ADMINISTRATOR'S RECORD OF DECISION

Financial Reserves Policy Phase-In Implementation

September 2018

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FINANCIAL RESERVES POLICY PHASE-IN IMPLEMENTATION

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COMMONLY USED ACRONYMS AND SHORT FORMS

AAC	Anticipated Accumulation of Cash
AWEC	Alliance of Western Energy Consumers
BPA	Bonneville Power Administration
CRAC	Cost Recovery Adjustment Clause
CWIP	Construction Work in Progress
EE	Energy Efficiency
EN	Energy Northwest, Inc.
EWEB	Eugene Water & Electric Board
F&W	Fish and Wildlife
FADS	Funds Available for Debt Service
FCRPS	Federal Columbia River Power System
FERC	Federal Energy Regulatory Commission
FRP	Financial Reserves Policy
FY	fiscal year (October through September)
GRSPs	General Rate Schedule Provisions
IPR	Integrated Program Review
IRPL	Incremental Rate Pressure Limiter
MSR	M-S-R Public Power Agency
NIPPC	Northwest and Intermountain Power Producers Coalition
NRU	Northwest Requirements Utilities
NWPA	Pacific Northwest Electric Power Planning and Conservation Act
PGE	Portland General Electric Company
PNRR	Planned Net Revenues for Risk
PPC	Public Power Council
PSE	Puget Sound Energy, Inc.
PUD	public or people's utility district
RCD	Regional Cooperation Debt
RDC	Reserves Distribution Clause
ROD	Record of Decision
TPP	Treasury Payment Probability
WPAG	Western Public Agencies Group

FINANCIAL RESERVES POLICY PHASE-IN IMPLEMENTATION

ADMINISTRATOR'S RECORD OF DECISION

1. INTRODUCTION

The Bonneville Power Administration (Bonneville) adopted the Financial Reserves Policy in the BP-18 Final Record of Decision. In that Record of Decision, Bonneville also committed to hold a follow-on public process to determine, and phase-in for Power, the appropriate rate action when financial reserves fall below a business line lower threshold. This Record of Decision modifies the Financial Reserves Policy to fulfill that commitment.

2. BACKGROUND

Bonneville is a Federal power marketing administration that owns and operates over 15,000 miles of high-voltage transmission lines and provides roughly 28 percent of the electric power used in the Pacific Northwest.[1] Among other obligations, Bonneville is required by law to market federal power and to set rates to recover its costs in accordance with sound business principles.[2]

Bonneville is self-financing, meaning it does not depend on annual appropriations from Congress to fund its operations. Rather, Bonneville is to "operate in a manner which assures that the agency is fiscally self-supporting,"[3] and is to "establish rates that will produce sufficient revenues to ensure BPA's fiscal independence."[4] In meeting its statutory obligations, Bonneville's Administrator has broad authority to contract "upon such terms and conditions and in such manner as he may deem necessary."[5] These authorities allow Bonneville discretion in determining "how best to further Bonneville's business interests consistent with its public mission."[6] Bonneville has the authority to operate in a prudent manner, including managing risk and ensuring financial health, in order to continue delivering on Bonneville's public responsibilities.[7]

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[1] Leverage Policy Presentation at 3 (March 2, 2018), *available at* https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/frpdocs/Leverage%20Policy%20Public%20Workshop%203.02.2018%20FINAL.pdf. ("Bonneville March 2 Leverage Presentation").

[2] NWPA § 7(a)(1), 16 U.S.C. § 839e(a)(1); Transmission System Act § 9, 16 U.S.C. § 838g; Flood Control Act of 1944 § 5, 16 U.S.C. § 825s.

[3] *Dep't of Water & Pwr. of City of Los Angeles v. Bonneville Pwr. Admin.*, 759 F.2d 684 (9th Cir. 1985) (citing 16 U.S.C. § 832f and related legislative history).

[4] *Cal. Energy Comm'n v. Bonneville Pwr. Admin.*, 909 F.2d 1298, 1303 (9th Cir. 1990) (citing 16 U.S.C. §§ 838g and 839e(a)(1)).

