Department of Energy

Bonneville Power Administration
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EXECUTIVE OFFICE

In reply refer to: F-2

December 22, 2023

Subject: Fiscal Year 2023 Transmission Reserves Distribution Clause Final Decision

The Bonneville Power Administration (BPA) has concluded its decision process on the application of the fiscal year 2023 Transmission Reserves Distribution Clause (RDC). After careful consideration of the feedback received during the comment period, I am adopting the staff recommendation, released on Nov. 16, 2023.

The Transmission RDC Amount of $130.4 million will be applied as follows (1) $50.4 million to be held to reflect forecast costs not included in the Integrated Program Review process; and (2) $80 million toward debt reduction or revenue financing, with BPA retaining the flexibility to forego some or all of the planned debt reduction to preserve BPA's liquidity.

Due to the volume of comments received, I have included additional background information on the RDC and the rationale for my decision in Attachment A: BPA's Response to Comments. While not required by the rate schedule, BPA is providing this response in the vein of transparency and completeness.

Thank you to everyone who took time to provide feedback on staff's proposal.

Sincerely,

John L. Hairston
Administrator and Chief Executive Officer

ATTACHMENT A

FY 2023 TRANSMISSION RESERVES DISTRIBUTION CLAUSE
BONNEVILLE POWER ADMINISTRATION RESPONSE TO COMMENTS

BONNEVILLE POWER ADMINISTRATION RESPONSE TO COMMENTS

1. INTRODUCTION

The Bonneville Power Administration (BPA) is issuing this attachment to respond to comments submitted by interested parties and customers following BPA's publication of its proposed use of the Transmission Reserves Distribution Clause (Transmission RDC) for FY 2023.[1] The Transmission RDC is a rate mechanism that permits repurposing a portion of the agency's financial reserves for other "high-value Transmission purposes" when BPA's financial reserves exceed certain pre-defined levels.[2]

On November 16, 2023, BPA notified regional interested parties that the Transmission RDC had triggered for FY 2023, and the calculated Transmission RDC Amount was $130.4 million.[3] BPA Staff proposed to hold $50.4 million in response to forecast cost pressures not included in the BP-24 Integrated Program Review (IPR) process and to apply the remaining $80 million to flexible debt reduction or revenue financing.[4] While a decision on the FY 2023 Transmission RDC is supposed to be issued by December 15, 2023 according to the Transmission General Rate Schedule Provisions (GRSPs), because of the volume and complexity of the comments, BPA notified regional parties that it would delay the decision until December 22, 2023.[5]

As described in the Administrator's letter accompanying this document, BPA adopts Staff's proposed use of the FY 2023 Transmission RDC Amount.

2. BACKGROUND

2.1 Overview of the Transmission RDC

BPA is a federal power marketing administration with significant power and transmission assets and a specialized statutory mandate to recover its costs through its rates.[6] BPA rates are set through a rate process that is governed by BPA's statutes.[7] Rates are set using forecasts of BPA's costs, revenues, and other projections that cover the applicable rate period. Because these forecasts are imperfect, BPA rates contain mechanisms that address risk and uncertainty.[8]

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[1] Bonneville Power Administration, Q4 Quarterly Business Review Technical Workshop at 21 (Nov. 16, 2023), *available at* https://www.bpa.gov/-/media/Aep/finance/quarterly-business-review/qbr-2023/2023-q4-qbrtw-presentation.pdf ("Q4 QBRT").

[2] 2024 Transmission Rate Schedules and General Rate Schedule Provisions, BP-24-A-02-AP02, GRSP II.H.2.b.

[3] Q4 QBRT at 21.

[4] *Id.* For simplicity BPA refers to this as additional "debt payments" but the funds could be used to either pay down existing debt or avoid incurring new debt on project costs, *i.e.,* "revenue financing."

[5] Tech Forum email, Bonneville Power Administration, Final decision about RDC is delayed until Dec. 22 (Dec. 15, 2023) (on file with author).

[6] Bonneville Power Administration, Fiscal Year 2022 Power Reserves Distribution Clause Final Decision, Attachment A at 1-2 (Dec. 15, 2022), *available at* bp-22-rate-case - Bonneville Power Administration (bpa.gov) ("FY 2022 Response to Comments").

[7] *Id.* at 2.

[8] *Id.* at 2-5.

Among other mechanisms, BPA developed rate provisions that allow BPA to recover additional revenue from its Transmission customers when BPA's financial reserves[9] drop below certain predefined levels as established in BPA's Financial Reserves Policy (FRP).[10] These mechanisms also provide a process for BPA to consider repurposing financial reserves when they exceed certain thresholds.[11]

The Transmission RDC is the rate mechanism BPA uses to consider repurposing transmission financial reserves when they exceed pre-defined thresholds. The terms of the Transmission RDC are laid out in the GRSPs for BPA's transmission rates. These terms include the calculation, process, and decision criteria for repurposing the financial reserves eligible for Transmission RDC distributions (if any). The parameters for the Transmission RDC are subject to change in each BPA rate case.[12]

The Transmission RDC calculation process is conducted following the close of each fiscal year.[13] BPA Staff review the financial reserves associated with each of BPA's business units (Power and Transmission) as well as the totality of the agency's financial reserves. For the Transmission RDC to trigger and produce a Transmission RDC Amount, BPA's Transmission financial reserves must exceed an upper threshold and total agency financial reserves must also exceed the agency upper threshold.[14] If both conditions are met, financial reserves above the upper threshold are considered for repurposing as "debt reduction, incremental capital investment, rate reduction through a Transmission Dividend Distribution (Transmission DD), distributions to customers, or any other Transmission-specific purposes determined by the Administrator."[15]

The process for determining the Transmission RDC Amount and deciding its use consists of issuing a notice informing interested parties of the initial Transmission RDC Amount no later than November 30 of the applicable year.[16] This notice is followed by at least one workshop and a comment period.[17] The final decision on the Transmission RDC Amount is to be issued by December 15.[18] As explained below, BPA has extended this date when needed to respond to exigent circumstances.[19]

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[9] Financial reserves (or reserves) refer to "reserves available for risk," a BPA term representing the amount of unobligated cash, short-term market-based investments, and deferred borrowing. This is distinct from "reserves not for risk," which is a BPA term for obligated or committed cash and investments, generally dedicated to be used for a specific future purpose, *e.g.,* customer deposits for transmission studies.
[10] FY 2022 Response to Comments at 5. The FRP is available at https://www.bpa.gov/-/media/Aep/finance/financial-policies/frp-phase-in-implementation-policy-final.pdf.
[11] *Id.* at 6.
[12] *See, e.g.,* BP-24 Transmission GRSP II.H.
[13] *Id.* at II.H.2.b.
[14] *See id.* at II.H.1.a (Table B and Table C).
[15] *Id.* at II.H.
[16] *Id.* at II.H.2.b.
[17] *Id.*
[18] *Id.*
[19] *See* FY 2022 Response to Comments at 10.

