Alliance of Western Energy Consumers

April 6, 2022
Via Electronic Submission
Re: March 23, 2022 Financial Plan Refresh Workshop

Dear Administrator Hairston:

The Alliance of Western Energy Consumers ("AWEC") appreciates the opportunity to provide feedback on Bonneville Power Administration's ("BPA" or "Agency") March 23, 2022 Financial Plan Refresh Workshop during which the Agency presented its borrowing authority framework and recapped BPA's debt management and capital execution proposals. AWEC acknowledges BPA's continued commitment to communication and transparency with stakeholders throughout the Financial Plan Refresh process.

Borrowing Authority Forecast

In addressing the borrowing authority forecast, BPA provided a graph that set forth "BP22 Final Proposal," "BP22 Final + 25% Capital Increase" and "BP22 Final + "Proposed Cap Financing Policy" relative to total borrowing authority. In the notes section, BPA stated that, "BP22 assumes $40m/year revenue financing per business unit through 2023, RCD2 through 2030, BP22 lapse factor for that rate period only, and no new lease financing[.]"[1] AWEC requests additional explanation and definitions regarding this note, including an explanation of what is meant by "BP22 Final Proposal" and "BP22 lapse factor," particularly as they relate to the graph provided.

Leverage Ratio

BPA stated that the Agency's long-term goal is to achieve a debt to asset ratio of "no higher than 60% by BP-40"[2] with the general goal of moving away from 100% debt financing. At the March 23rd workshop, BPA explained that the proposed leverage target is necessary to responsibly manage the Agency's debt and not related to a desire to improve credit ratings. Consistent with prior workshops, several comments were raised regarding why BPA has chosen to target a 60% leverage ratio, and questioned BPA's reliance on the peer regional utilities identified in the October19th workshop materials as a basis for its position as indicators of sound business practices.[3]

Regarding the leverage ratio, BPA previously stated that its long-term target was within the 60%-70% range contained in the 2018 Financial Plan.[4] AWEC therefore requests that BPA provide in writing a clear articulation of BPA's business

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[1] Bonneville Power Administration, Financial Plan Refresh Public Workshop, at slide 8 (March 23, 2022).
[2] Id. at slide 18.
[3] See Bonneville Power Administration, Financial Plan Refresh: Debt & Borrowing Authority Grounding Workshop, at slide 20 (Oct. 19, 2021).
[4] See Bonneville Power Administration, Financial Plan Refresh Kick-Off, at slide 6 (Sep. 15, 2021).

principles served by moving away from 100%debt financing, and why a leverage ratio no higher than 60% by BP-40 aligns with its business principles. AWEC also requests an explanation as to whether other alternatives, such as a leverage ratio of 70%, were considered and the results of that analysis. If they were not considered, AWEC requests an explanation for BPA's decision not to conduct such analysis.

Regarding BPA's choice of peer regional utilities, as the Agency and stakeholders are aware, BPA is a unique entity. Nonetheless, AWEC acknowledges that comparison to industry practices regarding leverage ratio may provide instructive insights. To better help stakeholders understand BPA's goal of achieving a leverage ratio no higher than 60%by BP-40, AWEC requests that BPA explain why the utilities it considered in its analysis are appropriate, and why and how other utility practices regarding leverage ratios are applicable or relevant to BPA, given its unique circumstances.

Borrowing Authority Shortfall

BPA's proposed borrowing authority framework is centered around a potential "forecasted [borrowing authority] shortfall."[5]AWEC appreciates that BPA is taking steps to create a process that borrowing authority issues from the past. AWEC agrees that given BPA's recent additional borrowing authority through the Bipartisan Infrastructure Deal, there does not seem to be sufficient need to determine an allocation methodology approach in the event of a borrowing authority issue at this time. However, questions remain regarding BPA's proposed framework for addressing future borrowing authority issues.

First, it is unclear from the materials provided what size is necessary to trigger a "BA shortfall." AWEC requests that BPA clarify this term. AWEC also suggests that BPA explore a *de minimis* level at which the process would not be triggered. For example, a threshold of $5 million forecasted borrowing authority shortfall outside of the 10-year rolling period would not trigger the proposed borrowing authority framework process to take place.

Second, BPA's simple framework approach sets forth a process by which BPA and stakeholders will develop and potentially implement a plan, depending on whether the forecasted borrowing authority shortfall is outside or inside the 10-year rolling period. AWEC requests that BPA commit to comment periods following at least two workshops held to consider borrowing authority analysis and potential actions, including but not limited to allocation methods and access to capital issues. Customer input is vital to successfully assess "whether/what access to capital tools to employ," as proposed by the Agency.

[5] See Bonneville Power Administration, Financial Plan Refresh Public Workshop, at slide 11-12 (March 23, 2022).

BPA's Financial Plan Refresh Proposals

Overall, the misalignment between BPA's Financial Plan Refresh proposals and programmatic flexibility as it relates to the post-2028 Provider of Choice process is concerning. The backdrop for the Financial Plan Refresh process must be recognized. From the information provided thus far, it appears that BPA's debt management proposal contains no near-term check-ins and may lack adaptability in some circumstances. Given the substantial stakeholder interest in flexibility as it relates to post-2028 contracts, AWEC recommends that BPA include a process to revisit the Financial Plan Refresh proposals in the near term in order to ensure that proposals balance customer interests with BPA's goals. AWEC further recommends that BPA consider including in the debt management proposal the ability for BPA to override the policy in specific circumstances or limit the rate impact to .5%, for example. Agency discretion on specific elements of the debt management proposal may provide flexibility in the post-2028 environment.

BPA has repeatedly noted that the additional borrowing authority provided through the Bipartisan Infrastructure Deal will afford the Agency flexibility.[6] However, it is unclear how this flexibility interacts with BPA's goals with the Financial Plan Refresh, including whether specific elements, such as a 60% leverage ratio, are in fact necessary. As such, AWEC requests further explanation from BPA on how the flexibility afforded by the Bipartisan Infrastructure Deal was considered in developing its proposals.

