

Financial Reserves Policy phase-in implementation

March 20, 2018, 1 p.m.

BPA Rates Hearing Room

WebEx: [join the meeting](#)

Meeting Number: 900 950 573

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Contents of this presentation

- Timeline update.
- Review BPA's current proposal.
- Discussion of which elements of the proposal could be adopted in the Financial Reserves Policy and record of decision; and which elements will also be subject to the 7(i) process in the BP-20 rate case.
- Statistical analysis of BPA's proposal.

Financial Reserves Policy background

- BP-18 Final Record of Decision administrator's preface stated:
 - Under the policy [FRP], we will begin rebuilding Power's financial reserves by collecting \$20 million above projected net costs each year until the lower threshold is reached.
 - While I am adopting the FRP in this decision, I have left some implementation features open for further development, including how to phase-in the lower threshold for Power's financial reserves and how to best leverage financial reserves to manage long-term wholesale market price exposure and promote greater rate stability.
 - I believe that the region will be best served by focusing on these elements in future processes, such as the upcoming long-term strategic planning discussion and BP-20 Rate Case workshops.
- Strategic and financial plans state that Power Services increasing its reserves to a minimum of 60 days cash on hand (\$300 million) is a financial health priority.

FRP phase-in implementation timeline

- March-April 2018: conduct public workshops, receive feedback on and refine proposals.
 - March 2: Public Workshop
 - March 20: Public Workshop (please send in feedback by April 6th to BPAFinance@bpa.gov)
 - April 20: Public Workshop
- April-June 2018: finalize and publish draft proposal, follow with a public comment period and incorporate final decision into the Financial Reserves Policy.
 - April 20: Publish draft proposal
 - April 20 – May 11: Public comment period (www.bpa.gov/goto/comment)
 - June: Publish final ROD

BPA's current proposal – financial reserves surcharge

- Power's proposal
 - If at the end of September Power cash reserves are less than 60 days cash on hand (~\$300 million), then Power Services triggers a financial reserves surcharge for the next fiscal year (Oct. 1-Sept. 30) that collects \$40 million.
 - If reserves are less than \$0, then the financial reserves surcharge collects \$40 million plus the amount of reserves needed to get back to \$0 in the next fiscal year. Surcharge is capped at \$340 million.
 - If Power cash reserves are greater than \$260 million and less than \$300 million, then the financial reserves surcharge collects the amount of reserves needed to get back to \$300 million in the next fiscal year.
- Transmission's proposal
 - If at the end of September Transmission cash reserves are less than 60 days cash on hand (~\$100 million), then BPA Transmission Services triggers a financial reserves surcharge for the next fiscal year that collects \$15 million.
 - If reserves are less than \$0, then the financial reserves surcharge collects \$15 million plus the amount of reserves needed to get back to \$0 in the next fiscal year. Surcharge is capped at \$115 million.
 - If Transmission cash reserves are greater than \$85 million and less than \$100 million, then the financial reserves surcharge collects the amount of reserves needed to get back to \$100 million in the next fiscal year.

Financial Reserves Surcharge considerations

Decision criteria	Financial Reserves Surcharge
Rebuilds Power reserves	<p>YES</p> <p>75 percent likelihood \$300 million in Power reserves by FY 2027.</p>
Rate stability	<p>YES</p> <p>One time rate increase from \$20 million to \$40 million, then rates remain relatively stable as reserves are available for rate stabilization.</p>
Consistent with BP-18 Final ROD, strategic and financial plans	<p>YES</p> <p>From strategic plan: BP-18 included \$20 million in PNRR to increase reserves until they reach minimum of 60 days cash on hand; in workshops BPA will explore how to build Power’s reserves more quickly.</p>
Simple to implement	<p>YES</p> <p>Proposal is straight forward and does not require additional resources to implement.</p>

- Rate action when Power or Transmission financial reserves fall below 60 days cash on hand.
- Power rate impact of moving to a financial reserves surcharge in FY 2020 would be 1.5 percent (non-slice rate impact, the overall rate impact would be 1 percent).
- No transmission rate impact since Transmission is already above its threshold of \$100 million.
- \$40 million financial reserves surcharge would replace \$20 million currently in planned net revenues for risk in Power rates.