2.2 Past Implementation of the Transmission RDC

The Transmission RDC has "triggered" on two previous occasions. In FY 2020, the Transmission RDC Amount was $80 million, and the entire amount was applied to reduce debt. For FY 2022, the Transmission RDC Amount was $63.1 million, applied as follows: $12.9 million for rate relief for FY 2023, $16.4 million to hold FY 2024-2025 rates flat under the BP-24 settlement, and the remaining $33.8 million was held in response to forecast cost increases in FY 2023.

2.3 Processes Leading Up to the FY 2023 Transmission RDC

BPA is required by the Transmission GRSPs to keep interested parties and customers apprised of its financial performance through quarterly notices.[20] BPA provides this information through public quarterly briefings on the state of its business and financial performance called the Quarterly Business Review (QBR), followed by the Quarterly Business Review Technical (QBRT) workshop. Among other information provided at the QBRT, BPA includes its estimate of end-of-year financial reserves and the likelihood of the Transmission RDC triggering.

On February 14, 2023, BPA held the first QBRT for FY 2023.[21] There, BPA stated that end-of-year financial reserves for Transmission were forecast to be $286 million, exceeding the FRP upper threshold.[22] At that time, BPA estimated a 90 percent chance of an FY 2023 Transmission RDC, with an expected value of $52 million.[23] Three months later, at the second QBRT (May 2023), BPA forecast end-of-year financial reserves for Transmission to be $276 million.[24] The chances of a FY 2023 Transmission RDC were 75 percent, with an expected value of $37.4 million.[25] By the third QBRT in August 2023, Transmission's end-of-year financial reserves were forecast to be $303 million, with a 99% chance of a Transmission RDC with an expected value of $70 million.[26] The 2023 fiscal year closed on September 30, 2023. BPA held the fourth, and final, QBRT, for FY 2023 on November 16, 2023.[27] BPA Staff announced end-of-year Transmission financial reserves of $363.4 million, with a Transmission RDC Amount of $130.4 million.[28]

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[20] BP-24 Transmission GRSP II.H.2.a.
[21] Bonneville Power Administration, Q1 Quarterly Business Review Technical Workshop (Feb. 14, 2023), *available at* https://www.bpa.gov/-/media/Aep/finance/quarterly-business-review/qbr-2023/fy23-q1-qbrtw-final.pdf.
[22] *Id.* at 31.
[23] *Id.* at 33.
[24] Bonneville Power Administration, Q2 Quarterly Business Review Technical Workshop at 12 (May 11, 2023), *available at* https://www.bpa.gov/-/media/Aep/finance/quarterly-business-review/qbr-2023/fy23-q2-qbrtw-final.pdf.
[25] *Id.* at 14.
[26] Bonneville Power Administration, Q3 Quarterly Business Review Technical Workshop at 12, 15 (Aug. 10. 2023), *available at* https://www.bpa.gov/-/media/Aep/finance/quarterly-business-review/qbr-2023/qbr-tw-q3-fy23-presentation-final.pdf.
[27] Q4 QBRT at 1.
[28] *Id.* at 15.

2.4 BPA Staff's Proposal for the FY 2023 Transmission RDC

The BP-24 Transmission GRSPs set forth the process for the Transmission RDC. They state:

> If the Transmission RDC quantitative criteria (below) are met, the Administrator will calculate the Transmission RDC Amount, and determine what part, if any, will be applied to debt reduction, incremental capital investment, rate reduction through a [Transmission DD], distributions to customers, or any other Transmission-specific purposes determined by the Administrator.[29]
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> * * *
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> If the Transmission RDC triggers, BPA will notify customers of the preliminary Transmission RDC Amount and whether the amount will be used to reduce debt, incrementally fund capital projects or other high-value Transmission purposes, or reduce rates, as soon as practicable, but in no case later than November 30 of each applicable year. BPA will make available to customers the preliminary data relied upon to calculate the Transmission RDC Amount.[30]

Staff shared its proposal for the FY 2023 Transmission RDC Amount of $130.4 million at the November 16, 2023 QBRT. As described above, Staff proposed holding $50.4 million for forecast costs not included in the BP-24 IPR process and applying the remaining $80 million to flexible[31] debt reduction and revenue financing.

Comments on BPA Staff's calculation and proposal for the FY 2023 Transmission RDC Amount were due on December 1, 2023. BPA received multiple comments from customers and other interested parties. After reviewing the comments, BPA concluded that an additional week would be needed to consider the views and perspectives discussed in the comments. BPA views this delay as reasonable and measured under the circumstances, because it allows for a more complete consideration of public input and would not influence the decision by impacting BPA's billing schedule or harm other interests.[32] Also, though not required by the Transmission RDC GRSP, BPA has decided to prepare this attachment to respond to comments and to explain the basis for its decision.

[29] BP-24 Transmission GRSP II.H.
[30] *Id.* at II.H.2.b.
[31] The proposal is "flexible" in that BPA would retain the discretion to forego some or all of the planned debt reduction to preserve agency liquidity.
[32] *See, e.g., Portland Gen. Elec. Co. v. Johnson*, 754 F.2d 1475, 1482 (9th Cir. 1985) (noting "[a] certain latitude must be allowed within which BPA can exercise a degree of business judgment with respect to temporary situations . . ." and permitting BPA "to mold its procedures to the exigencies of the particular case.") (internal citation omitted).

3. RESPONSE TO COMMENTS

3.1 Holding Reserves

Public Comments

Joint Commenters,[33] Avangrid, and M-S-R argue that holding reserves is inconsistent with the FRP, and that Staff's proposal is an *ad hoc* revision to a precedential policy.[34]

Joint Commenters also argue that holding reserves is inconsistent with BPA's statutory ratemaking directives, unjustified, and otherwise unreasonable.[35] Avangrid maintains holding reserves is unjustified and contrary to ratemaking principles.[36] AWEC "urges the Administrator to split the RDC between customer rate relief and the paying down of high interest debt."[37]

Evaluation of Comments and Response

Holding Reserves is an Available Option under the Financial Reserves Policy

Joint Commenters argue that, "[i]n effect, BPA Staff proposes to increase the threshold to trigger the Transmission RDC by $50.4 million," which is "precisely the type of ad hoc financial reserves decision making the [FRP] was intended to avoid."[38] Avangrid asserts "the FRP does not appear to permit Bonneville to hold excess funds from year to year," and that "the concept of 'holding' funds was not addressed when establishing the FRP . . . ."[39] Avangrid states "it is axiomatic that the establishment of the RDC suggests that excess rates should either be repurposed or returned to customers, but not held effectively as a mini 'slush' fund."[40] M-S-R is "concerned that the proposal 'moves the goal posts' that were carefully developed in the Financial Reserves Policy."[41] M-S-R argues the proposal "conflicts with the purpose and structure of the Financial Reserves Policy, which uses a set of objective metrics to determine which reserves are excess and therefore available for distribution."[42] M-S-R states the FRP "was adopted to provide certainty," and that the proposal "overrid[es] the metrics established as precedent in the Financial Reserves Policy."[43] M-S-R argues "the $50.4 million of excess reserves for rate reduction must be reinvested in accordance with the Financial Reserves Policy."[44]

