

May 15, 2020

VIA ELECTRONIC MAIL

Elliot Mainzer  
Administrator, Bonneville Power Administration  
Portland, OR 97232

**RE: Covid-19 Response and Financial Reserves Policy Surcharge**

Dear Elliot,

We appreciate the efforts that you and BPA staff are making to adapt to the extraordinary challenges facing Northwest public power utilities and the communities we serve. As you stated in your March 25 communication to customers, “[t]hese are unprecedented times for the world and they have called for unprecedented actions.” What public power customers need most right now is substantive rate relief from BPA, which can be delivered through a pause in BPA’s Financial Reserves Policy Surcharge.

BPA’s public power customers are already taking on such unprecedented actions through their own means to support their communities through the impacts of the Covid-19 pandemic. PPC recently conducted a survey of member utilities regarding the measures they are taking to help rate payers and to support utility finances and solvency. Essentially, every utility is already taking their own significant measures to mitigate the pandemic’s economic consequences, including suspending disconnections, expanding retail customer assistance programs, and freezing planned rate adjustments.

To support these actions at a time when loads and revenues are decreasing, public power utilities are using all the financial tools at their disposal. This includes tapping financial reserves, cutting program spending, accessing short term lines of credit, and implementing furloughs and hiring freezes.

We believe the clearest path for immediate relief is temporary suspension of BPA’s Financial Reserves Policy Surcharge, a requested action from public power that is solely in response to the financial duress created in Northwest communities by the pandemic. This surcharge is currently collecting \$30 million in power rates for FY 2020 and is projected to trigger again in FY 2021 for the same amount. We urge that collection cease immediately and be applied retroactively to March 1, 2020, the effective date of the declaration of a national emergency due to the pandemic. Given the probability of

continued economic fallout, suspension of the mechanism should continue for FY 2021 and be reevaluated for the next rate period.

PPC supports the underlying purpose of the Financial Reserves Policy, but continued implementation of the surcharge in the present circumstances is not tenable. Given the actions being taken by utilities to support their own communities and individual utility financial solvency, the surcharge further drains utility resources and their customers and essentially transfers money directly from utility balance sheets to BPA. As one of our members noted in the PPC survey, “[n]ow is NOT the time for us to be improving our debt ratio on the back of the unemployed.” We are not requesting that the surcharge policy itself be abolished, but rather that a pause in collection of the surcharge for the remainder of this rate period is essential and would serve as a meaningful benefit to communities and BPA public power customers across the Northwest.

Based on BPA’s current financial outlook, foregoing accumulation of approximately \$21 million of financial reserves will not appreciably affect BPA’s credit rating, solvency, or probability of triggering the Cost Recovery Adjustment Mechanism (CRAC) for FY 2021. Even without this surcharge, BPA Power Services would still be projected to have over \$230 million in financial reserves, or over 45 days cash on hand, at the end of FY 2020. There would be no measurable effect on BPA’s ability to meet Treasury payment obligations for FY 2020.

Further, because the surcharge is characterized as a “risk adjustment,” its suspension does not endanger BPA’s ability to recover its total system costs or meet any other statutory ratemaking directives. And certainly, procedural considerations surrounding suspension of the surcharge should not stand in the way of BPA offering its power customers meaningful rate relief. BPA and the public power utilities that bear the burden of this surcharge have a long history of working out procedural issues and we stand ready to do so again. Finally, foregoing potential surcharge revenue in FY 2021 will not materially affect BPA’s financial outlook as the BP-22 rate case will be conducted during this time to make any needed adjustments for rates starting in FY 2022.

Given the nominal financial risk to BPA from foregoing surcharge revenues, PPC believes this would be a prudent and justifiable response to the pandemic. It is also a matter of equitable sharing of risk mitigation between BPA and its public power customers.

We also fully understand the potential risks and tradeoffs of BPA having lower financial reserves or increased scrutiny from credit rating agencies. Northwest public power does not make this recommendation lightly, nor without due consideration of potential consequences. And again, this request should in no way be viewed as an abandonment of the overall policy or sound financial principles. Rather, it is a targeted and temporary

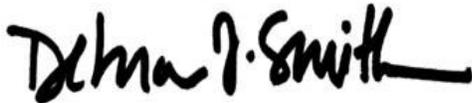
suspension of surcharge implementation in light of extraordinary and unforeseeable circumstances that go far beyond normal business risk.

At the same time utilities are doing their utmost to manage short-term liquidity with their own resources, our survey demonstrates that the financial fallout of the pandemic may already be beyond the means of some utilities to fully manage without additional tools. This challenge may continue to grow. Although cost and rate reduction must be our highest priority, PPC also supports continued exploration of tools allowing temporary flexibility and tailored arrangements with BPA customers to weather this financial storm. Of course, this must be accomplished in a manner that is equitable between customers and does not endanger BPA's overall financial health.

As always throughout our long, shared history the success and financial well-being of Northwest public power and BPA are intrinsically linked. We look forward to working collaboratively with you and your staff to find the most immediate and effective ways to suspend the Financial Reserves Policy Surcharge as recommended above.

Sincerely,

Officers of the Executive Committee of the Public Power Council



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Debra Smith  
Chairwoman  
CEO, Seattle City Light



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Annette Creekpaum  
Vice Chair, Administration & Budget  
Manager, Mason County PUD #3



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Mark Johnson  
Vice Chair, Long Range Planning  
General Manager, Flathead Electric  
Cooperative



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Bear Prairie  
Vice Chair, Allocation, Rates, Contracts  
General Manager, Idaho Falls Power



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Roger Kline  
Vice Chair, Fish and Wildlife  
General Manager, Northern Wasco  
County PUD



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Scott Simms  
Secretary / Treasurer  
Executive Director, Public Power  
Council