Phase-in implementation in FRP

If BPA adopted the current financial reserves surcharge proposal; then the implementation section of the FRP could be updated to state:

- If Power or Transmission cash reserves drop below its lower financial reserves threshold of 60 days cash on hand but are greater than \$0, then a rate action will be triggered to collect the following annual amount:
 - for Power the lesser of \$40 million or the amount needed to equal Power's lower financial reserves threshold; or
 - for Transmission the lesser of \$15 million or the amount needed to equal Transmission's lower financial reserves threshold.
- Power and Transmission's CRAC threshold is \$0.
- Furthermore, BPA would indicate in the FRP and/or ROD that in the BP-20 Initial Proposal BPA will propose to use a surcharge as the rate mechanism to increase financial reserves to the lower threshold.

Phase-in implementation in BP-20 Rate Case

If BPA wanted to adopt the current financial reserves surcharge proposal; then BPA could propose the following in the BP-20 Initial Proposal:

- Rate mechanism for implementing the FRP when Power or Transmission cash reserves are below its lower threshold but above \$0 will be an annual surcharge triggered on cash reserve values as of Sept. 30 of the previous fiscal year; and
- The annual surcharge amount for Power or Transmission will be the amount needed to increase cash reserves to \$0 plus:
 - for Power the lesser of \$40 million or the amount needed to equal Power's lower financial reserves threshold; or
 - for Transmission the lesser of \$15 million or the amount needed to equal Transmission's lower financial reserves threshold.
- Annual surcharge is capped at \$340 million for Power and \$115 million for Transmission.

Alternative rate case proposals

- Alternative proposals could be made in the rate case to implement the FRP, e.g., a PNRR-like mechanism rather than the proposed annual surcharge. Both rate mechanisms would collect the same annual amount established in the FRP; the differences are:
 - PNRR-like mechanism would be embedded in rates based on expected cash reserve levels; and
 - Surcharge mechanism would be implemented annually based on actual cash reserve levels.
- Additionally, Parties could propose to keep the CRAC mechanism as is currently written in BP-18 GRSPs; with CRAC threshold at the higher of \$0 or level needed for Treasury payment probability as established in the FRP.