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[33] Avista, Idaho Power Company, NorthWestern Energy, Pacificorp, Portland General Electric, and Puget Sound Energy.
[34] Joint Commenters Comment at 2-3; Avangrid Comment at 6-7; M-S-R Comment at 1, 4-5.
[35] Joint Commenters Comment at 2-3.
[36] Avangrid Comment at 6.
[37] AWEC Comment at 3.
[38] Joint Commenters Comment at 2-3.
[39] Avangrid Comment at 6, 7.
[40] *Id.* at 7.
[41] M-S-R Comment at 1.
[42] *Id.* at 4.
[43] *Id.* at 5.
[44] *Id.*

Holding reserves is consistent with the FRP. The proposal is not an *ad hoc* revision. Section 6.6.4.5.2 of the BP-18 ROD, which established the FRP, addressed the Administrator's discretion to hold reserves when an RDC is triggered. It states:

> The Administrator should have the discretion to consider BPA's present financial condition to determine what use, *if any*, the RDC funds should be committed to, keeping in mind the agency's overall financial health. Retaining this discretion will ensure that the Administrator can factor in prevailing financial circumstances and any extenuating circumstances that militate against spending financial reserves.[45]

While the RDC triggers a process to consider repurposing the RDC Amount, the RDC does not require the Administrator to apply those financial reserves to a different purpose. The Administrator retains the discretion to act prudently based on what is known at the time. Simply put, it does not make sense to send money out the door when transmission budgets for the current fiscal year include forecast costs that are not reflected in current transmission rates. The RDC does not require BPA to do so.

In fact, BPA has already used the discretion to hold reserves in a prior RDC decision. The FY 2022 Transmission RDC decision included holding reserves to offset forecast cost pressures. BPA held $33.8 million due to forecast cost increases in FY 2023. BPA also applied $12.9 million as a dividend distribution, and held $16.4 million to support holding BP-24 transmission rates at the levels adopted in the BP-22 rate proceeding.[46]

Avangrid argues that, by not revising the FRP in the 2022 Financial Plan and Financial Plan Refresh, BPA reaffirmed the sufficiency of the FRP.[47] Although Avangrid is correct that the FRP is BPA's current policy, potential revisions to the FRP were not within the scope of the Financial Plan Refresh process, and liquidity risk management was identified as a potential area of future focus.[48] Nonetheless, Staff's proposal is consistent with the FRP.

We also note that, contrary to M-S-R's assertion that the FRP determined 100 days cash on hand to be a sufficient level of reserves, the upper threshold for each business line is 120 days cash on hand (or higher if needed to meet TPP). For the RDC to trigger, the agency must also be above its upper threshold of 90 days cash on hand.[49]

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[45] BP-18 Record of Decision, BP-18-A-04, at 326 (emphasis added; internal citations omitted) ("BP-18 ROD").
[46] FY 2022 Transmission RDC Final Decision (Dec. 15, 2022), *available at* https://www.bpa.gov/-/media/Aep/rates-tariff/rate-adjustments/2022-2023-adjustments/Administrators-Letter--Transmission-RDC-final-decisionsigned.pdf.
[47] Avangrid Comment at 7.
[48] Financial Plan Refresh Kick-Off, Bonneville Power Administration, at 10-11 (Sept. 15, 2021), *available at* https://www.bpa.gov/-/media/Aep/finance/financial-plan-refresh/sep-15-public-kick-off-final-9-13.pdf.
[49] FRP § 3.5.

Holding Reserves Does Not Violate BPA's Statutory Ratemaking Directives or Principles

Joint Commenters maintain that holding Transmission RDC funds in excess of the applicable threshold is inconsistent with the statutory requirement for BPA to establish the "lowest possible rates to consumers consistent with sound business principles."[50] They also state BPA should not hold the funds without demonstrating compliance with the statutory requirements for (i) rates that recover BPA's costs, and (ii) a full and complete justification of BPA rates in a rate case pursuant to section 7 of the Northwest Power Act.[51]

BPA conducted a rate case pursuant to section 7 of the Northwest Power Act to adopt Transmission rates and the GRSP for the Transmission RDC, and demonstrated compliance with the applicable statutory ratemaking directives at that time. Joint Commenters suggest that adopting the proposal to hold financial reserves would require another rate case process for BPA to fully justify the decision and once again demonstrate compliance with statutory ratemaking directives. This is incorrect. Since BPA adopted the Transmission RDC in a proceeding, implementation of the mechanism is governed by the language in the GRSP itself. Adopting Staff's proposal does not require an additional process under the Northwest Power Act.

Joint Commenters emphasize that holding financial reserves "in excess of the applicable threshold" in the Transmission RDC results in a violation of BPA's statutory ratemaking directives.[52] They highlight the requirements that BPA's rates must be both sufficient to recover BPA's costs and the lowest possible consistent with sound business principles.[53] Joint Commenters imply a relationship between the Transmission RDC and the statutory rate directives that does not exist. The thresholds in the Transmission RDC do not establish or alter standards under BPA's statutory rate directives. They establish target ranges for financial reserves across the business lines and BPA as a whole. Holding financial reserves in excess of the target range during the rate period does not result in rates that are impermissibly high any more than deploying financial reserves to levels below the target range would mean that rates were legally insufficient. Once BPA's transmission rates were adopted in the BP-24 rate proceeding, a decision by the Administrator to hold financial reserves under the RDC does not affect the consistency of those rates with the statutory rate directives.

Avangrid maintains that holding financial reserves for unforeseen costs is contrary to basic ratemaking principles.[54] Avangrid does not expand on this argument, but the reference to ratemaking principles suggests Avangrid believes that justifying the proposal would require review of all of BPA's costs and rates. Avangrid also appears to share Joint Commenters' perspective that holding financial reserves for unforeseen costs will lead to transmission rates that are too high. As described above, the GRSP for the Transmission RDC does not call for a general rate case or comprehensive review of all of BPA's rates at the time of the decision. The process was intended to provide for a relatively quick decision following the determination of

[50] Joint Commenters Comment at 3.
[51] *Id.* at 3-4.
[52] *Id.* at 3.
[53] *Id*.
[54] Avangrid Comment at 7.

BPA's end of year financial reserves. In addition, the process was intended to leave the decision largely to the Administrator's discretion. Neither ratemaking principles nor the language of the Transmission RDC itself dictate that the Administrator apply RDC funds to rate relief or any other particular Transmission-related purpose.

Further, BPA is not constrained in actual spending to only those items included in the rate case cost forecast. All funds in the Bonneville Fund are available to the Administrator to meet BPA's payment obligations. As discussed in the Section 3.2, BPA is not deciding to collect additional funds, but only whether and how to repurpose its financial reserves to other high-value Transmission purposes.