[5] Bonneville Project Act § 2(f), 16 U.S.C. § 832a(f).

[6] *Ass'n of Pub. Agency Customers, Inc. v. Bonneville Pwr. Admin.*, 126 F.3d 1158, 1171 (9th Cir. 1997).

[7] *See Ass'n of Pub. Agency Customers, Inc. v. Bonneville Pwr. Admin.*, 126 F.3d 1158, 1171 (9th Cir. 1997) ("Congress gave the Administrator the authority to run BPA like a business. In that sense, Congress addressed BPA's authority to act in response to unforeseen eventualities, as businesses frequently must."); Alcoa, Inc. v. Bonneville Pwr. Admin., 698 F.3d 774, 789 (9th Cir. 2012).

2.1 2018–2023 Strategic Plan and Financial Plan 2018

Bonneville recently released its 2018–2023 Strategic Plan ("Strategic Plan") and Financial Plan 2018 ("Financial Plan"). The Strategic Plan's subtitle underscores the connection between Bonneville operating in a prudent manner and meeting its statutory obligations: "Delivering on our public responsibilities through a commercially successful business."[8] The two plans dovetail, with the Financial Plan's objectives being foundational to, and included in, the Strategic Plan's Strategic Goal 1: Strengthen Financial Health.[9] The Strategic Plan explains the importance of this goal:

> Everything BPA does—from maintaining the region's extraordinarily valuable hydropower and transmission assets to investing in fish and wildlife mitigation—hinges on its financial health and providing low, competitive rates. Poor financial health would put BPA's mission at risk, limiting its ability to provide low rates, high reliability and responsible environmental stewardship. Conversely, good financial health will allow BPA to continue to deliver on its multi-purpose mission, providing tremendous value to the Pacific Northwest and its citizens.[10]

Maintaining appropriate levels of financial reserves for risk (hereafter "financial reserves" or "reserves") is key to Bonneville's Strategic Goal of strengthening its financial health. As part of Bonneville's objective to build financial resiliency, Bonneville aims to maintain a minimum level of reserves of 60 days cash on hand for each business line.[11] This minimum level is set by, and Bonneville manages financial reserves levels in accordance with, its Financial Reserves Policy (FRP).

2.2 The Importance of Financial Reserves

Financial reserves are a keystone of Bonneville's long-term financial health.[12] Financial reserves refer to "reserves available for risk," a Bonneville term representing the amount of unobligated cash, short-term market-based investments, and deferred borrowing, and result from revenues being greater than expenses over time.[13] They provide benefits to Bonneville as a financial safeguard against delay between disbursements and receipts, and against short-term and long-term financial uncertainty.[14] These reserves also provide

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[8] Bonneville Power Administration 2018-2023 Strategic Plan at p. 1 (January 30, 2018), *available at* https://www.bpa.gov/StrategicPlan/StrategicPlan/2018-Strategic-Plan.pdf. ("2018-2023 Strategic Plan ")."

[9] Bonneville Power Administration 2018 Financial Plan at p. 3 (February 6, 2018), *available at* https://www.bpa.gov/Finance/FinancialInformation/FinancialPlan/Documents/Financial-Plan-2018.pdf. ("2018 Financial Plan ").

[10] 2018-2023 Strategic Plan at p. 11.

[11] *Id.* p. 19.

[12] BP 18-A-04, § 6.1.

[13] 2018 Financial Plan at p. 7; BP 18-A-04, § 6.2.1.

[14] BP 18-A-04 §§ 6.1 and 6.4.5.