Concerns also persist regarding BPA's historic capital underspend if BPA plans to use forecast capital for revenue financing. As such, AWEC requests analysis comparing the use of actual capital spend versus forecast capital spend to determine the appropriate amount and method for revenue financing. Providing stakeholders with this information well before the May 24th workshop and release of the Record of Decision ("ROD") will allow for a more productive conversation during the May 24th workshop and allow stakeholders to provide well-informed comments during the ROD formal comment period. Without this information provided in a timely manner, it is difficult for stakeholders to adequately evaluate BPA's Financial Plan Refresh proposals.

Finally, AWEC requests that BPA provide written answers to questions asked during the Financial Plan Refresh Workshop and make such responses publicly available, similar to BPA's Public Comment Summary document. From AWEC's experience, the Agency provides insightful and important responses to customer questions, specifically in the chat feature of WebEx, that are often difficult to track given the pace of the workshops. Given that the workshops are public, AWEC believes this request is reasonable and will enable a consistent understanding of issues for both the Agency and stakeholders.

AWEC submits these comments with the intention of further understanding the reasoning behind BPA's Financial Plan Refresh proposals. Without reasoned explanation, it is difficult for AWEC and other stakeholders to understand the potential consequences of BPA's

[6] See Bonneville Power Administration, Financial Plan Refresh Kick-Off, at slide 4 (Sep. 15, 2021); Bonneville Power Administration, Financial Plan Refresh Public Workshop, at slide 7 (Jan 26, 2022).

proposals. AWEC asks BPA to provide the information requested above so that AWEC, and other stakeholders, are able to sufficiently review the Financial Plan Refresh proposals and provide informed feedback.

/s/ Bill Gaines
Executive Director
Alliance of Western Energy Consumers

April 6, 2022

Comments of the Northwest & Intermountain Power Producers Coalition on the Financial Plan Refresh and Proposed Leverage Policy

The Northwest & Intermountain Power Producers Coalition (NIPPC) appreciates the opportunity to provide further comments on the Financial Plan Refresh now that the scheduled public workshops begun last September have concluded. These comments are limited to replying to the response of the Bonneville Power Administration (BPA) to NIPPC and other parties' comments on the January 26 workshop and BPA's proposal at that workshop to commit to a long-term 60% leverage (debt-to-asset) ratio and associated revenue financing.[1] NIPPC's comments here elaborate on oral comments provided by NIPPC at the March 23 workshop.

On the basis of an analysis prepared by Mr. Bart Oosterveld[2] and presented at the January 26 workshop,[3] NIPPC and other representatives of BPA customers have questioned BPA's assumptions about how BPA compares itself to other publicly owned power sector debt issuers and what an appropriate industry benchmark is for a leverage ratio. NIPPC has cast doubt on whether there is a financial benefit to the agency or customers, particularly in the form of a potential credit rating upgrade or other reflective capital market outcome, from driving the current leverage ratio to a level as low as 60%. To date, NIPPC does not believe that BPA has established that its assumptions are sound, nor has BPA adequately analyzed or addressed the contrary analysis of NIPPC and other customers.

As it stands, for the point-to-point transmission customers represented by NIPPC, BPA's proposed new leverage and revenue financing policies appear to ignore the agency's fundamental financial strengths. Those strengths include being a sovereign-backed grid operator with a geographically extensive and contiguous asset base that is a natural monopoly (the transmission network); marketing access to a fleet of carbon-free generating resources likely to remain economically competitive in a decarbonized sector; a suite of other buttressing financial policies, including reserves to maintain internal liquidity; and, with the passage of the bipartisan Infrastructure Investment and Jobs Act in November, a lack of any meaningful external liquidity constraint for the next twenty years. Indeed, BPA's own presentation at the March 23 workshop showed that even under an extreme stress test scenario—with a 25% increase in capital expenditures—the $10 billion of new Treasury borrowing authority is sufficient for the agency's capital needs.[4]

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1 NIPPC is not making legal arguments in these comments. Nothing contained in these comments constitutes a waiver or relinquishment of any rights or remedies provided by applicable law, under BPA's Tariff, or otherwise under contract.
2 "Bonneville's Financial Plan Refresh and its Credit Ratings" (December 20, 2021), *available at:* https://www.bpa.gov/-/media/Aep/finance/financial-plan-refresh/nippc-paper-20-december-with-disclaimer.pdf.
3 NIPPC January 26 presentation slides, *available at:* https://www.bpa.gov/-/media/Aep/finance/financial-planrefresh/nippc-powerpoint-presentation-26-january-002.pdf.
4 Financial Plan Refresh Public Workshop (March 23, 2022), slide 8, *available at:* https://www.bpa.gov/-/media/Aep/finance/financial-plan-refresh/20222321-Mar-23-Workshop-Presentation.pdf.

Taken together, these strengths distinguish BPA from the municipal utilities against whom BPA is attempting to measure itself. Those utilities do not benefit from a direct federal line of credit, from a statutory authorization to subordinate federal debt to non-federal debt, from an implicit federal financial guarantee, nor from plenary federal authority and financing for a regional transmission system. NIPPC realizes that these points of contrast are elementary, yet they bear emphasis because they seem to be nearly ignored in BPA's supporting analysis for its proposed new leverage policy.[5] This raises a basic question in this proceeding: why should transmission users in the Pacific Northwest, the beneficiaries of repeated acts of Congress to empower a federal entity to build and operate most of the region's high-voltage grid, pay for the costs of a leverage policy that appears designed instead for a medium-size city-owned utility?