Staff's Proposal to Hold Reserves is Reasonable

Staff explained in the November 16 QBRT that it was proposing to hold a portion of the RDC Amount to reflect forecast cost pressures that were not included in the BP-24 IPR process and that could not be absorbed or controlled without impacting critical work. BPA conducted an extensive process since the BP-24 IPR to ensure that FY 2024 budgets included costs that BPA could not control or absorb without impacting core operations for Transmission. In the workshop, Staff emphasized increased forecast costs associated with contracts for critical work, federal personnel, and strategic efforts such as BPA's Evolving Grid initiative and exploration of new market opportunities. Certain commenters argue that BPA had not provided analysis to justify the costs revealed in the FY 2024 budget review process.[55] Staff's proposal recognizes approximately $50 million of increased cost pressure within Transmission's start of year budget for FY 2024. The approximate costs in the categories emphasized in the QBRT is as follows: $17 million associated with contracts (critical work), $16 million associated with personnel costs, and $12 million associated with strategic work such Evolving Grid and new market opportunities. The remaining amount in Staff's proposal reflects potential increases in other cost categories reviewed in the budget process. For example, cost forecasts for generator interconnection reform implementation and other initiatives have not been fully developed.

Avangrid, NIPPC, and RNW suggest that demonstrating the reasonableness of Staff's proposal to hold RDC funds for FY 2024 budgets requires BPA to quantify and support the costs with analysis demonstrating the relative benefit of holding funds compared to rate relief.[56]

The process for calculating and deciding the use for the Transmission RDC Amount is intended to occur relatively quickly after BPA determines its end-of-year financial results. It involves release of the Transmission RDC Amount calculation and recommendation by November 30 of each year, an opportunity for public comments, and a final decision shortly thereafter. The final determination is for the most part left to the Administrator's discretion to make a reasonable business decision based on the information known at that time. As described above, the process was not intended to involve a general review of all of BPA's costs and revenues at the time or the depth of study and analysis that precedes a rate case. The RDC Amount of $130.4 million itself was the result of reserves accumulating over time, and not an amount calculated by BPA to achieve a certain outcome. The short time period from the calculation of the RDC Amount to the

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[55] *Id.* at 6-7; NIPPC and RNW Comment at 3.
[56] Avangrid Comment at 6-7; NIPPC and RNW Comment at 3.

final decision was not intended to provide for analysis and comparison of all potential high value purposes for the RDC Amount or quantification and demonstration of the benefit of one proposed use relative to the potential benefit of all other potential uses. The RDC does not prioritize certain purposes over others, and does not require a demonstration that the proposal is the highest possible value purpose. Given that the discretion under the Transmission RDC allows the Administrator to consider short- and long-term benefits, a definitive demonstration would likely not be possible. BPA is not deciding to fund specific costs or uses at particular levels at this point, and the RDC process does not provide for or require the degree of precision some comments suggest.

The comments also point to the uncertainty of forecasting costs for initiatives like Evolving Grid and the exploration of new market opportunities. Staff's proposal in the Q4 QBRT acknowledged some degree of uncertainty in the forecast budgets. Staff noted that any FY 2023 Transmission RDC funds that were "held" but not spent in FY 2024 would be accounted for in the calculation of a FY 2024 Transmission RDC Amount.[57] The comments characterize this uncertainty as a flaw in Staff's proposal, but it is an unavoidable element of developing budgets on a forecast basis. All forecasts involve some degree of uncertainty, but that does not make it unreasonable for BPA to decide at this time to hold a portion of the RDC Amount to reflect the additional costs on the horizon. While commenters may characterize the decision as conservative, holding funds in this manner is a reasonable and acceptable high value purpose under the Transmission RDC and has been adopted before. BPA held funds from the FY 2022 Transmission RDC for potential cost increases as well.

Avangrid discourages using the Transmission RDC to "bolster financial reserves" at a time when BPA's financial health is sound according to key performance indicators (KPIs).[58] While BPA met the KPIs for last year's financial performance, Staff's proposal addresses the pressures expected in the current fiscal year. Staff's proposal reflects a budget review that revealed increases in forecast costs for critical Transmission initiatives and personnel. The performance indicators Avangrid mentions do not constrain the Administrator's discretion under the Transmission RDC to account for such circumstances.

Certain comments recognize the potential benefit of some of the uses for which BPA intends to hold funds.[59] BPA is in a period of dedicating additional resources to transmission to meet the increasing demand for transmission and interconnection service now and in the future, and its actions reflect the focus on those areas. In various arenas, BPA has responded to customer requests by expediting its internal processes for consideration of Evolving Grid projects, committing to proposing funding for additional employees to implement proposed reforms to the generator interconnection process, and is otherwise doing its best to respond to increasing customer demands. Holding RDC funds for transmission budget amounts determined after the BP-24 IPR, ensuring work on critical transmission initiatives can proceed without delay, and

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[57] Q4 QBRT at 21.
[58] Avangrid Comment at 7.
[59] *See* Joint Commenters Comment at 1, 4-5; Avangrid at 7; NIPPC and RNW Comment at 3; Seattle City Light ("SCL") Comment at 1.

investing in critical transmission projects[60] is consistent with the work BPA is prioritizing at this time.

3.2 Flexible Debt Reduction

Public Comments

M-S-R disagrees that debt reduction "is an appropriate substitute for returning the overcollections directly to customers," and asserts "a decision regarding rate reductions in the present should not be predicated on hypothetical forecasts of financial conditions 17 years from now," especially if it "seems probable that [forecasts] will deviate in the future."[61]

NIPPC and RNW argue Staff's debt reduction proposal is "unsupported by any financial analysis," and propose an alternative method to calculate $51.1 million of debt reduction.[62]

SCL states, "BPA did not provide any information about how $80 million in cash funding meaningfully offsets the addition of $2 billion in capital spending," and "encourages BPA to reconsider its proposals with more emphasis on transparency and customer benefits."[63]

AWEC "understands that there is some value to continuing to ensure that the Transmission business line continues to meet the debt-to-asset target that the Agency set for itself, particularly given that there will be real benefits to customers in the form of reduced interest expense," but notes Transmission has "met its debt-to-asset ratio target."[64]

Evaluation of Comments and Response

Debt repayment is an appropriate high-value purpose

M-S-R disagrees that debt reduction "is an appropriate substitute for returning the overcollections directly to customers."[65] M-S-R notes its previous disagreement with "revenue financing of capital projects as a prudent financial policy . . . ," and asserts that "it is completely inappropriate to mix capital financing decisions . . . with cost-based rates," and that the RDC "should remain a mechanism to align prior over charges (revenues from rates) with actual expenses that arise as the result of prior forecasting errors."[66]

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[60] Seattle City Light urges BPA to provide a substantial portion of the revenues that have resulted from Conditional Firm Sales to projects that would firm up service for greater reliability and certainty of delivery. SCL Comment at 1. BPA notes that completion of the Evolving Grid transmission projects, which are currently under review as part of BPA's capital funding process, would likely result in firming up certain conditional firm service, consistent with SCL's recommendation.
[61] M-S-R Comment at 7-8.
[62] NIPPC and RNW Comment at 1, 5.
[63] SCL Comment at 1.
[64] AWEC Comment at 3.
[65] M-S-R Comment at 7.
[66] *Id.*

Essentially, M-S-R argues that debt retirement should not be a permissible "high-value business line-specific purpose" for the Administrator to consider under the RDC. However, "debt retirement" is explicitly called out as an example of such a purpose. Section 3.4.1 states:

> [T]he Administrator shall consider the above-threshold financial reserves for investment in other high-value business line-specific purposes including, but not limited to, *debt retirement*, incremental capital investment, or rate reduction.[67]

When the FRP was established, some commenters argued the application of the RDC should be mandatory and used only for rate reduction.[68] BPA explained its disagreement when establishing the FRP and is not revisiting the FRP itself in this RDC decision. Debt repayment is an appropriate option for the Administrator to consider and is consistent with the FRP.

