PUBLIC POWER COUNCIL
Bringing public power together

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Comments on Implementation Proposals for BPA's 2018 Financial Plan

Overall Comments and Timeline Issues

The Public Power Council (PPC) appreciates this opportunity to comment on the proposed implementation of BPA's 2018 Financial Plan. PPC is a trade association representing the interests of Northwest public power and cooperative utilities that buy wholesale power and transmission services from BPA. Between these power and transmission services, PPC members are responsible for paying the vast majority of BPA's overall costs of operating the Federal Columbia River Power System. Further, as non-profit entities, PPC members work directly to serve the citizens of the Pacific Northwest.

PPC recognizes there are both short and long term financial challenges facing BPA. The financial health and viability of preference customers is directly tied to the success of the agency. It is essential that implementation of all elements of the Financial Plan be made with emphasis on adding value for customers.

The focus of the workshop activity to date has been towards financial liquidity and the use of debt. However, all the action areas in the plan are interrelated and will have significant and long-lasting impacts. For example, the implementation of a leverage policy has direct implications for access to capital. Availability of capital sources can affect asset investment plans. Disciplined management of program costs will affect the prudency of additional surcharge amounts to raise financial reserves.

Timing

Because of these types of impacts and interrelations, PPC has strong concerns regarding the timeline and sequencing of decisions on these financial topics. Currently it is our understanding that decisions on liquidity and use of capital (i.e. leverage) are set to be made as part of a Record of Decision in June. Access to capital has not been substantially addressed to date and there is a workshop scheduled for May 22nd, following the close of official comments on liquidity and leverage. Finally, cost management discipline, and budget implementation, will occur as part of the Integrated Program Review (IPR) process beginning in June with final decisions to be made in late summer.

PPC strongly recommends delaying final decisions on all of these financial policy issues to be concurrent to the extent possible with the closeout of the IPR. We see this as the best way to ensure that all of BPA's financial decisions can be evaluated as a cohesive whole. If implementation decisions are made in a piecemeal fashion, even with the best of intentions, poor outcomes and unintended consequences become more likely. BPA, and the core preference customers that support the agency, cannot afford those outcomes.

Liquidity Issues

As described in our initial comments of April 6th, PPC has ongoing concerns regarding the business case for increasing surcharge amounts in Power rates from $20 million to $40 million for purposes of accumulating financial reserves. BPA staff's modeling has shown a 65% chance of achieving policy goals under current practice within 10 years. Increasing the amount to $40 million annually would increase this probability to 73%.

PPC cannot support an automatic increase in the surcharge amount at this time. This incremental improvement in probability cannot be viewed as worth the cost without further understanding of the overall rate picture.

PPC does support other aspects of the revised draft Financial Reserves Policy. Leaving the threshold for the Cost Recovery Adjustment Clause (CRAC) or successor mechanism at zero is highly beneficial. This allows accumulated financial reserves to be available to mitigate poor financial outcomes within a year, without unpredictable surcharges in the following year. This rate stability aspect is one of the primary benefits of holding financial reserves.

This policy, combined with a fixed surcharge for when reserves are between zero and the lower threshold, strikes an adequate balance between rate stability, certainty, and building financial reserves towards desired levels. It is also equitable because the structure is parallel for both Power and Transmission.

Finally, PPC supports no changes to the current structure of the Power CRAC as part of this policy. The current structure of dollar for dollar recovery of the first $100 million of a CRAC followed by any remainder up to the $300 million cap being spread over the following two years has been in place for multiple rate periods. Any change to this approach should be considered as part of a rate case process.

Debt Utilization Issues

PPC strongly agrees that no additional actions are required on the Power side of the business to accelerate the ongoing process of deleveraging. This deleveraging process has been occurring steadily over many years, including a drop of about 23% between 2008 and 2017.

Power is already a net repayer of debt and significant rate actions have already been taken to facilitate deleveraging. These actions include using Anticipated Accumulation of Cash (AAC) to pay significant amounts of debt, and moving energy efficiency investments from debt financing to expense. Historically the reinvestment of AAC has amounted to many hundreds of millions of dollars that could have otherwise been used to support BPA's liquidity or for rate relief. In this rate period alone, preference customers are revenue financing approximately $140 million of energy efficiency investments that would otherwise have been debt financed.

If BPA decides to adopt actions for managing leverage on the Transmission side, a reasonable phase-in period could be appropriate. The one rate period relief as proposed in the draft policy document is reasonable.

PPC notes also that decisions regarding leverage policy are closely interrelated with debt capacity issues. To the extent that BPA has a shortage of access to capital sources, it is caused by the rapid expansion of debt by Transmission Services. Without this expansion, there would be no shortage of access to capital; therefore, any incremental revenue financing needed should also be undertaken through transmission rates. Power Services has already taken substantial actions to reduce strain on remaining borrowing authority, which is reflected in the rates paid by preference customers. Additional revenue financing through Power rates would violate cost causation and undermine BPA's goals of competitive and sustainable power rates.

Given concerns regarding both debt utilization and access to capital, closer scrutiny of assumed capital spending and budgets is necessary for both Power and Transmission. This includes both ongoing assessment of the value proposition of investments as well as the likelihood of executing on the proposed capital plan.

Conclusion

Thank you for your consideration of these comments. PPC appreciates the responsiveness of BPA staff to date in providing additional information and analysis to facilitate understanding these important policy choices. We look forward to working closely together to resolve the financial challenges facing BPA with an eye always towards the benefit of the citizens and ratepayers of the Pacific Northwest.