

## Follow-ups from June 15<sup>th</sup> Financial Reserves Workshop

### Questions on the BPA Staff Proposal from the June 15<sup>th</sup> Financial Reserves Workshop (Slide 10):

- 1) Use of the Treasury Facility:
  - i. During the June 15<sup>th</sup> presentation, BPA staff indicated that they have no definitive proposal on the use of the Treasury Facility. Powerex notes that the use of the Treasury Facility has implications for the Reserves Policy, particularly the TTP calculation, and the CRAC mechanism. Does BPA intend to maintain the status quo use of the Facility: allocating \$750 million to Power, \$0 Transmission? Or does BPA intend to put forward an alternative use of the Facility?

#### Answer:

BPA staff's proposal was silent on this issue and BPA certainly welcomes comments on the use of the Treasury Facility in setting rates. By not proposing a specific treatment of the Treasury Facility, BPA staff implicitly assumed that rate case treatment of the Treasury Facility will continue to be assessed rate case by rate case. In the past, BPA has applied the Treasury Facility to reduce the costs of meeting BPA's 95% TPP standard.

- 2) Determining the Proposed Upper/Lower Thresholds:
  - i. Could you please elaborate further as to why BPA selected 120 and 60 days' cash on hand as the Upper and Lower thresholds?
  - ii. Was there any additional analysis and sensitivity performed that led to the selection of the thresholds?
  - iii. Could you please elaborate or explain the analysis behind the proposal that the Upper and Lower thresholds be symmetrical? Based on the workshops, we understood that the Upper and Lower thresholds serve two different objectives: the Upper threshold being the point where it is "more efficient" to put the reserves to alternative use (for example, pay down high-interested debt), and the Lower threshold serving to mitigate financial risk. Therefore, why would symmetrical thresholds be more appropriate than asymmetrical ones? Could you please elaborate further as to why asymmetrical thresholds were rejected?

#### Answer:

60 days' cash is significantly above 30 days' cash, which was cited in rating agency guidance as a level at which they would become very concerned. It provides a buffer which is appropriate given the 1-year time lag between when a CRAC triggers and when reserves are recovered.

120 days' cash on hand was chosen so that there would be an equivalent below and above reserves target dead-band, thus on average over time reserves would be at the reserves target. A narrower range between the target reserves and upper threshold versus the target reserves and lower threshold would result in, on average, lower levels of reserves than the target level of reserves, which is undesirable.

We did not perform additional sensitivity analyses on the threshold levels.



3) Definition of “excess reserves”:

- i. The BPA staff proposal on Slide 10 introduces the term “excess reserves” but does not explicitly define the term. How does BPA explicitly define “excess reserves”? (i.e. Excess reserves are all reserves above the 90 days’ cash calculation for each business line (\$450 million for Power and above \$150 million for Transmission) and above the Agency reserves target of \$600 million? Or something different?)

**Answer:**

“Excess reserves” is not a technical term BPA plans to use regularly. The usage on Slide 10 refers to the lesser of (1) actual Agency reserves less the Agency target reserves and (2) Actual business line reserves less the business line upper threshold.

4) Definition of “the next rate case”:

- i. The BPA Staff proposal on Slide 10 refers to implementation in “next rate case” but does not explicitly define which rate case is the “next rate case.” Is the “next rate case” the upcoming BP-18 rate case?

**Answer:**

Yes.

5) DDC Discretion:

- i. The BPA staff proposal on slide 10 states that, “the administrator *should* consider the excess reserves available for other high value purposes such as rate relief (e.g., DDC), debt retirement and/or capital investment.” Is the staff proposal to give the Administrator discretion as to (1) whether he/she triggers the DDC, (2) how the funds are used, or (3) both?

**Answer:**

Both. BPA staff’s proposal is that the administrator should consider implementing a DDC-like mechanism in rates, using reserves for rate relief when setting rates, paying off high-interest debt or making additional investments in capital projects when Agency reserves are above the Agency target and business line reserves are above the business line upper threshold. Parties to a rate case could argue or advocate for a particular use of reserves like rate relief or a mechanism to distribute reserves during the rate period, like a DDC.

6) Other Questions:

- i. If triggering the DDC is, as BPA suggests, viewed as a negative by the credit rating agencies, would it be better for the BPA’s credit rating to set rates to meet the TPP test but limit the reserves to no more than 90 days’ cash on hand?

**Answer:**

To determine if the above-stated proposal would be ‘better’ would require knowing how reserves would be limited to 90 days’ cash on hand. If the limiting mechanism was a distribution of reserves above 90 days’ cash on hand in the form of rate relief, then the proposal would likely not be ‘better’ from a credit rating perspective. If reserves above 90 days’ were applied to debt retirement then the above proposal might be better than a proposal that called solely for rate relief.