NIPPC and RNW characterize the RDC as "collecting funds to pay for [anticipated] investments," and "[v]acuuming up over-collected customer funds . . . ."[69] Instead, they argue collecting funds (and implicitly RDC decisions) must be "synced to actual final decisions . . . ."[70]

In this RDC decision, BPA is not collecting funds for hypothetical costs. Under Staff's proposal, financial reserves would be used to pay down very real existing debt, or to avoid taking out higher interest debt on actual capital investments in FY 2024. The fact that BPA anticipates significant Transmission expansion in the near future may inform the urgency with which BPA should prioritize incremental debt repayment, but debt repayment would be prudent even if the $2 billion did not materialize at all. The RDC Amount would be applied to projects that not only have final decisions on plans of service but have real financial obligations.

Further, BPA is not deciding to collect additional funds. As BPA clarified in the FRP Phase-In Implementation ROD:

> Bonneville is entitled to the revenues collected according to approved rates. Revenue is collected based on approved rates designed to be "the lowest possible rates to consumers, consistent with sound business principles." All revenues are held in the Bonneville Fund and are available to the Administrator to meet Bonneville's payment obligations. The BP-18 Final ROD explained how financial reserves accumulate due to the variation between forecasts and actual results. This variation does not mean that customers are thereby entitled to the difference.[71]

BPA's rates are reasonable, based on a reasonable cost forecast at the time they are set. In the RDC decision, BPA is deciding whether and how to repurpose its financial reserves to other high-value Transmission purposes.

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[67] FRP § 3.4.1 (emphasis added).
[68] BP-18 ROD § 6.6.4.5.2.
[69] NIPPC and RNW Comment at 2.
[70] *Id.*
[71] FRP Phase-In Implementation ROD at 35 (Sept. 2018), *available at* https://www.bpa.gov/-/media/Aep/finance/financial-policies/rod-20180925-financial-reserves-policy-phase-in-implementation.pdf (internal citations omitted).

Applying $80 Million to Flexible Debt Reduction is Reasonable

AWEC, M-S-R, NIPPC, and RNW note Transmission met its debt-to-asset ratio targets and argue or imply that this renders Staff's debt reduction proposal unreasonable.[72] BPA first clarifies Transmission's leverage performance.

Annually, BPA sets Key Performance Indicators for a variety of strategic focus areas. BPA included a near-term KPI for Transmission's leverage with both near-term and long-term targets. For the near-term, the target was set for Transmission's end-of-year leverage to be equal to or lower than the prior year's leverage of 76%. Technically, Transmission's leverage increased from 76.22% at the end of FY 2022 to 76.27% at the end of FY 2023. Given this minor increase, and that the KPI target was stated as 76%, Staff decided to describe Transmission as having only just met the target.

The longer-term KPI to be forecast to achieve 60% leverage by 2040 was informed by BPA's Sustainable Capital Financing Policy (SCFP).[73] Under this Policy, the amount of revenue financing proposed in rates can increase if a business unit's debt-to-asset ratio is forecast to be greater than 60% by 2040. Staff's original analysis projected Transmission would meet the 60% target by 2040. This projection comes with two important caveats. This analysis assumed revenue financing consistent with the increasing levels of default revenue financing contemplated by the SCFP, and only forecast capital spending included in BPA's official asset plan, which requires projects to first go through the Strategic Asset Management Plan process. The Asset Plan does not include any of the $2 billion of additional capital spending approved in FY 2023 through BPA's internal asset management governance process. Lower amounts of revenue financing in future rate periods or an expansion of the transmission system could derail Transmission's progress towards the 2040 target.

M-S-R, NIPPC, and RNW note that the addition of $2 billion in Transmission capital spending is uncertain. M-S-R asserts "a decision regarding rate reductions in the present should not be predicated on hypothetical forecasts of financial conditions 17 years from now," especially if it "seems probable that [forecasts] will deviate in the future."[74] NIPPC and RNW also argue that BPA has not made final decisions on the plans of service regarding $2 billion in identified potential future investment, that only $612 million achieved customer commitment, and even that $612 million is uncertain until service commitments are confirmed following preliminary engineering and environmental studies.[75]

Commenters are correct that the specific amount of a $2 billion increase is uncertain. Nonetheless, there are long-term financial benefits to paying down existing debt, and doing so is especially prudent given indications of significant growth on the horizon. As AWEC notes, "there is some value to continuing to ensure that the transmission business line continues to meet

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[72] AWEC Comment at 3; M-S-R Comment at 7; NIPPC and RNW Comment at 1.
[73] *Available at* https://www.bpa.gov/-/media/Aep/finance/financial-policies/sustainable-capital-financing-policy.pdf.
[74] M-S-R Comment at 8.
[75] NIPPC and RNW Comment at 1-2.

the debt-to-asset target that the Agency set for itself, particularly given that there will be real benefits to customers in the form of reduced interest expense."[76]

As a reference point, preliminary analysis suggests that the addition of $2 billion in Transmission capital—and assuming default amounts of revenue financing under the SCFP—would result in Transmission leverage of 64.8% in 2040. Given the parameters for default revenue financing in the SCFP, nearly all of this incremental capital would be financed with debt.

Even assuming only the $612 million associated with customer commitments were added in 2032—the date Evolving Grid projects are expected to be fully in service—Transmission's leverage would increase by 1.8% through that year. Preliminary analysis suggests it would be unlikely Transmission would meet the 2040 target.

The precise amount of additional Transmission investment is uncertain, but all indications are that it will be substantial. In fact, NIPPC and RNW "support a deeper investment by BPA in an upgraded transmission system and in expanding the total transmission capability, as well as reforms to TSEP and long-term transmission service contracting practices that may help accelerate BPA's decisions to construct new transmission."[77] Customers are calling BPA to do more, and do it faster. The $2 billion is not a precise forecast but does give a sense of scale. Staff's proposal better positions BPA to respond to these calls. Paying down existing debt is a reasonable business decision to equip BPA to meet the moment.

NIPPC and RNW argue "there is no analysis that explains how staff determined that $80 million (and not some other amount) of surplus transmission revenues should be used to repay debt."[78] SCL states, "BPA did not provide any information about how $80 million in cash funding meaningfully offsets the addition of $2 billion in capital spending, and "encourages BPA to reconsider its proposal with more emphasis on transparency and customer benefits."[79]

Staff did not propose $80 million as a calculated amount needed to offset $2 billion in additional capital spending to get Transmission's leverage on track. The RDC Amount itself results from actual costs and revenues differing from forecast resulting in the accumulation of financial reserves over time and is not an amount calculated to meet a certain need. As discussed in Section 3.1, the RDC process does not contemplate a comprehensive review or precise quantification.