Bonneville with a tool that can be used to manage rate stability.[15] The value of financial reserves is reflected in the emphasis credit rating agencies place on Bonneville's financial reserves levels and policies when determining Bonneville's credit rating.[16] Maintaining Bonneville's credit rating ensures that there is high demand and very competitive interest rates for Bonneville-backed debt.[17] In light of the expected amount of Bonneville-backed debt being indirectly issued through third parties, accessing these markets is now, more than ever, critically important to Bonneville's mission of providing power and transmission services to the region.[18] Bonneville benefits from having adequate financial reserves, and appropriately managing them is essential to Bonneville's financial resiliency.[19]

2.3 Development of FRP in BP-18

Prior to the BP-18 rate case, Bonneville had no formal policy to ensure that it retained levels of financial reserves above the minimum required to remain solvent over a given rate period.[20] As a result of this policy gap, Bonneville's financial reserves were allowed to fluctuate significantly.[21] Financial reserves attributed to Power Services would even be allowed to fall to and remain at $0 with no directed rate action to restore them. Further, the lack of a consistent policy across the business lines and for Bonneville as a whole allowed for *ad hoc* financial reserves decisions and different treatment for each business line.[22]

Discussions about developing a formal policy on financial reserves began in the BP-16 rate proceeding.[23] Following the publication of the BP-16 Final Record of Decision, Bonneville held three public workshops in the spring of 2016 to provide information to stakeholders and to receive their feedback.[24] Bonneville thereafter proposed to develop a formal policy on financial reserves in the BP-18 rate proceeding in order to provide the timeliest and most transparent opportunity for interested stakeholders to express their views on the proposal. [25] The BP-18 rate proceeding proved to be a thorough process, producing 177 pages in the Final Record of Decision, in addition to related testimony and briefs. The parties' arguments and counterproposals were very helpful to Bonneville as it considered

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[15] *Id.* at §§ 6.1 and 6.4.6.

[16] *Id*. at §§ 6.1 and 6.4.3.2.1.

[17] *Id*. at § 6.1.

[18] *Id.*

[19] 2018-2023 Strategic Plan at pp. 19–20.

[20] BP 18-A-04 § 6.1.

[21] *Id*.

[22] BP 18-A-04, Appendix A (FRP) at § 1.

[23] BP 18-A-04 at § 6.2.6; BP 16-A-02 at 89.

[24] BP 18-A 04 at § 6.2.6.

[25] *Id.*

the specific features to adopt in the final FRP, with the adopted FRP reflecting features from Staff's Initial Proposal and the parties' proposals.[26]

The BP-18 rate case established the main features of the Financial Reserves Policy, which replaced the former policy gap with a consistent, transparent, financially prudent method for managing financial reserves levels.[27] The FRP establishes upper and lower financial reserves thresholds for Power Services, Transmission Services, and the agency as a whole.[28] The FRP also describes the actions Bonneville may take when financial reserves levels either fall below a lower threshold or exceed an upper threshold.[29]

Specifically, the FRP calculates each business line's Lower Financial Reserves Threshold based on the greater of (1) 60 days cash on hand, and (2) what is necessary to meet the Treasury Payment Probability (TPP) Standard.[30] "Days cash on hand" is the number of days a business line can continue to operate using its own cash on hand with no new revenue.[31] "Days cash on hand" is a common industry liquidity metric measuring the relationship between the amount of cash a business holds and the amount of average daily expenses incurred in operating the business.[32] For each business line, if financial reserves fall below its lower threshold, a rate action will trigger the following fiscal year to recover, in part or in whole, the shortfall.[33]

The FRP calculates each business line's Upper Financial Reserves Threshold as the financial reserves' equivalent of 60 days cash on hand above the Lower Financial Reserves Thresholds.[34] The agency upper threshold is the sum of Power and Transmission's lower thresholds (in terms of dollars) plus 30 days cash on hand for the agency. *Id.* Thus, the agency upper threshold will be 90 days cash on hand or greater.[35] If financial reserves are above *both* the agency upper threshold and a business line upper threshold, the Administrator will consider using financial reserves for investment in other high-value business-line-specific purposes, such as debt retirement, incremental capital investment, and rate reduction.[36]

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[26] BP 18-A-04 at § 6.6.4.1.

[27] BP 18-A-04, Appendix A (FRP) at § 1.