Those costs are substantial. NIPPC calculates that the revenue financing proposed by BPA in order to meet its proposed 60% target adds up to $1.6 billion collected by BPA over the next nine rate periods (about $500 million from the Power Business Line and $1.1 billion from the Transmission Business Line).[6] NIPPC does not believe that BPA has established that shifting away from the agency's historic reliance on debt financing—immediately after receiving the largest amount of new U.S. Treasury borrowing authority in its history—is a sound policy. In NIPPC's view, the term "lowest possible" in the rate-setting directive of the Federal Columbia River Transmission System Act of 1974 ("the lowest possible rates to consumers consistent with sound business principles" (16 U.S.C. 838g)) must have some meaning.

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5 For example, NIPPC's comments filed on February 9 asked BPA to explain how it had determined in the current Financial Plan that the industry average debt-to-asset ratio was 54% (NIPPC Comments on the Financial Plan Refresh (February 9, 2022), *available at*: https://www.bpa.gov/-/media/Aep/finance/financial-planrefresh/20220126-consolidated-comments.pdf). This 54% figure is cited prominently in BPA's financial plan itself (BPA 2018 Financial Plan, p. 11, *available at:* https://www.bpa.gov/-/media/Aep/finance/financial-plan/financialplan-2018.pdf). It also appears in the Administrator's Record of Decision for the Leverage Policy in 2018 at pages 11, 54, 67, and on the first page of the leverage policy itself in Appendix 1 (*available at*: https://www.bpa.gov/-/media/Aep/finance/financial-reserves-leverage-policies/rod-20180925-leverage-policy.pdf). It is a fundamental assumption relevant to the policy currently under consideration, and BPA has not addressed whether it constitutes a sound business principle in BPA's line of business.

BPA's response to NIPPC's comments professed no familiarity with this figure that underlies BPA's current policy: "We are unsure of the reference to the 'industry average debt-to-asset ratio is 54%'; we do not believe our presentations made such a reference." (BPA Response to Public Comments on the January 26 Workshop, line 12, *available at:* https://www.bpa.gov/-/media/Aep/finance/financial-plan-refresh/20220126-bpa-commentresponse-final.pdf)

NIPPC can speculate but remains unsure which specific utilities form the ostensible peer group against which BPA is comparing itself ("public utilities with generating assets" (p. 54 of the 2018 Record of Decision cited above)) and what the actual range of debt-to-asset ratios is within this group. BPA has failed to provide such basic information in this proceeding. Absent BPA analysis of a core assumption underpinning its proposed policy, NIPPC wonders whether the average debt-to-asset ratio relied upon by BPA as a benchmark is reasonable or arbitrary.

6 These amounts are the sum of the net cost of revenue financing (after subtracting cumulative foregone interest expense) on slides 22 and 26 for rate cases BP-24 through BP-40 in BPA's January 26 workshop presentation, *available at*: https://www.bpa.gov/-media/Aep/finance/financial-plan-refresh/jan-26-workshop-presentationfinal.pdf.

That meaning seems to dissipate if the reference to "sound business principles" means merely what BPA wants it to mean, irrespective of contrary data, events, or expert opinions.

BPA's January 26 presentation proposes baking into rates going forward the $40 million of annual revenue financing included in the BP-22 Settlement for each business line despite the Settlement explicitly stating that it "establishes no precedent."[7] Among the five reasons cited in the Administrator's Record of Decision in BP-22 for including revenue financing were "preserving scarce federal borrowing authority" and "supporting the agency's credit rating."[8] BPA has indicated that the first factor is no longer meaningful because borrowing authority is no longer scarce. NIPPC has provided compelling testimony why the second factor is inaccurate.

Because the BP-22 revenue financing was not precedential and the constraint on BPA's primary access to capital (Treasury borrowing authority) has since been alleviated by Congress, the appropriate baseline for comparing the effect of BPA's proposed leverage policy on future rate cases is a baseline that lacks revenue financing. Indeed, the origin of revenue financing in BP-22 was a discovery by BPA, shared with customers in September 2020, that BPA was likely to run into its $1.5 billion internal liquidity buffer (within its overall borrowing authority cap) by 2024—much sooner than BPA had anticipated ("We must take action in BP-22 to bend the curve.").[9] But that access to capital problem is no longer a problem. The key fact that directly led to revenue financing in BP-22 is no longer a fact.

From this perspective, BPA's January 26 proposal, in which each $10 million net cost increment of revenue financing equates to an approximate 1% transmission rate impact, the proposed new leverage policy will in fact lead to a 7% rate increase in 2028-2033 relative to a base case that lacks revenue financing. In all other rate periods, the rate impact is still substantial, ranging from 5-6% relative to the same base case.[10] And revenue financing was not the only component of a rate increase in BP-22. The point-to-point transmission rate rose 7.5% from BP-20 to BP-22 (from $1.533 per kW/month to $1.648 per kW/month). If the other rate pressures in BP-22

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7 The applicable terms of the BP-22 Settlement include the following:

> Bonneville and the Parties agree that this Agreement establishes no precedent and that Bonneville and the Parties will not be prejudiced or bound thereby in any proceeding, except as specifically provided in this Agreement. The Parties will not be deemed to have approved, accepted, agreed or consented to any concept, theory or principle underlying or supposed to underlie any of the matters provided for in this Agreement.
> […]
> No Party agrees or admits that the level of revenue financing included in the Transmission Rates or Power Rates is acceptable or otherwise appropriate [.]

BP-22-A-02, Appendix A, Settlement Agreement for Rates for Fiscal Years 2022-23, sections 6e and 8d, *available at:*https://www.bpa.gov/-/media/Aep/rates-tariff/bp-22/bp-22-final-ecision/bp-22-a-02-bp-22-final-rod.pdf.
8 BP-22-A-02, p. 66.
9 BPA, TC-22, BP-22 and EIM Phase III Customer Workshop (September 29, 2020), slides 55-62, *available at:* https://www.bpa.gov/-/media/Aep/rates-tariff/bp-22/bp-22-meeting-workshops/29sep20-main-tarrif-rates-eimworkshop.pdf.
10 Financial Plan Refresh Public Workshop (January 26, 2022), slide 26, *available at:* https://www.bpa.gov/-/media/Aep/finance/financial-plan-refresh/jan-26-workshop-presentation-final.pdf.

remain the same, in combination with BPA's proposed leverage policy, point-to-point transmission customers will pay 11% more to use BPA's network in 2028 than they did in 2020. This rate increase will occur without BPA having built any new lines or significantly upgraded existing capacity. These rate impacts are far beyond the purported 1% cap suggested in the January 26 BPA proposal.

