

November 15, 2017

Elliot Mainzer  
Administrator  
Bonneville Power Administration  
911 NE 11<sup>th</sup> Ave  
Portland, OR 97232  
*Submitted via email*

**Re: Next Steps in BPA Strategy and Action**

Dear Elliot:

PPC appreciates the engagement with you and your staff over the last several months as BPA has moved towards adoption of a new set of strategic directions. Given the timing of that effort, now seems an appropriate time to offer some perspectives on both the direction of BPA's strategic planning to date as well as on specific priority action areas heading into the next budgeting and rates cycle.

This BPA strategy is an important evolution of what was started through the Focus 2028 initiative that began in 2015. That initiative came from the recognition that BPA's rates and costs were on an unsustainable path that could put all of BPA's services and budgets at risk if the agency suffered significant load loss in the future. Although real progress has been made in some areas, power customers ultimately bore another rate increase this October. Though transmission rates did not increase on average, there are significant longer-term challenges in terms of cost structure and customers' ability to access the transmission they need to serve load and move resources.

While there is much work ahead to implement the directions discussed below, we would like to thank you and your staff for the attention and time you are dedicating to the goal of providing greater value to customers through modernizing the agency's business and moving BPA's cost and rates towards more sustainable and competitive levels.

**Scope of BPA Planning Efforts**

With power supply being the largest single factor in the rates charged to the citizens and businesses in the communities served by PPC members, there is no more crucial issue to

these core preference customers than ensuring that BPA can provide low cost, reliable power supply and transmission options both now and into the future.

*Centering on Cost and Value.* PPC is supportive of the high-level directions taken by the most recent iterations of the BPA planning documents. With the need to turn the corner soon on matters that impact BPA's cost structure, the focus is appropriately on areas for action in the upcoming several years that will provide value to customers regardless of the form of future contracts.

The industry landscape is in a state of rapid change in terms of developing market structures, products, and resource development in the region. With limited time available and many challenges facing the agency, spending a large amount of effort at this time on detailed discussions about the precise nature of future contract offerings and products has the potential to be counterproductive. With a rapidly shifting industry and market landscape, it could be that a product offering or service that looks attractive in 2017 will not be one that serves customer needs in 2024, let alone post-2028.

With these considerations in mind, the focus of the BPA plan is on actions that can be taken immediately and into the coming several years. This scope may provide the greatest potential for increasing value to customers and setting up the most productive and creative exploration of new product and contract forms for the post-2028 timeframe. With that said, we strongly encourage BPA to work with customers to start defining the timeline for development of new products and contracts. This timeline, along with the actions called for in the strategic plan, should form a clear roadmap for customers on the specific steps that can take us from where we are today to a successful outcome post-2028.

*Targets, Tools, Performance, Accountability.* As described below, we support the high-level messages of the strategic direction that we have seen to date. In particular, the focus across the agency of providing value to customers coupled with meaningful budget constraints is essential. Although progress was made in the last rate case, increases in costs were masked to some extent by interest savings from Regional Cooperation Debt refinancing.

To be successful over the coming years BPA must commit to specific actions that are backed by clear metrics to allow for real accountability.

## **Power Services**

The challenges of rate trajectory and cost levels are particularly acute for Power Services. Action is needed on both the *cost* and *revenue* side to provide the best value for power customers. We strongly support specific commitments to limit Integrated Program Review costs to inflation or below. Further, the best way to achieve this goal is through

disciplined *top-down controls* from the executive level that are set early in the budgeting process.

We recognize that BPA has already made significant advancements in curbing the increase of internal costs. We have seen similar efforts from Energy Northwest. Truly achieving success will also require aggressive management of spending by the Army Corps of Engineers and the Bureau of Reclamation. PPC and preference customers stand ready to work closely with BPA and your generation supply partners to achieve this end.

Declining secondary revenues has been a major source of upward rate pressure and poor financial performance in the last several rate periods. Low spot market prices are poised to continue indefinitely. To ease this pressure, new markets and products must be pursued. Opportunities may exist to further maximize the value of the flexibility and carbon-free attributes of the federal portfolio. We know that BPA has already begun work in these areas, and PPC is ready to help in facilitating these opportunities in any way needed.

Lastly, we recognize that there are important discussions to take place soon regarding the structure of risk mitigation for Power Services going forward. These are important rate issues, and we look forward to working closely with BPA staff to find solutions that are in the mutual best interest of customers and the agency.

## **Fish and Wildlife**

Although it is a subset of Power costs, the Fish and Wildlife program is such a driver of power rates that we believe special attention is warranted. PPC supports cost-effective mitigation that relies on the best available science for meeting fish and wildlife obligations; we also strongly support commitments to flatten or reduce Fish and Wildlife costs in the coming years and to absorb more of the future obligation through realignment of existing programs and budgets. BPA costs associated with fish and wildlife have averaged approximately \$700 million in recent years and totaled some \$16 billion over the life of this program that is now fully mature. If BPA is to remain a competitive power supplier continued increases in these costs are unsustainable and unwarranted.

## **Transmission Services**

BPA Transmission faces a unique set of challenges that have significant distinctions from the Power business. We support the need to modernize the Transmission business model and practices to increase responsiveness to customer needs. We also support the focus on maximizing the value of the current transmission assets and creative use of non-wires solutions where possible to relieve congestion issues. At the same time we see that incremental transmission builds will be inevitable in some cases to meet public power's

needs. Finally, although the primary challenges for Transmission currently are the need to enhance responsiveness to customer needs and to provide access to services, prudent spending and cost control are very essential.

### **Managing Limited Remaining Treasury Borrowing Authority**

BPA has for several years identified limited remaining Treasury borrowing authority as a key strategic issue for the agency and customers. On the current path it is our understanding that BPA will run short of federal borrowing authority in about 5 years.

There is a significant difference between the two business lines in net use of capital. While Power tends to be a net re-payer of debt, Transmission is a large net borrower particularly in relation to the size of the business. Given this set of conditions, actions that serve to preserve borrowing authority (i.e. advance repayment of debt or revenue financing of capital investment) should be targeted for the Transmission business line.

PPC looks forward to engaging with BPA and other stakeholders to find solutions to preserving borrowing authority that address the causes of the issue in a cost-effective way.

### **Urgency of the Moment**

Although new contracts for power customers are 10 years out, the reality is that there is very limited time remaining to demonstrate advancement on these and other key issues that affect the fundamental value of BPA to its customers and the region. Progress has been made, but much more work is needed and should start immediately.

We appreciate your dedication to addressing this set of issues and your consideration of these comments. We look forward to engaging closely with you and your staff in the months to come on these vital areas that will drive BPA's future value and role as a positive force in the region.

Sincerely,



Scott Corwin  
Executive Director  
Public Power Council