[28] *Id.*

[29] *Id.*

[30] *Id.* at § 3.3.

[31] *Id.* at § 3.1.

[32] *Id.*

[33] *Id.* at § 3.3.

[34] *Id.* at § 3.4

[35] BP 18-A-04 at § 6.6.4.1.

[36] BP 18-A-04, Appendix A (FRP) at § 3.4.1.

2.4 Decisions Outstanding Following BP-18

The BP-18 rate case did not fully resolve every feature of the Financial Reserves Policy. At the time Bonneville established the Financial Reserves Policy, Transmission financial reserves exceeded the business line upper threshold. Power reserves, however, were significantly below the business line lower threshold. Bonneville decided that additional discussion was needed regarding the rate action triggered when business line reserves are below the lower threshold, including a phase-in of this rate action for Power. Bonneville therefore deferred additional development of these aspects of the FRP's implementation to a separate follow-on public process.[37]

Although Bonneville intended the FRP to apply symmetrical methodologies and mechanisms between the two business lines,[38] Bonneville recognized in the BP-18 ROD that a rate action to immediately restore Power reserves to 60 days cash on hand—such as implementing a Cost Recovery Adjustment Clause (CRAC) at the business line lower threshold—would likely have caused a very large Power rate increase for FY 2018.[39] Bonneville decided that the rate action to increase reserves up to Power's lower threshold should be phased in to avoid a large rate impact and maintain rate stability.[40] As an interim measure, Bonneville decided to add $20 million of Planned Net Revenues for Risk (PNRR) per year to the Power revenue requirement until the Power CRAC threshold is raised from $0 to the Power lower threshold.[41] This was to be paired with some sort of mechanism to increase Power's CRAC threshold to the Power lower threshold over time.[42]

More specifically, while the Financial Reserves Policy established that "a rate action shall trigger" when financial reserves fall below a business line's lower threshold,[43] the Policy did not determine what that rate action would be. While Bonneville expected the CRAC to be that mechanism,[44] Bonneville intentionally left the issue open for discussion during the follow-on process: "[t]he specifics of how the Power and Transmission CRACs (or equivalent rate action) recover shortfalls are not limited by this policy."[45] Bonneville also left open for discussion during the follow-on process how quickly the rate action would recover any shortfall below the lower threshold.[46]

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[37] BP 18-A-04 at § 6.6.4.1.

[38] *Id.* at §§ 6.5.3.1 and 6.6.6.1(3).

[39] *Id.* at § 6.6.4.3.1.

[40] *Id.*

[41] *Id.*

[42] *Id.*

[43] BP 18-A-04, Appendix A (FRP) at § 3.3.

[44] *Id.* at § 4.2.

[45] *Id.* at § 4.1.

[46] *Id.* at § 3.3 (". . . a rate action shall trigger the following fiscal year to recover, in part or in whole, the shortfall.")

3. PROCEDURAL HISTORY

On March 2, 2018, Bonneville held the first public workshop on the follow-on process, *i.e.,* the FRP Phase-In Implementation. The meeting opened with presentations on strengthening financial health by Dennis Pidherny of Fitch Ratings, Arne Olson of Energy and Environmental Economics, Inc., and Michael Mace of Public Financial Management.[47] At this meeting, Bonneville emphasized that the FRP involves "a diverse set of stakeholders . . . and competing decision criteria."[48] Examples of such competing criteria included the goal of Power reserves reaching the lower threshold within 10 years, stable rates, simple implementation, and consistency with decisions in the BP-18 Rate Case and the Strategic and Financial Plans.[49] Bonneville also laid out a timeline to hold two additional workshops and to publish the final Record of Decision in mid-June.[50]