NIPPC provides additional detailed supplemental analysis and recommendations for the record in the attached two appendices from another expert witness, Mr. Dan Aschenbach, including about appropriately comparable debt issuers and what constitutes sound business principles with respect to financial leverage. Mr. Aschenbach formerly managed the U.S. public power team at Moody's Investors Service and was the lead analyst at Moody's for most of the Northwest public utilities, including the Public Utility Districts along the Columbia River, Seattle City Light, Tacoma Power, Energy Northwest, and BPA itself. Mr. Aschenbach developed the first credit rating of BPA. NIPPC is under no illusions that BPA's authorizing statutes compel the agency to achieve any particular credit rating from an independent credit rating agency. Yet those ratings do materially affect the agency's cost of capital and do reflect third-party capital market perspectives on the sufficiency of BPA's leverage policy and other financial policies. Because BPA's own apparent rationale for proposing a 60% leverage target uses the framework of these financial ratings as a departure point, NIPPC uses them as a departure point as well.

Finally, NIPPC notes that BPA's current leverage policy, the subject of a Record of Decision by the Administrator in 2018, set the following long-term target: "BPA aspires to achieve agency and business line debt-to-asset ratios of 60-70%."[11] In its comments on February 9, NIPPC requested that BPA at least analyze what the effect of reaching the upper boundary (70%) of the current aspirational long-term target would have on revenue financing (and, by implication, transmission rates). A 70% target is within the current policy. It seems to NIPPC that it would be a relatively easy exercise to analyze what reaching that target by 2040 would look like. BPA responded by pointedly refusing to conduct any additional analysis: "BPA has already shown this analysis in part and will not conduct additional analysis." BPA seems to be arbitrarily repudiating its own current 70% target without ever explaining why. If the Administrator's decision in 2018 to adopt a long-term leverage target that encompassed a 70% debt-to-asset ratio was wrong or otherwise unsound, then BPA should say so and explain why.

NIPPC acknowledges that revenue financing is, both conceptually and in practice, a financing option available to BPA, but NIPPC does not support BPA's proposed leverage policy and associated revenue financing on the basis of the record established by BPA to date. NIPPC looks forward to engaging with BPA and other customer representatives on refreshing the current Financial Plan, in light of the views shared in these comments, in order to maintain the agency's long-term financial health.

Sincerely,
Spencer Gray
Executive Director

11 BPA Leverage Policy, Section 3.3, cited in footnote 5 above.

Appendix 1: Supplemental Analysis by AGVP Advisory

Supplemental Analysis on Bonneville Power Administration (BPA)

Financial Plan Refresh

By: Dan Aschenbach, AGVP Advisory

Date: April 5, 2022

These comments are in response to a request for comments on the BPA Financial Plan Refresh. In particular, the comments focus on the question of BPA's reasonable level of leverage; an assessment of BPA's creditworthiness and why it is not a Aaa; and an alternative proposal on the use of revenue financing for future capital requirements.

I bring to this review my 36 years of experience as a credit analyst and officer for Moody's Investors Service, including 25 years as lead credit analyst on US Public Power Electric Utilities, including Energy Northwest. I was also responsible for assignment of the initial BPA issuer credit rating.

I have offered some recommendations based on my review of BPA's Financial Plan Refresh reports; the insight and comments from NIPPC and **from Bart Oosterveld's** December 20, 2021 report (presented publicly on January 26, 2022) and addendums; and the comments of power purchasers and transmission customers, BPA financial statements, and rating agency credit reports.

RECOMMENDATIONS:

1-Continuing the BPA historic debt-to-asset ratio in the 80% range should continue because in my opinion it would not have an impact on the Aa credit ratings assigned to BPA. Nor would it have impact on BPA's financing costs given BPA pays close to the federal interest rate, not a market rate, whether the ratio is 60% or 80%. Mr. Oosterveld provided compelling evidence of the conclusion that BPA's leverage ratios remain appropriate. Neither in Moody's most recent credit assessment report downgrade factors nor outlook issues was there mention of BPA leverage being a concern that could change the rating downward. BPA has a guiding objective to maintain strong investment grade ratings and AGVP Advisory's opinion is a lower debt-to-asset ratio is not required for that objective to be met.

There is a potential that if revenue financing is used extensively the competitiveness factor in the Moody's scorecard could be lowered due to the lessened BPA competitiveness after rates are changed to afford the pay-as-you go capital plan. This should be considered as competitiveness is a critical factor for BPA. A scorecard change due to impact on competitiveness also could lead to a lower scorecard derived rating and then possibly a lower actual rating.

2-An extensive review by BPA of the existing major credit factors should be undertaken to better understand Moody's and Fitch's credit assessments and this review should include communication with the agencies (See scorecard in Appendix 2). This could include meetings with rating agency officers beyond the current analysts assigned to BPA, given what appears to be a potential lack of understanding of the structure and comparability of their calculations of BPA financial metrics.

3-If BPA does adopt revenue financing, it should be geared towards transitioning of the electric industry to manage electrification of the transportation and building sectors or "green bond projects" that have lesser useful lives and are focused on industry transition due to climate change concerns and decarbonization efforts. For example, revenue financing should avoid long-life projects such as the typical 75-year-life of transmission assets. For such projects, using cash today is the more expensive option since the significant value of the asset is a benefit in the longer term. And any revenue financing should be achieved with as limited a rate impact as possible.