Instead, Staff's proposal first recognized approximately $50 million of increased cost pressure within Transmission's start of year budget for FY 2024. As discussed in Section 3.1, it is reasonable to ensure BPA is positioned to expedite critical transmission initiatives without delay in FY 2024. Then, given expectations of significant transmission investment on the horizon, the remainder was proposed for flexible debt reduction. As a practical matter, Staff proposed the amount of debt reduction to be a round number because it is much easier to pay debt in round

[76] AWEC Comment at 3.
[77] NIPPC and RNW Comment at 2.
[78] *Id.*
[79] SCL Comment at 1.

numbers. This purpose provides long-term benefits, such as reduced interest savings, and is an especially prudent way to invest in the system to prepare for an era of transformation.

BPA Will Not Adopt NIPPC and RNW's Proposal for $51.1 million Debt Repayment

NIPPC and RNW propose BPA first quantify an amount of debt repayment and then apply the remainder to rate relief.[80] They propose BPA use its SCFP to justify $51.1 million of debt repayment, and then apply $80 million to rate relief.[81] They caveat this proposal by noting they did not support the SCFP policy when adopted.[82]

As discussed in Section 3.1, the Administrator's discretion under the RDC does not require a certain priority of purposes or require a showing that the decision is the highest value purpose possible.

BPA recognizes that BP-24 rates were established consistent with a "black box" settlement, that under the settlement "[n]o Party agrees or admits that the level of revenue financing included in the Power or Transmission Rates is acceptable or otherwise appropriate," and that Parties reserved the right to challenge the SCFP and its application in future rate proceedings and did not concede any application of the SCFP in BP-24.[83]

We note that the BP-24 Transmission Revenue Requirement Study states:

> The revenue requirement assumes that $55 million per year of the capital program is funded with current revenues. This revenue financing was added consistent with the Sustainable Capital Financing Policy adopted in August 2022.[84]

Further, FY 2023 was under BP-22 rates, which were established prior to the adoption of the SCFP. Revenue financing of $40 million per year was included in the BP-22 revenue requirement, and $40 million was applied in FY 2023.[85] Additionally, we note that Transmission did not spend $511 million on capital in FY 2023 (as asserted by NIPPC and RNW), but rather spent $658.6 million.[86]

There are a variety of ways these numbers might be used to justify applying various portions of the RDC Amount for debt repayment. However, Staff's proposal remains reasonable.

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[80] NIPPC and RNW Comment at 5.
[81] *Id.*
[82] *Id.*
[83] BP-24 ROD, Appendix A, BP-24 Rates Settlement, Attachment 3 §§ II.B.1, I.I.4, I.I.5.
[84] BP-24-FS-BPA-06 at 17 (§ 2.2.3); *see also* BP-24 Transmission Revenue Requirement Study Documentation, BP-24-FS-BPA-06A, at 8 (Table 1-2, line 4), 9 (Table 1-3, line 14).
[85] BP-22 Record of Decision, BP-22-A-02, Appendix A, Settlement Agreement for Rates for Fiscal Years 2022-23, Attachment 1 § 1.b.
[86] *See* Q4 FY 2023 Quarterly Financial Package, Tab "0027F23_Capital Expenditures FY23_2023-09-30" (Sept. 30, 2023) (Total Transmission = "TOTAL Transmission Business Unit" + Transmission's portion of "TOTAL Corporate Business Unit"), *available at* https://www.bpa.gov/about/finance/quarterly-reports.

3.3 Equity Between the Business Lines and Rate Reduction

Public Comments

NIPPC and RNW argue "Staff's Proposal does not treat BPA's Power and Transmission Customers equitably."[87]

Avangrid "urges the Administrator to provide Transmission rate relief commensurate with that provided to the Power business line," and argues "Bonneville's financial policies may need further revision to ensure equity between the business lines."[88]

M-S-R "encourages the RDC should be utilized equitably across both business lines . . . ."[89]

Joint Commenters argue "BPA Staff's preliminary proposal to not apply any Transmission RDC to rate reduction is inconsistent and inequitable compared to BPA Staff's proposed allocation of Power RDC."[90]

Evaluation of Comments and Response

Staff's Proposal Does Not Violate the FRP's Interbusiness Line Equity Objective

Avangrid states, "the RDC was a critical component of the FRP's policy objective to maintain equity between the business lines by recognizing that financial reserves collected above certain thresholds should be repurposed rather than allowing the agency to indefinitely retain excess collections attributable to Transmission."[91] Avangrid asserts the FRP was "expressly developed to address an increasing disparity in business line contributions to the agency's financial reserves."[92] Avangrid compares rate reduction under the RDC for Transmission customers with that for Power customers, and argues BPA's financial policies may need to be revised to ensure equity between the business lines.[93]

Joint Commenters argue Staff's proposal is inconsistent with the FRP's intent to provide a consistent, transparent, and financially prudent method for determining BPA's target reserves ranges.[94] Joint Commenters propose BPA "should allocate Transmission RDC to rate reduction at least proportionally commensurate with Power RDC allocation to rate reduction," which they calculate as "no less than 58 percent of Transmission RDC . . . ."[95]

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[87] NIPPC and RNW Comment at 4.
[88] Avangrid Comment at 1, 8 (capitalization revised to sentence case).
[89] M-S-R Comment at 8.
[90] Joint Commenters Comment at 2.
[91] Avangrid Comment at 2.
[92] *Id.* at 3.
[93] *Id.* at 8.
[94] Joint Commenters Comment at 4.
[95] *Id.* at 2, 4.

NIPPC and RNW state "[o]ne of the drivers for BPA in designing its Financial Policies was to address an equity issue between the two business lines," including establishing "consistent rate actions and methodologies to ensure both business lines were contributing equitably to the agency's financial reserves," and "provide guidance to the Administrator on how appropriately to deploy surplus reserves."[96] NIPPC and RNW argue "even a cursory review of how BPA uses surplus reserves to provide rate relief reveals that Transmission customers get back a much smaller amount of surplus financial reserves than PBL's refund mechanisms yield to Power customers."[97]

In Issue 6.4.4.2.1 of the BP-18 ROD, BPA found that there was an equity issue between the business lines that should be addressed through a financial reserves policy.[98] Specifically, the equity issue was that BPA's policies did not require both business lines to contribute to agency financial reserves.[99] Avangrid agrees "both business lines are now undoubtedly contributing equitably to the agency's financial reserves . . . ."[100]

When developing the FRP, Staff considered three areas for the policy to maintain equity between business lines: (1) symmetry in methodologies and mechanisms, (2) a metric to ensure both business lines contribute to BPA's financial reserves, and (3) equity in the amount of the contribution.[101] The FRP addressed equity between business lines with parallel risk adjustment mechanisms, based on a common methodology, "in order to define ranges of financial reserves below which action *will* be taken to increase financial reserves and above which actions *may* be taken to repurpose financial reserves."[102] Both business lines have an RDC mechanism that triggers based on days cash on hand. Once triggered, both business lines' RDC mechanisms require the Administrator to hold a public process and consider repurposing the RDC Amount. Both mechanisms allow the Administrator discretion on if and how to repurpose the RDC Amount for short- or long-term, high-value business line specific purposes.

