Financial Plan Refresh
Public Comment Summary from grounding workshop
January 26, 2022

Avista et al. Comments:

Commenting Parties' February 9 comments state, "BPA's practice of determining revenue requirements based on the higher of forecasted accrued expenses or forecasted cash requirements ("higher of" methodology) raises important issues that must be examined with a view to revising the Bonneville revenue requirement methodology to avoid overstating the cost of asset acquisitions in revenue requirement." Commenting Parties argue Bonneville should abandon its higher of methodology, and that if Bonneville retains its methodology, Bonneville must record a regulatory liability to account for MRNR.

Bonneville Response:

Bonneville's use of the "higher of" methodology is not an issue that Bonneville is deciding as part of the Financial Plan Refresh, and staff continue to believe that the methodology is consistent with Bonneville's statutory authority. Even if Bonneville were considering a change, however, the Commenting Parties acknowledged that the issue would have to be determined through the 7(i) ratemaking process.

Bonneville is to set rates "with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles." Transmission System Act §9; *see also* Flood Control Act §5. Section 7(a) of the Northwest Power Act reiterates that Bonneville's rates shall be established in accordance with those statutes. The Ninth Circuit explained the broad latitude afforded by these statutes in *Cal. Energy Comm'n v. Bonneville Pwr. Admin.,* 909 F.2d 1298, 1308 (1990).

> [T]he statutes do not dictate that BPA always charge the lowest possible rates. 16 U.S.C. §838g directs that rates be set 'with a view to encouraging…the lowest possible rates to consumers….' The words 'with a view to encouraging' do not constitute a statutory command that the prices charged to consumers always be the lowest possible. Moreover, nearly every action by BPA has some arguable impact on future rates. If the strict interpretation of the 'lowest possible rates' standard advanced by DSI were accepted, the discretion that Congress vested in the Administrator would be eliminated. In addition, the direction to charge the lowest possible rates is tempered by the addition of the clause 'consistent with sound business principles.' 16 U.S.C. §838g.

In accordance with this broad discretion, Bonneville has set rates to recover, in addition to its minimum repayment study costs, costs associated with risk mitigation and financial health, supported by a business rationale.

Bonneville's "higher of" methodology sets rates for a given rate period at levels forecast to recover an amount of revenue sufficient to both meet its cash needs and recover its accrued expenses. That is, Bonneville does not intentionally set rates requiring Bonneville to defer Treasury payments, and Bonneville does not intentionally set rates to operate at a net loss. To the extent revenues sufficient to meet Bonneville's forecast repayment costs and all other cash needs for financial health and to mitigate the risk of deferring payments to the U.S. Treasury (Test 2) would still result in a net loss for a given rate period, Bonneville sets the revenue requirement to be neutral from an Income Statement perspective (Test 1) for that rate period. The presence of MRNR means forecasted cash needs (Test 2) are determining the revenue requirement.

Bonneville's long-standing policy has been that it is consistent with sound business principles to set rates to avoid operating at a loss from an Income Statement perspective. Bonneville's "higher of" methodology—which Bonneville has been using for the past 40 years—achieves this outcome. This long-standing policy is also not contrary to any Bonneville statute; Bonneville's statutes do not require it to set rates to intentionally operate at a net loss. Moreover, FERC has reviewed and approved Bonneville's approach and "higher of" methodology in the order cited by Commenting Parties.

> [T]he Commission has concluded that Bonneville's filing is not double-counting. The depreciation component is not added to the repayment (amortization) component but the greater of annual depreciation or amortization expense is included in the income statement to demonstrate the adequacy of current revenues, thus enabling Bonneville to satisfy both DOE, using repayment accounting, and its independent auditors, using depreciation accounting. Bonneville's *approach* is reasonable and *this methodology* does not result in revenues in excess of Bonneville's repayment requirement.

54 FERC ¶ 61,235 at 61,692 (1991) (emphasis added).

Bonneville is also not deciding, as part of the Financial Plan Refresh, whether to record revenue financing or MRNR as a regulatory liability. This is also a rate case issue. Nonetheless, BPA staff disagree that Bonneville is required to record revenue financing or MRNR as a regulatory liability. The Financial Accounting Standards Board (FASB) lays out the GAAP basis for regulatory assets and liabilities in Accounting Standards Codification (ASC) 980. It describes regulatory liabilities as generally falling into three categories:

1. Refunds of amounts previously collected from customers (*e.g.*, revenues billed as subject to refund, balancing accounts related to decoupling mechanisms, over collection of expected tax payments);
2. Current collections for future expected costs (*e.g.*, contingency costs, storm repair costs);
3. Refunds of gains (*e.g.*, investment income, sale of assets).

Revenue financing does not fit into any of these categories. As noted in several workshops, revenue financing and depreciation are different costs. Including revenue financing does not mean that Bonneville is collecting revenue to recover future depreciation expense (#2). There is no prior collection to refund (#1). It is not a gain to be distributed (#3). Moreover, while it is not uncommon for utilities to finance capital investments with cash, we are not aware of any utility creating a regulatory liability or otherwise offsetting depreciation of cash-financed investments.

In the January and February workshops, Bonneville described an initial approach to sustainable capital financing to pursue specific financial goals, namely moving away from 100% debt financing, achieving net neutral borrower status, and reducing business unit leverage to 60% over the next 20 years. Under such an approach, forecast cash needs (Test 2) would determine the revenue requirement, *i.e.,* cash needs for the rate period would be greater than expected accrual expenses. Reducing non-cash expenses (such as depreciation expense) by amortizing a regulatory liability would not reduce the total revenue requirement.