4-Should BPA change its policy in the Financial Plan Refresh to provide for revenue financing, the introduction of revenue financing should be incremental and tied to ensuring its rate impact is small. For example, BPA should adopt constraints such that any rate change should not affect the scoring in the Moody's scorecard, should have only a gradual impact on rates, and should be subject to frequent revisitation (for example, biennially during the rate case cycle).

5-A mechanism in any revenue financing should provide flexibility to respond to changing events, for example, ramping down the use of current year funds should a major drought or other system-wide challenge take place so financial liquidity can be preserved.

6-BPA should study more closely the potential merit and impacts of splitting the leverage policy of BPA generation and transmission businesses so that leverage can be more properly assessed. Transmission in general remains a natural monopoly infrastructure, and as the regional power markets evolve, now might be the right time to evaluate the option of placing relatively more debt obligations on the transmission business, including that of new transmission. Because of its monopoly status, the transmission system can generally manage a greater level of leverage.

1-BPA LEVERAGE POLICY FROM AGVP PERSPECTIVE: There should be a further investigation of comparability of BPA's calculation of the debt-to-asset ratio and a more thorough assessment of why it matters and how to better communicate the leverage ratio to investors.

As I understand it, BPA is focused on lowering its leverage by citing the industry standard of 60% as an objective (or, rather, focusing on an industry comparison in which 60% is at the "upper end" of acceptable leverage). **Bart Oosterveld, of the Atlantic Council,** recommended that the change to the leverage ratio policy wasn't needed because BPA enters the next few years with significant financial flexibility, and a drastic reduction in the debt-to-asset ratio is not needed.

These are some of AGVP's observations on BPA leverage.

BPA's definition of leverage (debt-to-assets) measures the amount of total debt compared to revenue producing assets that ultimately will repay debt. At the current rating level, the 80% range has been acceptable for at least two decades, and no credit rating changes have been implemented. There is no mention of leverage in Moody's latest credit comment in factors that could lead to a downgrade, and the rating outlook is silent on leverage as a concern. Moody's does mention that BPA's leverage is high and financial metrics weak, but BPA and rating agencies need to seriously revisit this assertion.

It has been stated by BPA that the debt-to-asset ratio matters to credit quality. While I cannot disagree that a low debt-to-asset ratio indicates financial flexibility, it also may mean the utility has constraints on the flexibility of its ability to access capital while maintaining its business competitively and in a financially sound condition. BPA has not demonstrated an abiding lack of access to capital, particularly since Congress extended its Treasury borrowing authority, and the leverage has not created significant financial stress during normal and stress times. Furthermore, with the addition of $10 billion to BPA's Treasury line, BPA is even better positioned to flexibly manage its capital requirements for the foreseeable future.

The problem with evaluating BPA is there is no other US municipal utility to compare it to that has BPA characteristics nor at first glance has a debt-to-asset ratio in the 80% range. There are several public power utilities that do have high debt-to-asset ratios such as the Transmission Agency of Northern California (TANC), Sacramento Municipal Utility District (SMUD), and the Joint Action Agency sector. But it is also clear these or other utilities do not have BPA's value and dominance in their region due to fundamental factors such as competitiveness, environmental stewardship, clean generation asset value, and financial record. Even during past drought conditions, BPA management was able to maintain its financial strength. An 80% debt-to-asset ratio didn't have adverse impact.

TVA, BPA suggested, might be an example of a federal entity to use to compare its debt-to-asset ratio with.[1] TVA's debt-to-asset ratio (as Mr. Oosterveld's report already pointed out) has

1 BPA Response to Public Comments on the January 26 Workshop, line 4.

a lower ratio than 80%. BPA concludes from this fact (countering Mr. Oosterveld's analysis) that BPA's leverage ratio must, therefore, be too high. In some ways TVA's structure does offer a better point of comparison for BPA, as another sovereign-backed grid operator, than municipal utilities. But I covered TVA for many years as credit analyst, and I would suggest it would have a much greater debt-to-asset ratio if it did not have the significant congressional oversight during the deregulation of the industry in the 1990s. During that time TVA faced the threat of congressional hearings on a cap on its debt which forced TVA to scale back its capital level. Congress was asking for hearings and TVA management was concerned about the outcome. At issue was the uncompetitive price of TVA's generation in the region. That threat of a cap remains in 2022. The recent announcement that TVA will construct significant new natural gas fired generation in the face of the federal push to cleaner energy may raise the cap question again. And if TVA had used its available capital then to shift to cleaner energy during the past two decades, while it would have greater leverage, it would have been closer to meeting clean energy objectives in its region. In my opinion, aiming to lower BPA's leverage to TVA's level would be for the wrong reason. **TVA is not BPA**.

I agree with the view of Mr. Oosterveld's analysis that BPA's leverage ratio is more similar to that of international comparisons such as Fingrid Oyj and Hydro Quebec. I would add others, for example, Manitoba Hydro, which has a debt to capitalization ratio averaging 87% over the past 5 years and BC Hydro debt ratio exceeded 80% in 2021-2022.

I disagree with BPA's conclusion in its response to NIPPC and other customers[2] that the above utilities use dividend policies to maximize borrowing and that the ability to reduce the dividend is the equivalent to revenue financing. If these were corporate utilities that conclusion may have some merit but they are not.

Some of the factors which explain the higher leverage for entities like BPA include size of entity and importance of regional role, long depreciation life of the transmission assets financed, demonstrated debt management, and the supportive parent government including strong access to capital.

