topics.

Sincerely,

Connor Curson  
Trade Policy, Powerex