Bonneville staff proposed to implement the FRP through a surcharge mechanism.[51] This proposal would immediately and fully phase in the FRP. The proposal would establish a rate action to be triggered when reserves fall below a business line's lower threshold and set parameters for how quickly the rate action would recover any below-threshold shortfall. The proposed rate action had different parameter bands for recovering reserves when they are (1) below $0, and (2) between $0 and the lower threshold. This is consistent with the FRP's phase-in provision for Power to raise Power's rate action threshold from $0 to its 60 day cash on hand lower threshold.[52] If financial reserves were below a business line's lower threshold, the surcharge would collect a fixed amount ($40 million for Power; $15 million for Transmission), up to the amount necessary to reach the lower threshold.[53] If financial reserves were below $0, the mechanism would collect the amount necessary to reach $0 *in addition to* the fixed amount. That is, both bands of the rate action would trigger because reserves levels below $0 would also be below the lower threshold. The below-$0 band of the mechanism would replace the CRAC.[54]

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[47] Dennis Pidherny, Managing Director, Fitch Ratings, *Outlook: U.S. Public Power and Electric Cooperative Sector* (Mar. 2, 2018); Arne Olson, Senior Partner, Energy+Environmental Economics *Electric Industry Trends and their Impacts on Hydropower* (Mar. 2, 2018); Michael Mace, Managing Director, Public Financial Management, *Public Power Trends* (Mar. 2, 2018); all three PowerPoint presentations *available at* https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/Pages/Financial-Reserves-Leverage-Policies.aspx.

[48] Financial Reserve Policy Phase-in Implementation Presentation, at p. 4 (March 2, 2018),. *available at https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/frpdocs/20180302-Financial-Reserves-Policy-Workshop.pdf. ("*Bonneville March 2 Financial Reserve Policy Presentation*")*

[49] *Id.*

[50] *Id.* at 3.

[51] *Id.* at 5-6.

[52] *See* BP 18-A-04, Appendix A (FRP) at § 4.1 ("The specifics of how the Power and Transmission CRACs (or equivalent rate action) recover shortfalls are not limited by this policy."); FRP at § 3.3 (". . . a rate action shall trigger the following fiscal year to recover, in part or in whole, the shortfall.").

[53] *Id.*

[54] *Id.*

Bonneville highlighted that one implication of the surcharge, as compared to a mechanism raising the CRAC threshold to the lower threshold, was to provide rate stability when reserves are below the lower threshold and above $0.[55] That is, customers would have assurance that the amount to be collected would be capped at a fixed amount, rather than be subject to a CRAC that collected whatever was necessary to return business line financial reserves to 60 days cash on hand. Bonneville provided 2-year and 20-year examples of how this proposal could impact Power rates and financial reserves levels.[56] Bonneville found this proposal would satisfy each of the decision criteria examples mentioned above.[57]

Bonneville also presented a second proposal in response to customer requests. PPC and NRU requested that Bonneville provide a proposal that completely removed the net secondary revenue forecast credit from base priority firm rates.[58] Currently, Bonneville includes a credit in its rates based on revenues Bonneville forecasts it will receive from selling surplus power in the secondary market.[59] Differences between the forecast and actual revenues create risk that impacts Bonneville's financial reserves.[60] This proposal would, instead, forecast no such credit, but then use the Reserves Distribution Clause (RDC) to implement a credit based on financial reserves levels impacted by actual net secondary revenues.[61]

On March 9, 2018, the comment period on this first meeting closed. Customers requested additional time to provide meaningful, informed input.[62] Bonneville responded by extending the next comment period by two weeks and adjusting the timeline accordingly.[63] Bonneville responded to customer comments, clarifying certain points and providing an updated analysis of the cost impact of a credit downgrade.[64] No customer provided an alternative proposal.[65]

On March 20, 2018, Bonneville and its customers met for a second public workshop. Due to lack of customer interest, Bonneville removed from consideration the net secondary credit proposal. Regarding the surcharge proposal, Bonneville provided and discussed analysis

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55 *Id.* at 7.

56 *Id.* at 10-11.

57 *Id.* at 12.

58 *Id.* at 8–9.

59 *See* Power Rate Study BP-18-FS-BPA01, Section 2.1.6.9, pages 26-27 and PRS Documentation Table 2.3.8.