I remain unclear why BPA has chosen a 60% debt-to-asset ratio to meet an arbitrary "industry benchmark." That 60% ratio seems to come from a benchmark for city-owned utilities in the US, but BPA is very different than a city-owned utility. While financial planning metrics such as the debt-to-asset ratio can be useful, the comparisons now used by Moody's—or at least as those have been interpreted by BPA—are not useful. BPA's debt ratio according to Moody's and incorporated in its rating methodology scorecard is scored as weak. Moody's establishes a view that BPA is heavily leveraged, and its financial position is compromised. Moody's does not cite this in its credit rating outlook, however, as a credit factor.

2 Ibid.

I have reviewed other benchmarks in the industry, and the median used to compare BPA is also not useful. For example, in the American Public Power Association's annual assessment of the financial metrics of utilities with in excess of 100,000 customers, the median debt ratio is reported as below 60%. But again, using this type of assessment compares BPA to a mix primarily of city utilities that are less leveraged in their capital structure, because for many they have limited transmission ownership; in addition, many have significant purchased power contracts as opposed to owned generation. BPA's use for comparison of the "Top 50 Utilities" that own generation is also misleading. The 2016 report which I actually wrote for Moody's, that appears to form the basis of this list used by BPA, has municipal entities that are not similar to BPA. How can a wholesale utility that has some of the lowest wholesale power rates in the US that are enjoyed by an entire region and has a sound operating and financial position be over-leveraged? Wouldn't the high leverage if it were a problem show up in BPA cost structure and competitiveness?

Comparing BPA to US municipal wholesale utilities such as New York Power Authority, Lower Colorado River Authority, Grand River Dam Authority, or Missouri River Energy Services, who have lower ratios, might be an attractive alternative to municipal retail utilities, but this comparative approach would also be flawed. Those utilities have generation assets **substantially** less than BPA, do not have the same level of parent support, and have limited transmission assets (except for NYPA).

Another way of looking at the debt-to-asset ratio is estimating the real value of transmission. For example, the Transmission Agency of Northern California (TANC) has averaged an 80% debt-to-asset ratio for the past two decades. I remember when I did their credit analysis, we requested an estimate of the commercial replacement value for TANC's line (the California-Oregon Transmission Project) if it had to be rebuilt. If that line had to be rebuilt, the transmission line value used as the asset value in the debt-to-asset ratio calculation would result in the debt-to-asset ratio dropping significantly.

Similarly, putting BPA debt against an estimated value of replacing the critically important BPA transmission system would likely yield an insignificant debt-to-asset ratio.

Another comparative is there are 45 US joint action wholesale project agencies (JAAs), with a combined $40 billion of debt outstanding, from Energy Northwest to American Municipal Power (AMP) and MEAG Power. As a sector it has had for most of its existence a median debt ratio near 100%. As an example of JAAs' leverage ratio assessment, the Moody's US Municipal Joint Action Agency Rating Methodology scorecard indicates a 100% debt ratio would score as an A rating score. Contrast that to the BPA score being Baa in the methodology it is reviewed under (the US Public Power Electric Utility Methodology for Utilities with Generation Exposure). I am not suggesting this is a better sector to compare to, only that the concept of leverage needs more work as it relates to BPA.

The largest JAA, AMP Inc., that serves in 7 states, is small compared to BPA. While many of the joint action agencies are generation project based, many, including Northern California Power Agency and Platte River Power Authority, provide generation and transmission services to their members. The sector is capital intensive.

I don't believe BPA made a constructive case about why lowering the debt ratio to 60% is important. Raising revenue through higher wholesale power and transmission rates to reduce the leverage could adversely have effect on competitiveness which represents a driving credit factor and is essential to the success of BPA.

While I agree pay-as-you-go revenue financing saves on interest costs of debt, BPA enjoys some of the lowest cost forms of financings now and effects of inflation from delayed borrowing has a greater impact. For major capital financings, the use of cash is always the most expensive way to finance projects that have significant future value.

It seems a new definition and approach to how BPA compares to others is still needed. For example, Moody's in its most recent rating scorecard assigns a Baa to BPA's debt ratio of 85% since it fits in the Baa range in the scorecard. Moody's then states BPA has weak financial metrics, yet it uses comparative utilities that BPA shouldn't be compared with to make that point. I would underscore that even with these apparent flaws in Moody's comparative approach, Mr. Oosterveld's conclusion that significantly reducing the debt-to-asset ratio (e.g., to 60%) will have no measurable effect on the credit ratings still stands.

That said, there should be a further investigation of comparability of BPA's calculation of debt ratio and what Moody's uses. Also, a more thorough assessment of why it matters and how to better communicate it to investors would be valuable. To that end, some key questions should be addressed:

(1) A review of the components of assets is needed to ensure comparability. Only generation related assets of the U.S. Army Corps of Engineers and Bureau of Reclamation are included in BPA debt-to-asset calculation, but one can't generate electricity without the other assets in the federal system. New York Power Authority includes all of its dam and hydro assets in total assets in its debt ratio calculation. Including the non-hydro portion of dams in BPA's combined transmission and generation assets in the debt-to-asset ratio would lower the overall BPA debt-to-asset ratio and could dismiss the current concern over the reported 80% ratio. Possibly if Moody's accepts that the non-hydro assets should also be used, the scorecard factor moves to an A or higher score.

(2) A closer examination of the impact of revenue financing on the leverage ratio versus competitiveness factor should be done to ensure BPA's competitive strengths are maintained.

(3) Like the TANC assessment, if the BPA transmission lines had to be replaced commercially today, it would probably provide a better measure against debt.

(4) A review of working capital in the debt-to-asset ratio calculation is needed. It is my

opinion that BPA's unique liquidity sources including the Treasury line is undercounted in working capital that is used in the debt ratio calculation. For example, other public power utilities in the debt ratio calculation include commercial paper or lines of commercial credit. The addition of the new Treasury line would lower debt-to-asset ratio further and improve the scorecard position for that ratio and could be a cause for an upgrade.

2-WHY ISN'T BPA RATED Aaa?

