COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP REGARDING BP-22/TC-22/EIM PHASE III SEPTEMBER 29TH WORKSHOP

The utilities comprising the Western Public Agencies Group ("WPAG") appreciate this opportunity to comment on the financial planning topics presented by the Bonneville Power Administration ("BPA") at its BP-22, TC-22 and EIM Phase III workshops held on September 29th.

The possibility that BPA may run out of borrowing authority has been a reoccurring issue since at least 1999 when BPA instituted the Debt Optimization Program.[1] In recent years, BPA has used a variety of tools to stave off the day when it runs out of borrowing authority. This includes, but is not limited to, using lease-purchase and reserve financing on the transmission side and pre-payment, revenue financing of conservation, and Regional Cooperation Debt Refinancing on the power side. In addition, BPA adopted its leverage policy in 2018, which was expected to have the ancillary benefit of helping to preserve borrowing authority.[2]

Notwithstanding these and other efforts, BPA still projects that it will fall short of its goal of maintaining $1.5 billion of available borrowing authority by 2024 and run completely out of borrowing authority by 2032.[3] In order to avoid this outcome, BPA is proposing in the near term to (1) include $400+ million of revenue financing in transmission rates over the course of the BP-22 and BP-24 rate periods,[4] and (2) include revenue financing in power rates with a cap of up to 1% of rate pressure above base rates.[5] BPA further proposes to hold a process prior to the BP-24 rate case to develop and lay out a long-term approach to capital financing that ensures BPA maintains at least $1.5 billion of available borrowing authority. This comes on the heels of BPA failing to materially adjust capital spending levels in the final IPR, despite struggling to execute existing capital spend.[6]

The clear conclusion from BPA's September 29th presentation, and prior analysis prepared by BPA in 2018, is that the impending exhaustion of treasury borrowing authority is driven by the capital requirements and subsequent borrowing needs of BPA's Transmission Services. From FY 2020 to FY 2030, BPA projects that Transmission Services will be a net borrower from the treasury of approximately $3.2 billion.[7] In contrast, over the same period, Power Services is expected to be a net re-payer of borrowing authority by approximately $1.3 billion.[8] Power Services' exemplary performance is due in part to the decision made by BPA (at the request of power

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[1] *See* Debt Optimization Customer Collaborative Discussion Packet at 3 (September 9, 2004) available at https://www.bpa.gov/Finance/FinancialPublicProcesses/DebtOptimization/debtoptimizationdocuments/Customer_Collaborative_(Debt_Optimization)_9.9.04_(C).pdf.

[2] Leverage Policy Record of Decision at 64 (September 2018).

[3] Additional Materials on BPA's Borrowing Authority available at https://www.bpa.gov/Finance/FinancialPublicProcesses/AccesstoCapital/5.22.18%20Capital%20Financing%20Workshop%20Presentation.pdf ("Additional Materials on BPA's Borrowing Authority").

[4] TC-22, BP-22 and EIM Phase III Customer Workshop at 62 (September 29, 2020).

[5] *Id.* at 73.

[6] *See* IPR Closeout Letter and Report available at https://www.bpa.gov/Finance/FinancialPublicProcesses/IPR/2020IPR/20201007-Final-BP-22-IPR-Closeout.pdf which are materially the same as capital spending levels released in the initial publication.

[7] *See* Additional Materials on BPA's Borrowing Authority.

[8] *Id.*

customers) in the 2014 IPR 2 process[9] that BPA revenue rather than debt finance approximately $90 million/year in energy efficiency acquisitions.[10] At the time, BPA forecasted that this action alone would avoid approximately $1.3 billion of debt related to energy efficiency through 2028 and help preserve and extend BPA's limited borrowing authority.[11] Power Services' status as a net re-payer of borrowing authority is also due to the Regional Cooperation Debt ("RCD") Program, under which $3.5 billion of Energy Northwest debt is to be extended beginning in 2021 through 2030 so that BPA can instead retire treasury bonds early.

For the above reasons, to the extent BPA needs to take additional action to preserve scarce borrowing authority, such action must come from Transmission Services. While there is not enough information currently upon which to offer a preference, any approach will likely require a combination of revenue financing and prudent implementation of Transmission's capital program, including more scrutiny as to BPA's ability to execute the program as budgeted as well as potential adjustments to the rate or scale of the BP-22 capital spend in IPR2. Revenue financing should be used as a last resort, but to the extent it must be used, we support a phased implementation that balances the rate pressure(s) from revenue financing with the rate period to rate period base transmission rate increase(s).

On the other hand, we do not currently see a compelling reason to include revenue financing in power rates. As discussed above, Power Services is already a net re-payer of borrowing authority due in large part to previous actions taken and/or support given by BPA's power customers. These actions have either increased power rates (e.g., by agreeing to the revenue financing of energy efficiency) or extended billions of dollars of non-federal debt for which power customers are ultimately responsible—all done in the name of partnering with BPA to secure the agency's long-term financial health and preserving borrowing authority. BPA projects that by 2030 these actions will leave Power Services with some $771 million of outstanding treasury bonds, which is the equivalent of just 10% of BPA's current treasury borrowing authority limit.[12] Asking power customers to do more revenue financing under these circumstances is not only gratuitous, but it willfully and unreasonably ignores the substantial contributions power customers are already making to preserve BPA's borrowing authority.[13] Rather than act in such an arbitrary manner, we urge BPA to use the money it proposes to include in power rates for revenue financing to lower power rates in BP-22 instead. This would potentially keep tens of millions of dollars in hard pressed communities across the region to help them respond to the ongoing economic crisis.

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[9] Letter to Region, January 30, 2015 available at https://www.bpa.gov/Finance/FinancialPublicProcesses/IPR/2014IPRDocuments/2014_IPR2_Letter.pdf.

[10] 2014 IPR 2 Close-Out Letter and Report, May 2015, at 6, available at https://www.bpa.gov/Finance/FinancialPublicProcesses/IPR/2014IPRDocuments/IPR2_%20Close-Out_%205-1-15.pdf.

[11] IPR2 Follow Up: BPA's Proposed Approach, April 14, 2015, at 6, available at https://www.bpa.gov/Finance/FinancialPublicProcesses/IPR/2014IPRDocuments/IPR2%20Follow%20Up-BPA's%20Proposed%20Approach.pdf.

[12] *See* Additional Materials on BPA's Borrowing Authority.

[13] We also note that to the extent BPA moves forward with its proposal to include revenue financing in transmission rates, power customers will make additional contributions to preserve BPA's limited borrowing authority in their capacity as BPA transmission customers.

Finally, when the time comes to develop BPA's long-term strategy to preserve borrowing authority and maintain access to capital, we recommend that BPA revisit with customers the "all of the above" strategy outlined in BPA's financial plan including but not limited to consideration of possible legislative actions, reserve financing, potential expansion of the lease-purchase program, possible reductions to planned capital spending levels, and additional non-federal transmission asset ownership with BPA entering into capacity leases.[14]

Thank you for the opportunity to comment.

[14] See Strengthening Financial Health Capital Financing Workshop at 11 (May 22, 2018) available at https://www.bpa.gov/Finance/FinancialPublicProcesses/AccesstoCapital/5.22.18%20Capital%20Financing%20Workshop%20Presentation.pdf.