The FRP's equity objective did not contemplate the FRP resulting in equal dollar amounts of rate reduction to each business line. Neither did it contemplate rate reduction to be proportionally commensurate to each business line's RDC Amount. The RDC is not designed to result in certain percentages going to particular uses over time. Instead, the RDC directs the Administrator to make a decision that is specific to the circumstances of the applicable business line at that time. The RDC's discretion recognizes that each business line has unique circumstances and business needs, and allows the Administrator to make a business decision on how the RDC Amount will reasonably be used for the short- and long-term benefit of BPA and its customers. Making independent RDC decisions based on the present circumstances of each business line does not conflict with the FRP's equity objective.

<u>Each RDC Decision Reflects Unique Circumstances</u>

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[96] NIPPC and RNW Comment at 4.
[97] *Id.*
[98] BP-18 ROD at 251.
[99] *Id.* at 246.
[100] Avangrid Comment at 8.
[101] BP-18 ROD at 269.
[102] *Id.* (emphasis added).

Several commenters argue Staff's proposal is inequitable when comparing the historical rate reduction provided to each business line under the RDC.

Joint Commenters argue Staff's proposal is "inequitable to transmission customers and ultimately, their consumers."[103]

NIPPC and RNW calculate that since 2018 BPA has provided Transmission customers $12.7 million in rate reduction as compared to $380 million to Power customers.[104] The $380 million figure includes $30 million, not from an RDC decision, but from a suspension of the FRP Surcharge.[105] NIPPC and RNW argue "Staff's proposal continues this historic pattern of inequitable deployment" by using roughly 60% of the Power RDC Amount for rate reduction and none of the Transmission RDC Amount.[106]

Avangrid presents charts to "show a trend of consistently providing robust rate relief to Power customers and consistently not providing rate relief to Transmission customers."[107] Though Avangrid discusses the actual history in narrative form, the charts themselves obscure the fact that the RDC has only triggered twice before for each business line. For Transmission, in FY 2020, $80 million was applied to reduce debt. In FY 2021, $12.7 million was applied to rate reduction, and the remaining $50.4 million was held as reserves to support the BP-24 settlement and forecast cost increases in FY 2023. For Power, in FY 2021, $13.7 million was used for rate reduction. In FY 2022, $350 million was used for rate reduction, $100 million for debt reduction, and $50 million for accelerated fish and wildlife mitigation.

M-S-R contrasts the proposal for no Transmission rate reduction with 58% of the Power RDC Amount to rate reduction, and calculates Power would receive over $500 million in rate reduction (or 65% of the total RDC Amounts) from reserves distributions in the last two years alone, compared to $12.7 million to Transmission.[108] M-S-R calculates Transmission's rate reduction represents "about 3% of the $384 million of excess reserves eligible to be distributed to Transmission since the Financial Reserves Policy was implemented."[109] Preliminarily, it is not clear how M-S-R calculated the $384 million. This is the third year the Transmission RDC has triggered. The three Transmission RDC Amounts total $273.5 million ($80 million in FY 2020, $63.1 million in FY 2022, and $130.4 million in FY 2023).

Comparing dollar amounts or percentages ignores the context in which each decision was made. For example, the comparisons above fail to recognize that $90 million of the current Power RDC Amount is attributable to planned debt repayment that was repurposed as liquidity during FY 2023.[110] While the comparisons stretch to include RDCs that did not trigger, and Power rate

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103 Joint Commenters Comment at 4.
104 NIPPC and RNW Comment at 4.
105 *Id.*
106 *Id.*
107 Avangrid Comment at 10.
108 M-S-R Comment at 1.
109 *Id.* at 2.
110 *See* FY 2023 Power RDC Response to Comments § 2.4, *available at* https://www.bpa.gov/energy-and-services/rate-and-tariff-proceedings/rate-adjustments.

reductions that did not come from an RDC, the comparisons fail to recognize the rate impact of Transmission RDC decisions to hold reserves to keep BP-24 rates flat. Moreover, these comparisons fail to recognize the long-term benefits of RDC decisions on Transmission rates. Paying down debt reduces interest expense, provides financial flexibility, and helps ensure a more consistent cost of service over time. In the near-term, holding financial reserves for forecast cost increases allows BPA to perform the increased work customers are requesting now without a rate increase instead of waiting for such costs to be added to the revenue requirement of a future rate.

Although not explicit, the comments incorrectly frame BPA's RDC decisions as between providing a benefit to customers (through rate reduction) or choosing other beneficiaries (through all other purposes). BPA's RDC decisions are better understood as a decision balancing short- and long-term benefits based on what is known at the time. Uses other than rate reduction are not diverting benefits away from customers. BPA has no profit motivation. Rather, the Administrator has discretion to make a prudent business decision on whether and how to repurpose the RDC Amount, with near-term rate reduction being one of the options.

As discussed in Sections 3.1 and 3.2, Staff's proposal is reasonable in light of Transmission's increased cost forecast and growing debt as BPA accelerates efforts to respond to customers' requests for service and plays a leadership role in meeting the region's expanding transmission needs.

Power and Transmission Have Unique Circumstances Regarding Cost Pressure and Leverage

M-S-R, NIPPC, and RNW argue that Power likely also has increased cost pressure, that leverage is not a basis to distinguish between Power and Transmission, and therefore it is inequitable to propose rate reduction for Power and not Transmission.

Regarding the proposal to hold reserves, NIPPC and RNW "presume that the non-IPR cost pressures related to contract and personnel costs likely also exist within PBL," and that "BPA's strategic work on new markets will primarily benefit power customers."[111] "But," NIPPC and RNW argue, "Staff appears to overlook or ignore both of these factors in its analysis of how to deploy surplus Power revenues . . . ."[112] Similarly, M-S-R argues, "those same cost pressures affect Power, yet there is no proposal to exclude excess reserves from distribution for Power customers to address cost pressures."[113] M-S-R argues that Power having fewer employees than Transmission "ignores the federal employees [who] operate the dams and hydropower plants, whose costs are funded by Power rates."[114] M-S-R argues "BPA's efforts to explore new markets has at least as much to do with Power as it does with Transmission."[115]

Regarding the proposal to repurpose $80 million for Transmission debt reduction, NIPPC and RNW state:

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[111] NIPPC and RNW Comment at 3.
[112] *Id.*
[113] M-S-R Comment at 3.
[114] *Id.*
[115] *Id.*

> There is no analysis that PBL is more financially sound than TBL or on a better trajectory to meet the long-term debt to asset ratio targets than TBL. In fact, there is no information that PBL has even met its end of year or long-term debt to asset ratio targets; yet Staff proposes a credit for Power customers above the rate case settlement.[116]

M-S-R states "[t]he only explanation M-S-R could find for why Power customers received a rate reduction and Transmission customers did not was BPA's passing reference to its leverage policy," *i.e.,* that "BPA Staff is concerned Transmission will not reach a leverage ratio of 60% by 2040."[117] M-S-R states, "[t]he fact that Power customers have competitive alternatives and Transmission customers are captive to BPA's system does not justify such a disparate treatment."[118]

Power and Transmission are not similarly situated regarding forecast cost pressure and leverage. The unique circumstances of each business line informed Staff's proposal for each business line. While personnel cost pressure exists for Power and new markets could also result in cost pressure for Power, Power rates currently include $129 million per year of Planned Net Revenues for Risk under the BP-24 settlement. This amount was included to hold Power rates flat, is not connected to any forecast cost, and will be available for any unplanned or unexpected cost. Especially in light of this tool, Staff did not propose to hold additional financial reserves.