Another approach at looking at the BPA Financial Plan Refresh is to look at the other major factors which are represented in the Moody's credit rating scorecard to determine if less attention to the leverage metric should be given while more attention should be drawn to assessing the other factors and their impact on BPA's credit.

This could be valuable particularly if one of the objectives of the refresh is to strengthen long-term credit quality to maintain high-grade credit. To start, following is a AGVP Advisory review of BPA credit history.

Rating History of Bonneville Power Administration (AGVP Advisory)

The rating history is important to better understand the basis for the BPA credit rating.

A stand-alone rating on the Bonneville Power Administration (BPA) was initially assigned by Moody's Investors Service several years after the Washington Public Power Supply System (WPPSS) default of Project 4 and 5 bonds. Prior to this initial rating, S&P, Fitch, and Moody's did not rate BPA.

Prior to the default, the WPPSS bonds carried a Moody's Aaa rating based significantly on the credit strength of BPA. In the credit explanation on the WPPSS bonds then, the comments stressed BPA's role in supporting the non-federal debt. When the bonds defaulted all WPPSS Project bonds were downgraded and then the ratings were removed, which took place immediately. All bonds were downgraded at the time despite the differing security provisions. While Projects 1-3 were backed by bond security that included BPA's net billing agreements, Projects 4 and 5 were not and only had the take-or-pay contracts that were ruled invalid by the US Supreme Court with WPPSS municipal electric utility participants in the region. All bonds were downgraded because of investor concerns about cross default issues.

Moody's, after review, determined that the Project 1-3 bonds had strong BPA support, and initially the WPPSS rating was restored at an A rating, but, looking back at the credit report, there was limited assessment of BPA because it was not rated.

In 1999 Moody's undertook a comprehensive review of the WPPSS rating and requested BPA get an issuer rating so a more formal assessment could be done of BPA's credit strengths. After reviewing, the credit rating was assigned by Moody's at Aaa. The rating factored in BPA's competitiveness; the key implicit role the federal government plays; strong liquidity policies and position; and a cost recovery process which did not operate like an IOU process but was required to determine that BPA was self-financing rather than to determine a rate of return. WPPSS rating was upgraded from the A rating to Aa. It was lower than BPA because the view was WPPSS bonds were subject to the contractual provisions.

When Fitch and S&P again rated Energy Northwest, formerly WPPSS, it assigned AA to the bonds and later the same rating to BPA.

The Aaa on BPA stood for a decade until a new analyst took over the rating relationship at Moody's and at that time there was serious questions being raised about whether the US government could maintain its Aaa rating. After a major review that took several months, the US rating was affirmed. However, BPA's rating was downgraded to Aa1 then later Aa2 to reflect a view it couldn't be at the same rating as the US Government.

Since then, the US Public Power Electric Utility Methodology for Utilities with Generation Exposure has been used as a "transparent" approach to rating BPA. But it is my position it has been misapplied to justify the rating downgrade of BPA from Aaa to Aa2. Without comparatives that make sense and an overly conservative opinion on some of the key factors about BPA, a review and new assessment is needed. I note that this view is a step beyond merely concluding that maintaining the leverage status quo (a debt-to-asset ratio up to 80%) is sufficient to maintain a high investment-grade rating—a conclusion I do hold. But I am also proposing that, beyond that conclusion, that BPA deserves a credit upgrade as well.

BPA Scorecard by AGVP Advisory compared to Moody's Most Recent Evaluation

In each of the factors of the scorecard in Appendix 2, the light gray is Moody's score on that factor. In orange I have included AGVP Advisory's recommendation. The summation is that the BPA credit rating derived from the scorecard AGVP Advisory assigned is Aaa, a notch higher than the Aa assigned as the Moody's actual rating. Below are some observations as to why there is a difference.

The opinions here are those of AGVP Advisory.

Cost Recovery Framework Within Service Territory 25% weight in the Moody's scorecard

One of the most important credit factors is the cost recovery framework of a utility since the ability to recover costs in a timely fashion to pay debt service and operating costs are key to creditworthiness. Moody's has consistently stated that the BPA rate process is similar to the investor-owned utility regulatory process which it is not. Investor-owned utilities are focused on their rate of return and often faced with litigation and long delays. BPA's rate setting process, while subject to hearings, is for the purpose to ensure BPA is funding its costs. Despite several periods of industry challenges such as drought and industry deregulation BPA has raised its rates in difficult situations. Furthermore, BPA has built-up reserves and also has provisions for emergency rates that protect its financial integrity. A rate of return rate process is not the same as ensuring BPA covers the costs to manage the competitive enterprise.

Willingness and Ability to Recover Costs with Sound Financial Metrics 25% weight in the Moody's scorecard

If there is one factor that needs re-examination in the Moody's scorecard it is the factor which Moody's assigns an A rating to regarding willingness and ability to recover costs with sound financial metrics. The major weight here is the issue of whether BPA's financial position is sound. The lack of comparability for the financial metrics as calculated by Moody's is a significant issue which should be addressed. Again, the BPA financial policies that are in place to manage the revenue volatility and the demonstrated experience that they work should be recognized. The figure of 93 adjusted days liquidity included in the latest Moody's report undercounts the true picture of BPA's liquidity access. The substantial increase in the Treasury line recently should be a test of this. Factor 2 that represents 25% of the scorecard derived rating at an A rating skews the final outcome of the rating.

Generation and Power Procurement Risk Exposure

Hydraulic and hydrology risk is present. Probably the lack of diversity of fuel source is a greater risk, but the water and nuclear fuel have proven to be beneficial, particularly now as the decarbonization of the industry continues.

Competitiveness

While the rating assigned to this factor expresses a strong opinion on competitiveness, it should be pointed out the BPA has not only the lowest wholesale rates in the US but at most times in the Northwest region (on a long-term rather than spot-market basis). Moody's notes volatility due to water flows, but that factor affects all utilities, so on average BPA's wholesale price is strongly competitive.