60 *See* Power and Transmission Risk Study, BP-18-FS-BPA-05, Section 4.1.1.

61 Bonneville March 2 Financial Reserve Policy Presentation at 9.

62 Leverage and Financial Reserves Policy Comments and Responses at p. 1 (March 2, 2018), *available at* https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/frpdocs/March%202%20Comments%20and%20Responses%20FINAL.pdf. ("Leverage and Financial Reserves Policy March 2 Comments and Responses").

63 *Id.*

64 *Id.*

65 *See id.*

based on three metrics: (1) the probability Agency reserves drop below 30 days cash on hand for two consecutive years over a 10-year period, (2) the probability Power reserves will reach the lower threshold within 10 years, and (3) the average expected annual cost of the rate mechanisms.[66] Bonneville responded to oral questions, including a discussion on whether to simplify the CRAC mechanism below $0, and agreed to provide additional analyses.

On April 6, 2018, the comment period on this second meeting closed. Bonneville provided additional modeling, including a back-casting analysis of how various FRPs would have performed if implemented over the past 10 years, additional explanation about natural gas and power market price inputs, and modeled the performance of numerous surcharge variations.[67] Customers requested that Bonneville extend the timeline; Bonneville stated its then-current plan was to publish a final policy near the end of June, but did not preclude the possibility of providing additional time.[68] No customer provided an alternative proposal.

On April 20, 2018, Bonneville and its customers met for a third public workshop. Due to customer comments, Bonneville's proposal retained the CRAC mechanism in its then-current form.[69] Bonneville presented its draft revisions to the FRP to incorporate its phase-in implementation proposal.[70] Customers orally asked to receive answers to certain information requests before the close of the next comment period in order to provide more informed comments. Bonneville agreed and responded.[71]

On May 11, 2018, the comment period on this third meeting closed. Customers requested that Bonneville delay making a final decision to allow for a more informed decision.[72]

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[66] Bonneville March 2 Financial Reserve Policy Presentation at p. 10.

[67] FRP Backcasting analysis; BP-18 FRP Analysis Model V3 Surcharge Levels; FRP atRisk Model V3 Surcharge Levels; FRP atRisk Model V3 Surcharge Levels with Static Values; Financial Reserves Policy model updates and analysis summary; BP-18 FRP Analysis Model V4; FRP atRisk Model V4; FRP atRisk Model with Static Values V4 (*all available* at https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/Pages/Financial-Reserves-Leverage-Policies.aspx.).

[68] Bonneville Power Administration, March 20, 2018 Leverage and Financial Reserves Policy Questions & Responses at 1–2.

[69] Financial Reserve Policy Phase-in Implementation Presentation at p. 8 (April 20, 2018), *available at* https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/frpdocs/04202018_PPT_FinancialReservesPhaseinImplementation.pdf. ("Bonneville April 20 Financial Reserve Policy Presentation*").*

[70] *Id.* at 7–8.

[71] See Financial Reserves Policy Model Updates and Analysis Summary, *available at* https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/Pages/Financial-Reserves-Leverage-Policies.aspx.

[72] *See* Comments of Mason County PUD No. 3 (Mason County) on BPA's Financial Reserves and Leverage Policies, FRLP180006, at 3 (May 11, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=335 ("Mason County May 11 Comments"); Comments of Snohomish County PUD (Snohomish) on BPA's Financial Reserves and Leverage Policies, FRLP180004, at 1, 22 (May 11, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=335

On June 13, 2018, Bonneville issued a notice delaying issuing this Record of Decision until the end of summer. Bonneville also informed commenters that another opportunity to provide comments on the proposed FRP Phase-In Implementation would be provided following the last Integrated Program Review (IPR) process workshop, allowing additional public comment on the FRP Phase-In Implementation in the context of rates and other related processes. Final comments on FRP Phase-In Implementation were due on August 2, 2018. Customer comments received on May 11, 2018, and August 2, 2018, are addressed below.