Analysis of the proposal

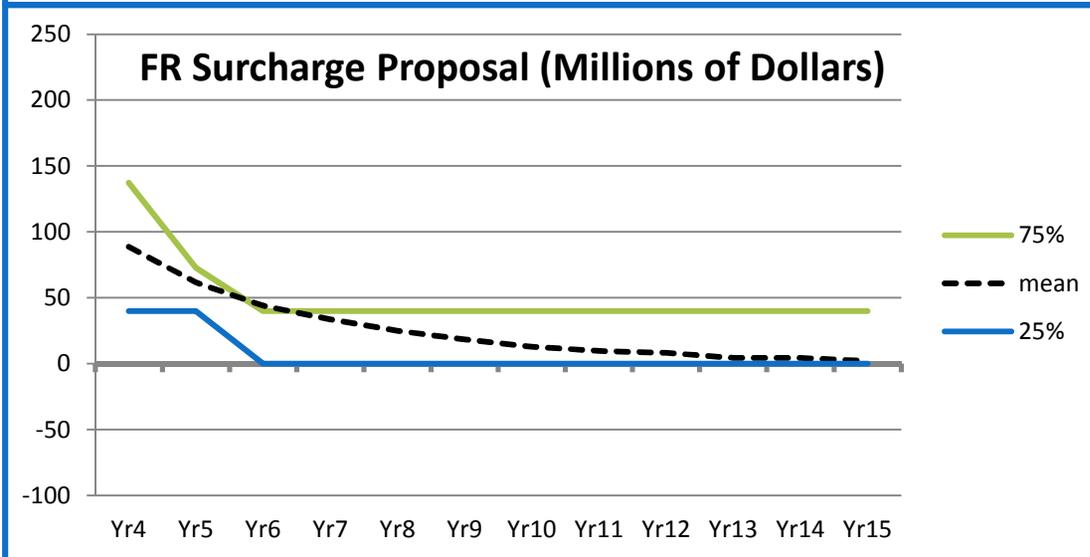
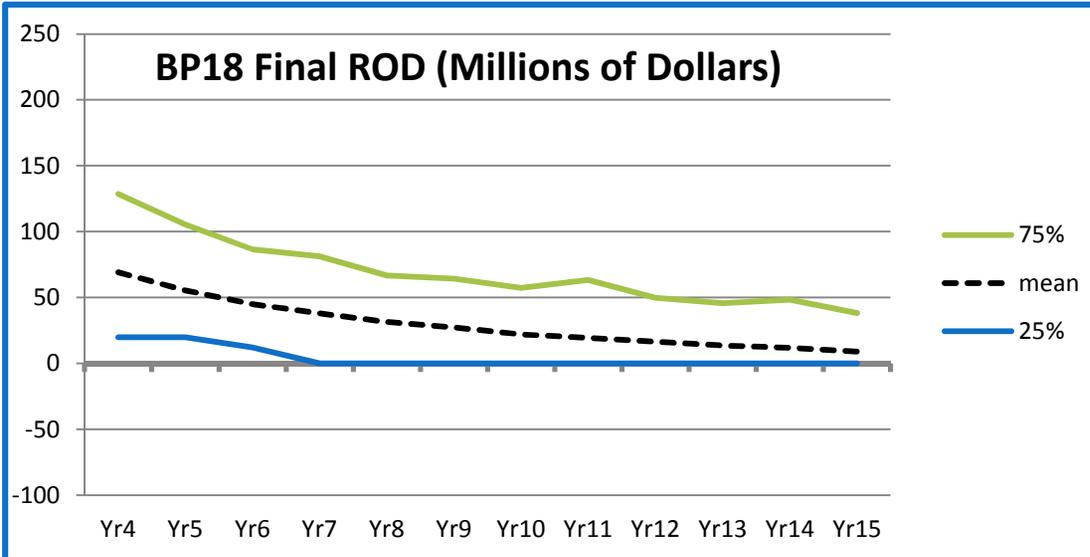
3 metrics, two statistical models

- 1. Credit Threshold [BP-18 FRP Model]**
measures the probability agency reserves drop below 30 days cash on hand for two consecutive years over a 10-year period
- 2. FRP Target Met [@Risk FRP Model]**
measures probability Power will increase financial reserves to 60 days cash on hand within 10 years
- 3. Expected Annual Cost [@Risk FRP Model]**
average annual cost of the rate mechanisms in the proposal

	Proposals to increase Power reserves:	Credit Threshold probability Agency reserves drop below 30 days cash on hand for 2 consecutive years over a 10 year period	FRP Target Met probability Power will increase financial reserves to 60 days cash on hand within 10 years	Expected Annual Cost average annual cost of the rate mechanisms in the proposal
A	Pre-BP18* \$0 CRAC threshold \$0 PNRR/Surcharge	21%	57%	\$18M
B	BP18 Final ROD \$20M PNRR \$300M CRAC threshold (once reserves >\$300M)	14%	65%	\$23M
C	BP18 Initial Proposal* IRPL Good year ratchet	13%	82% 70% Corrected 4/2	\$24M
D	BP18 Alternate Option* \$30M PNRR \$300M CRAC threshold (once reserves >\$300M)	12%	70%	\$23M
E	Financial Reserves (FR) Surcharge \$40M Surcharge \$0 CRAC threshold	11%	75%	\$20M