Financial Strength and Liquidity

If there is a next round of input to the BPA Financial Plan Refresh, tearing apart the financial metric calculations now used and putting them back together would be a next step. Such a step would be appropriate in this process or any future discussion between BPA and the credit rating agencies about how to most appropriately review BPA's financial position.

3-REVENUE FINANCING:

In the recommendation section to this report, I have included some of the key issues with revenue financing and provided alternative proposals. I briefly elaborate on some of those key issues here:

1) Revenue financing to fund capital additions for transmission having a 75-year average life or generation with a 51-year average life makes limited sense from the perspective of who pays for the capital. The generational argument presented by some customers that current ratepayer should not overpay for capital enjoyed by multiple generations is a reasonable objection. More targeted revenue financing for energy conservation or efficiencies; for green energy projects such as solar deployment (to the extent BPA enters into such fields) which may have significantly shorter average lives; or to fund investments in electrification of transportation and building sectors may make better policy sense.
2) A revenue financing policy should include a check on whether the policy will cause rates to rise and impact competitiveness of rates and have a check valve to manage an emergency or forecast of severe water levels.

NIPPC Comments – Appendix 2

BONNEVILLE POWER ADMINISTRATION MOODY'S SCORING METHODOLOGY DATED APRIL 2022 AS CALCULATED BY AGVP ADVISORY

US PUBLIC POWER ELECTRIC UTILITIES WITH GENERATION OWNERSHIP EXPOSURE

Factor	Subfactor	Aaa 1	Aa 3	A 6	Baa 9	BPA	Score	Weighted Score
Cost Recovery Framework 25%		Monopoly with unregulated rate setting and very strong customer base and service area economy	Monopoly with unregulated rate setting and strong customer base and service area economy	Monopoly with unregulated rates average customer base; service area economy	Regulation of rates; weak customer base and service area economy	Aaa	1	0.25
Willingness and Ability to Recover Costs with Sound Financial Metrics 25%		Excellent rate setting record expected to continue. Rates, fuel & purchased power cost adj. less than 10 days. No political intervention in past or extremely high support from related government. Very limited GF transfers governed by policy.	Strong rate-setting record expected to continue. Rates, fuel & purchased power cost adj. 10 to 30 days; Limited political intervention in past or high support from related government; conservative and well defined GF transfers governed by policy.	Adequate rate-setting record expected to continue. Rates, fuel & purchased power cost adj. 31 to 60 days; some political intervention in past or average support from related government. Moderate GF transfers.	Below average rate-setting record expected to continue. Rates, fuel & purchased power cost adj. 61 to 90 days; persistent political intervention in past or below average support from related government. Large GF transfer not governed by policy.	Aaa	1	0.25
Generation and Power Procurement Risk Exposure 10%		Very limited exposure to negative repercussions from generation; procurement and commodity price risks High degree of diversification of generation and/or fuel sources; Single generation asset typically provides less than 20% of power; or up to 20% of energy from coal fired generation with carbon mitigation strategy	Limited exposure to negative repercussions from generation; procurement and commodity price risks. Some diversification of generation and/or fuel sources; Single generation asset typically provides less than 40% of power; or up to 40% of energy from coal fired generation with carbon mitigation strategy	Moderate exposure to negative repercussions from generation; procurement and commodity price risks Some reliance on one type of generation and/or fuel sources; Single generation asset may provide up to 55% of power; or up to 55% of energy from coal fired generation with carbon mitigation strategy	Moderate to high exposure to negative repercussions from generation; procurement and commodity price risks High reliance on a single type of generation with limited diversification. Single asset typically provides less than 75% of power; or up to 70% of energy from coal fired generation with carbon mitigation strategy	Aa	3	0.30

April 15, 2022

Submitted electronically

RE: Financial Plan Refresh Process

The Public Power Council (PPC) appreciates this opportunity to provide input into the Financial Plan Refresh (FPR) process. Although BPA has not released its formal policy proposals, we believe this is an important juncture to comment on the potential use of long-term revenue financing as a financial tool.

PPC's members are non-profit, locally governed utilities that rely on BPA for a reliable, economic, and environmentally responsible power supply to meet the needs of the communities and businesses they serve. PPC members also pay the majority of BPA's costs through wholesale power and transmission rates, enabling the agency to reliably meet its mandate to recover its costs and repay the federal investment in the FCRPS. The strategic relationship between public power and BPA has extended many decades and we anticipate that to continue into the future.

Because of this long-term partnership, public power is committed to BPA's financial health along with a balanced consideration of near and long-term rate impacts. While not fundamentally opposed to revenue financing as a tool, its use must be part of a strategic approach that has clear benefits to customers.

PPC has considered the BPA staff "initial approach for discussion" regarding revenue financing. Although considerable additional work is required, PPC is prepared to conditionally accept the general framework for 10-20% revenue financing (subject to a 1% per rate period incremental rate pressure cap). This acceptance will require BPA to adopt certain modifications and sideboards to the initial staff approach:

- Prioritize liquidity – additional debt payments only made when financial conditions are positive and it would not reduce BPA's reserves for risk.
- Revenue financing should be based on actual spending rather than forecasts.
- Policy must be revisited ahead of post-2028 contract period.
- No net use of borrowing authority over a ten-year period is a reasonable general guideline, but should not be a hard constraint.
- Increased asset management transparency along the lines of the PPC and Snohomish presentation on March 9 must be concurrently adopted.

This represents an initial position based on information available in the FPR process to date. We look forward to working closely with BPA and other stakeholders as policy proposals evolve. PPC has additional questions and concerns we hope to address, including whether 60% is the correct long-term goal for the agency's leverage and how to ensure that the amount of revenue financing included in rates is stable and predictable.

Thank you for your consideration of these initial comments. As always, PPC is open to further dialogue and providing any additional information or clarification that would be helpful.

Sincerely,
Michael Deen
Policy Director, Public Power Council