Power is also significantly deleveraging and is on a path to achieve business line leverage no greater than 60% by 2040. In FY 2022, even with unwinding $90 million of planned debt repayment, Power still paid down an additional $50 million of debt as a result of the FY 2022 RDC, and Staff proposed to apply $90 million of the FY 2023 RDC Amount to flexible debt repayment. Notably, BPA's analysis during the Financial Plan Refresh process showed that Power was on track to meet the 2040 leverage target even with no revenue financing or additional debt reduction.[119] Adoption of the SCFP and revenue financing 10% of Power's forecast capital puts Power on the path to achieve a debt to asset ratio closer to 50% by 2040. In short, Power is on a better trajectory to meet the long-term debt-to-asset ratio target. As discussed in Section 3.2, given Transmission's circumstances, Staff's flexible debt repayment proposal for Transmission is reasonable.

Finally, several comments referred to BPA's leverage policy. BPA clarifies that its Leverage Policy was sunset with the establishment of the SCFP. Under the SCFP, the default amount of revenue financing proposed in a rate case may increase if a business line is forecast to have a debt-to-asset ratio greater than 60% by 2040.

BPA is Not Adopting the Other Alternatives for Rate Reduction

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[116] NIPPC and RNW Comment at 2.
[117] M-S-R Comment at 7-8.
[118] *Id.* at 2.
[119] Financial Plan Refresh, Bonneville Power Administration, at 20-21 (Jan. 26, 2022), *available at* https://www.bpa.gov/-/media/Aep/finance/financial-plan-refresh/jan-26-workshop-presentation-final.pdf.

NIPPC and RNW maintain that providing a rate reduction would not violate or weaken BPA's financial policies or jeopardize BPA's credit ratings.[120] BPA has not argued otherwise. BPA has approved use of Transmission RDC funds for rate reduction in the past without experiencing credit rating downgrades or expressing concern about compliance with its financial policies. As explained above, Staff's proposal was not based on concerns about credit ratings or the financial policies.

AWEC also focuses on BPA's financial policies, arguing that it is "unreasonable and unfair" not to provide rate reduction when Transmission is holding financial reserves in excess of the targets in the FRP and has met its debt-to-asset ratio target.[121] BPA's financial policies were not intended to constrain the Administrator's discretion to decide whether and how to apply the Transmission RDC Amount based on the facts at the time. Applying the Transmission RDC Amount to flexible debt repayment and holding reserves to reflect unanticipated cost pressure reflects the current priorities for Transmission.

WPAG does not object to using a portion of the Transmission RDC Amount for Staff's proposed uses but recommends allocating 20 percent of the overall amount to rate reduction.[122] WPAG commented that providing a rate reduction to transmission customers would help with current inflationary cost pressures and better match the benefits BPA receives from the long-term, take-or-pay transmission service agreements.[123] BPA acknowledges the benefit of the certainty of the revenue stream provided by long-term transmission agreements, and a rate reduction certainly is one of the options available under the Transmission RDC, but BPA does not view that option as implicit in the exchange under those agreements.

M-S-R proposes rate reduction under the Transmission RDC to correct past forecasting errors that allegedly have resulted in overcollections.[124] M-S-R's claims that previous positive net revenues show a systemic tendency to over-charge BPA's Transmission customers go well beyond the scope of the issues BPA is deciding at this time. As discussed in Section 3.2, BPA is entitled to the revenues collected from its approved rates, which are based on a reasonable cost forecast at the time they are set. The RDC allows the Administrator the discretion to consider the short- and long-term benefits of various uses for financial reserves, based on the circumstances at the time.

<u>*BPA Will Not Commit to Hold a New Process*</u>

Avangrid, NIPPC, and RNW request additional processes if the Administrator adopts Staff's proposal. In that event, "Avangrid respectfully requests Bonneville hold a public process to review the historic application of the agency's financial policies and determine whether

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[120] NIPPC and RNW Comment at 3-4.
[121] AWEC Comment at 3.
[122] WPAG Comment at 2-3.
[123] *Id.*
[124] M-S-R Comment at 7-8.

additional revisions are needed to ensure equity between the business lines."[125] Likewise, NIPPC and RNW would "urge the Administrator to hold a public process to reevaluate the agency's financial policies to determine whether additional revisions are needed to ensure they are being applied equitably between the two business lines."[126]

BPA will not commit at this point to hold a public process to review its financial policies and interbusiness line equity. As discussed above, BPA's RDC decisions have been reasonable, and differences in application reflect unique circumstances. If and when BPA does revisit its financial policies, customers and interested parties will be able to raise concerns and make recommendations through the public comment process.

4. NATIONAL ENVIRONMENTAL POLICY ACT ANALYSIS

Consistent with the National Environmental Policy Act (NEPA), 42 U.S.C. § 4321, et seq., BPA has assessed the potential environmental effects that could result from repurposing funds under the Transmission RDC.

Repurposing financial reserves under the Transmission RDC is administrative and financial in nature and does not require BPA to take any action that would have a potential effect on the environment. The Transmission RDC would repurpose financial reserves to specific uses for the Transmission business line. The Transmission RDC would apply $130.4 million as follows: (1) $80 million for flexible debt reduction or revenue financing; and (2) $50.4 million held for forecast budget increases for FY 2024.

Repurposing financial reserves under the RDC is purely administrative and financial in nature and does not require BPA to take any action that would have a potential effect on the human environment. The use of funds under the RDC also falls within a class of actions excluded from preparation of an Environmental Assessment or Environmental Impact Statement under NEPA. More specifically, the use of funds under the RDC would be consistent with BPA's FRP and the Transmission Rates schedule, and any funding towards actions that would impact the physical environment would undergo site-specific environmental review as appropriate. BPA has prepared a categorical exclusion determination memorandum that documents this categorical exclusion from further NEPA review, which is available at BPA's website: https://www.bpa.gov/learn-and-participate/public-involvement-decisions/categorical-exclusions.

[125] Avangrid Comment at 1.
[126] NIPPC and RNW Comment at 5.