



December 9, 2015

Elliot Mainzer
Administrator
Bonneville Power Administration
911 NE 11th Ave
Portland, OR 97232
Submitted via www.bpa.gov/comment

Re: PPC Comments on Focus 2028 Process

Dear Elliot:

The Public Power Council (PPC) would like to thank you and the staff at the Bonneville Power Administration for inaugurating the Focus 2028 process. For preference customers of BPA, it is difficult to imagine a more important or fundamental set of questions than those around the agency's future competitiveness. As the umbrella organization representing BPA's public power and cooperative customers, we appreciate the opportunity to comment on the scope of this process.

BPA's competitiveness as a supplier of low cost, reliable power and transmission services is essential to the economic health of the region and that of the consumers ultimately served by BPA's utility customers. And, since BPA's ability to fulfill its mission and meet its various obligations is dependent on its ability to provide power at competitive rates, many parties across the region have an interest in a viable BPA.

Our concern about the future of BPA arises because the recent trajectory of BPA program costs and rates is unsustainable. Both in terms of BPA remaining competitive in the long term for new contracts following 2028 and in the more immediate impacts to consumers, the constant increases over four rate cases have been a grim reality added to the many other cost pressures on distribution utilities and their consumers.

In this Focus 2028 process so far, BPA has taken helpful first steps in creating a long-term rates model and a reference case to enhance a common understanding of the cost pressures facing the agency and the potential trajectory of costs and rates through time. However, there is a lot of work ahead of us to develop useful tools

that can be applied soon in order to impact decisions that can begin to change the shape of the BPA cost curve. While some issues may take time to resolve beyond the next few months, we hope to work with BPA on ideas that can start to impact BPA's costs and rates in the BP-18 case as well.

Specific Programmatic Issues

We generally support the programmatic and investment areas BPA has identified for consideration in the process. These include:

- Finding ways to optimize the fish and wildlife program for best performance in environmental stewardship at lowest cost;
- Examining BPA's role in regional energy efficiency acquisition and the structure of its program;
- Taking an integrated and long-term view towards optimizing investment in the federal hydro system;
- Strategically managing investment in the transmission system to ensure system reliability while also maintaining access to capital and low rates;
- Taking a holistic view of BPA's financial policies in light of limited access to capital, risk management, and the statutory mandate to provide power and transmission service at the lowest level consistent with sound business principles.

Scenarios

In order to enhance the usefulness of the analytical tools in this process, we would like to work with BPA to further refine cost-based scenarios that would reduce defined costs in the projected rates. Among the cost-based scenarios we would like to consider are: revisions to BPA's fish & wildlife budget, possible changes to the energy efficiency budget, looking at additional economies in BPA's internal costs, and looking at revisions to BPA's O&M budget.

In addition to the cost-based scenarios, we would like to see BPA analyze two other kinds of scenarios. The first alternative group of scenarios we would like BPA to analyze are "top-down" scenarios, where BPA constrains the rate of growth in costs and determines what the agency would have to do to function within that cost target. The BPA reference case projection assumes that rates will be relatively flat between now and 2028 in real terms, based on assumed inflation rate of 1.9%. We would like to see a scenario run where BPA's power costs stay constant in nominal terms between now and 2031, seeing what adjustments the

agency would have to make to stay within that constraint. In addition, another scenario should examine impacts if BPA's nominal costs go up at 1% a year (i.e. about half of BPA's assumed rate of inflation).

The second group of alternative scenarios we would like BPA to analyze involve changing the debt financing assumptions in the reference case. We would like to see what the costs and rates would look like if BPA limited its forecasted Treasury borrowing authority to \$750 million in 2031, rather than nearly double that in the current reference case. Additionally, we would like to see two more scenarios: one where no advanced refinancing occurs on the power side, and one where no advanced refinancing occurs at all.

Process Suggestions

In addition to the broad process set forth in the Focus 2028 evaluation, it may be necessary to have breakout sessions for specific programmatic issues. Energy efficiency is one of these issues where more detailed sessions will be necessary. As BPA evaluates its long-term energy efficiency costs, it should also evaluate its overall role in energy efficiency acquisition and its program delivery model. Attempting to address this issue within the general construct of the Focus 2028 process would not give this issue adequate consideration. Where other programmatic issues needing additional consideration are identified, BPA should schedule breakout sessions for these as well.

Need for a Relook at BPA's Budgeting Process

For Focus 2028 to be a useful effort, information must be translated into *strategy and action*. Our focus should start with the aspects of BPA's business that it can control, and which drive the spending levels and structure of its programs (both those with external elements and internal elements).

Part of this process should explore implementation of a top-down method of budgeting where senior BPA managers establish strategic objectives, set an overall budget by agency and business line designed to achieve these strategic objectives, and has the agency live within the overall budget targets established. This could require a significant transformation in the way BPA does business and manages its assets.

The long-term rates model is useful in providing a long-term perspective on the trajectory and drivers of BPA's costs. However, it is inadequate for a full examination of top-down budgeting, since the essence of the model is to add up the various current program budgets that make up BPA's expenses. Rather, a new alternative approach might examine the implications of top-down budgeting. We

should look to develop a way of determining how to prioritize agency expenses, following on the initial steps BPA has taken to prioritize capital expenses.

A specific issue indicating the need for budget reform is the fact that the reference case indicates that many areas of BPA's expense projections are "front-loaded." In other words, the reference case shows large increases in expense levels in the upcoming two rate periods and lesser increases after that time. This assumption introduces the risk that long-term expenses are in fact being underestimated since there is less certainty in budgeting the farther out in time you go. Regardless, the near-term assumptions should face serious scrutiny; strategic decisions made in the Focus 2028 process should be applied to curb the rate trajectory beginning in the BP-18 rate period. In general, front-loading of costs can have serious negative consequences to future budget goals since new costs that BPA incurs may be difficult or impossible to shed later. Staying competitive in 2028 when new contracts become effective requires that BPA increase its focus on cost-control now.

Debt Management

There should be further discussion around BPA's assumptions on the timing and amount in the reference case of accelerated repayment of Treasury debt on both the transmission side and on the power side. One key aspect of the reference case is the debt management assumptions. BPA's current practice for determining Treasury borrowing authority adequacy is to determine that BPA would have sufficient borrowing authority for the following ten years on a rolling basis. Since the Focus 2028 analysis goes out thirteen years, there are obvious problems with the ten-year metric. To address this, BPA made the assumption that both the power and the transmission sides of the business would accelerate repayment of Treasury debt at some point during the study period, using rate increases to fund that accelerated repayment. Since, the rate effects of accelerated repayment are similar to the effects of revenue financing new capital investments, this is a matter deserving of significant discussion in this process.

Again, we very much appreciate the opportunity to comment, and look forward to working with you in this important effort around the agency's future stability and competitiveness.

Sincerely,



Scott Corwin
Executive Director
Public Power Council