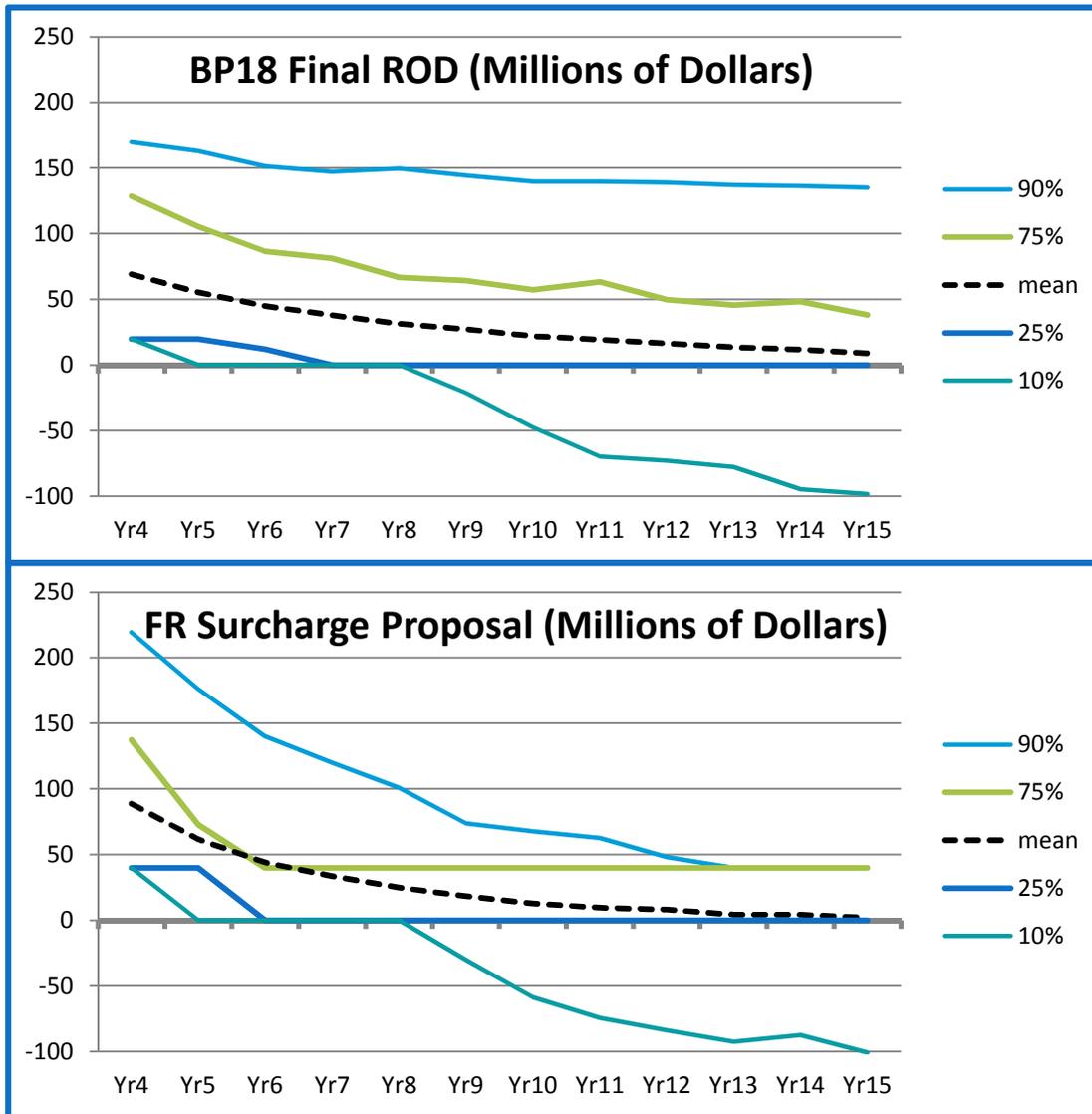
*Proposals also included in Attachment 7 “Policy Proposals and Key Statistics” of the Financial Reserves Policy Rebuttal Testimony, BP-18-E-BPA-33. <https://www.bpa.gov/secure/Ratecase/openfile.aspx?fileName=BP-18-E-BPA-33-AT01+Financial+Reserves+Policy+Attachments.pdf&contentType=application%2fpdf>

Expected annual cost-of-risk percentiles



- Expected annual cost-of-risk equals, on average, Surcharge or PNRR + CRAC - RDC
- A surcharge rate mechanism provides more rate stability than CRAC-based alternatives

Expected annual cost-of-risk percentiles



- Expected annual cost-of-risk equals, on average, Surcharge or PNRR + CRAC - RDC
- A surcharge rate mechanism provides more rate stability than CRAC-based alternatives

Next steps

- Please provide any comments on the proposal or proposal alternatives to BPA by Friday, April 6. Send comments to: BPAFinance@bpa.gov.
- Follow-up workshop scheduled for April 20.