

## **Bonneville Power Administration Issues: Financial Status and Competitiveness**

*PPC Briefing Points February, 2018*

As consumer-owned utilities that have preference to federal power, most members of the Public Power Council (PPC) buy much or all of their power from the Bonneville Power Administration (BPA) and use the Bonneville transmission system to deliver that power. Issues impacting the agency weigh heavily on these utilities, their consumers, and their ability to sustain job creation and economic health throughout Washington, Oregon, Idaho, Montana, and parts of adjacent states.

### **BPA Mission**

- The agency plays an integral role in the economic vitality of the Pacific Northwest.
- By law, BPA's first mission is to deliver the clean, renewable hydropower generated at federal dams to the region's not for profit, consumer-owned electric utilities at the lowest reasonable cost.
- BPA maintains the reliability of the electric grid and, within its statutory authority, helps advance energy efficiency and renewable generation, and protects regional fish and wildlife.

### **BPA Costs, Rates, and Competitiveness**

For most consumer-owned utilities served by BPA, the agency's charges for power and transmission constitute a majority of the cost of operating their local utilities. Increases in BPA rates directly and significantly affect the pocketbooks of residents and the vitality of businesses.

- Northwest public power utilities serve over 3,000 average megawatts (27 million MWh) of industrial loads for over 34,000 business accounts-- 36% of NW public power loads.
- Manufacturing jobs promote a high "multiplier effect", with \$1 spent in manufacturing generating \$1.33 in additional economic activity throughout local communities.
- Northwest businesses operate in highly competitive global markets; any increase in major inputs, such as power costs, directly pressures profitability and employment.
- BPA also provides over 1.8 million MWhs of energy to irrigation pumping load; increases to electricity rates directly threaten the cost effectiveness of the essential irrigation services.
- Public power and cooperative utilities disproportionately serve the most rural and in some cases impoverished counties in the Pacific Northwest; low cost BPA wholesale power makes service possible even where lower density means dramatically higher distribution costs at the retail level.

BPA's recent upward rate trajectory raises serious concerns about the long-term competitiveness of BPA, the economic health of the region, and the numerous programs that depend on BPA revenues. With the cost of alternative power supplies suppressed for the foreseeable future, *BPA's recent rate trajectory is not sustainable*; power customers will have other supply options when their BPA contracts expire in 2028. Without an adequate customer base, BPA's ability to fund its operations (or other efforts such as energy efficiency and fish and wildlife programs) is at risk.

*Goals, Strategy, Action* – BPA's release of a five-year strategic plan is a useful start to begin to turn the corner now on this financial challenge. Areas of focus in this plan include: (1) Financial Health, (2) Modernizing System Assets and Operations, (3) Competitive Power Products and Services, (4) Meeting Customer Transmission Needs. This will need to be combined with the policy and budget goals in longer-term strategy to be competitive ahead of the 2028 contract cliff.

Consistent implementation of this plan by BPA and the owners and operators of the dams, *the Army Corps of Engineers and Bureau of Reclamation*, is critical. PPC will continue to work with BPA and these other agencies to stress the need for cost and rate targets, strong financial tools, performance measurement, and management accountability.

PPC continues to emphasize several areas needing concerted effort if BPA power and transmission products are going to be positioned well for the future. These include:

- *Budget and Performance Culture*: BPA must continue to alter its approach to annual and long-range budgeting. A top-down budget prioritization is needed that includes critical review of program retention, scope, expenditure, and possible new sources of *revenue*.
- *Capital Investments and O&M*: Maintaining the infrastructure of the Columbia River Power System – the dams and transmission lines – is crucial. However, given the incredible expense associated with these programs, it is essential that BPA, acting both independently and in partnership with the Army Corps of Engineers and Bureau of Reclamation, prioritize expenditures, defer some when appropriate, and seek efficiencies whenever possible.
- *Appropriate Financial and Reserve Policy*: It is essential that BPA meet its annual payment to the Treasury, and the most critical step for BPA to ensure both repayment of debt and a high credit rating for issuing other debt is to maintain long-term contracts with public power customers. BPA must carefully structure its financial policy to maintain a healthy financial position without unnecessarily compounding the upward rate pressure.
- *Fish and Wildlife Programs and Operations*. Judge Simon's rejection of the BiOp and his court ordered spill-to-the-caps regime increases both costs and risks for BPA customers, and further undermines the long-term attractiveness of BPA power products. At a minimum, the costs associated with these added, unproven measures should be borne more by taxpayers and not by BPA ratepayers.
- *Energy Efficiency Program*. Public power utilities have achieved great energy savings. BPA program revisions to enhance flexibility and allow more direct utility funding are important steps towards more workable and responsive program implementation.

PPC appreciates the Northwest congressional delegation support for the competitiveness focus at BPA, and we encourage a continued press for needed reforms that support BPA's future stability.