



## PPC Talking Points

### BPA FY '07 Budget February 2006

#### Secondary Revenue Initiative

The Administration's FY 2007 budget directs BPA to initiate a new rate case to divert to the Treasury a portion of revenues from BPA's secondary sales. In any given year, revenues from secondary sales in excess of \$500 million would purportedly be used to pre-pay BPA's outstanding debt. Under the plan, BPA will hold technical workshops in March and implement an expedited rate case in July.

The Public Power Council (PPC) believes this proposal is costly and unnecessary – and should be rejected. The proposal:

- **Extracts nearly \$1 billion out of the Northwest economy over the next 10 years.** The budget estimates that this proposal will transfer an estimated \$924 million in extra revenue to the Treasury – *money that could stay in the Northwest through lower rates to protect the interests of businesses and families.*
- **Raises rates by roughly 10 percent.** PPC estimates that this proposal, if adopted, will negate an anticipated rate reduction in 2007 and could cause rates increase by as much as 10 percent in 2008 and 2009. The region is still suffering from rates that are nearly fifty percent higher than the where before the 2001 Western energy crisis. *BPA's customers are seeking ways to lower rates – not increase rates.*
- **Usurps regional decision-making and imposes a rigid formula.** In the normal revenue/rate-setting process, the region seeks to balance competing needs to provide affordable rates, satisfy the region's obligation to repay the Treasury investment and meet our environmental responsibilities. In the current 2007-09 Power Function Review and rate case, this balance is sought through mechanisms that use liquidity tools, rate adjustments (up or down), and cost-reviews to respond to varying water conditions, volatile markets, and sudden costs (e.g., fish costs). *The OMB proposal pre-empts this balancing effort with a one-way ratchet – the region pays higher rates, loses flexibility to address adverse conditions and any benefits of good water years are sent to Treasury. (For example, this would be like your banker telling you he's accelerating your mortgage payment because you got a bonus at work, but denying you a grace period on your monthly payment if you get laid off.)*
- **Provides elusive – and unnecessary – “benefits” of future rate reductions and increased borrowing authority.** OMB claims that this initiative will provide future

rate reductions by pre-paying BPA's debt. OMB also asserts this plan is needed to "free up" borrowing authority for BPA to invest in needed infrastructure. PPC believes these claims are ill-founded:

- ✓ *BPA and its customers have already voluntarily prepaid \$1.46 billion to the Treasury in the last 5 years without raising rates* – and plan to make additional prepayments;
  - ✓ The "intent" to use the revenues to pay down BPA's debt is just that—a nonbinding intent. There is no guarantee at this time that the money would not be redirected to fulfill a different purpose.
  - ✓ If the funds are used to free up additional borrowing authority, PPC's analysis is that this would *extend BPA's borrowing authority for only an additional 3 years*.
  - ✓ If OMB were genuinely concerned about ensuring money is available for infrastructure investment in the Northwest, it would *drop its proposal to deduct third-party financing from BPA's available borrowing authority, thereby allowing BPA to enter into partnerships with private entities to invest in the NW's transmission system*.
- **Creates a dangerous precedent.** If this scheme were adopted, it would be easy to simply remove the \$500 million threshold and transfer all BPA secondary sales revenue to the Treasury, or to bypass the congressional delegation and impose other administrative changes.

*The OMB secondary-revenue proposal guarantees immediate rate increases for speculative benefits and lost flexibility in future years. Trade-offs of near-term rates and long-term financial position should be made at the regional level, taking many factors into account. PPC commends the delegation for its collaborative efforts to reject this ill-conceived proposal.*

### **Limits on Third-Party Financing of BPA's Transmission System**

The OMB proposal continues to promote legislation mandating that any third-party financing of BPA's transmission system count against BPA's borrowing authority. This position runs counter to OMB's earlier directive that BPA **must** seek third-party financing to invest in its system – and it would cripple the ability of the region to make needed infrastructure investments.

*PPC supports public-private partnerships to build transmission infrastructure and opposes OMB's attempt to hamper BPA's creative efforts to finance a reliable and efficient NW transmission grid.*