4. FINANCIAL RESERVES POLICY PHASE-IN IMPLEMENTATION

The Financial Reserves Policy, attached to this Record of Decision as Attachment 1, retains the same four sections from the FRP adopted in BP-18. Modifications have been made only to Section 4: Implementation. Section 4.2, Financial Reserves Policy Phase-in Provision for Power, has been replaced with Section 4.2, Provisions for Increasing Financial Reserves.

Section 4.2.1 establishes the parameters of a rate mechanism that will trigger if financial reserves attributable to a business line are below the respective lower threshold. Section 4.2.2 provides for an exception to Section 4.2.1 to phase in Power's rate action until Fiscal Year 2022. Section 4.2.3 establishes the parameters of a rate mechanism that will trigger if reserves are below $0. The mechanism in section 4.2.3 is cumulative to the mechanism in section 4.2.1 or 4.2.2; both would trigger if financial reserves were below $0. In full, Section 4.2 states:

> The methodologies for increasing financial reserves are described below. The specific rate mechanisms to achieve 4.2.1 through 4.2.3 will be determined in the applicable rate proceeding.
>
> 4.2.1 Except as provided in section 4.2.2, if financial reserves attributable to a business line are below its lower threshold, then the annual rate action will be the lower of the following two, unless a larger increase in reserves is necessary to achieve the TPP standard:

("Snohomish May 11 Comments"); Comments of Alliance of Western Energy Consumers (AWEC) on BPA's Proposed Leverage Policy and Financial Reserves Policy, FRLP180010, at 3 (May 11, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=335 ("AWEC May 11 Comments"); Comment of Eugene Water & Electric Board Regarding BPA's April 20 2018 Financial Policy and Leverage Policy Proposals, FRLP180009, at 1 (May 11, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=335 ("EWEB May 11 Comments"); Comments of Powerex Corp on BPA's Financial Leverage Policy, FRLP180015, at 3 (May 11, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=335 ("Powerex May 11 Comments"); Comments of Northwest Requirements Utilities (NRU) on BPA's Proposed Leverage Policy and Financial Reserves Policy (FRP) Phase-in, FRLP180011, at 1 (May 11, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=335 ("NRU May 11 Comments"); Comments of the Public Power Council on Implementation Proposals for BPA's 2018 Financial Plan, FRLP180014, at 1-2 (May 11, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=335 ("PPC May 11 Comments").

(1) $40 million per year in Power rates, if recovering Power financial reserves; $15 million per year in Transmission rates, if recovering Transmission financial reserves; or

(2) the amount needed to fully recover financial reserves up to the applicable business line lower threshold.

4.2.2 The $40 million per year rate action described above in section 4.2.1(1) is being phased in for Power until Fiscal Year (FY) 2022. In FY 2022 and thereafter, the $40 million per year rate action in section 4.2.1(1) will apply and this section 4.2.2 will be inapplicable. In FY 2020 and FY 2021, if financial reserves attributable to Power are below its lower threshold, then the annual rate action will be the lower of the following two, unless a larger increase in reserves is necessary to achieve the TPP standard:

(1) $30 million per year in Power rates; or

(2) the amount needed to fully recover financial reserves up to the Power lower threshold.

4.2.3 In addition to the rate action described above in sections 4.2.1 and 4.2.2, Bonneville will initially propose in each rate case a rate mechanism to increase each business line financial reserves in the event they fall below $0. Such rate mechanism will include the following parameters:

(1) When financial reserves are below $0 for Power Services, Bonneville will recover in each year of the rate period the first $100 million dollar-for-dollar. Bonneville will recover only fifty cents on the dollar for any amounts greater than $100 million. This provision will be limited to an annual cap of $300 million; and

(2) When financial reserves are below $0 for Transmission Services, Bonneville will recover in each year of the rate period the first $100 million dollar-for-dollar. This provision will be limited to an annual cap of $100 million.

Implementation of the methodology described above, including the timing of when the calculations in (1) and (2) will be performed, will be determined each rate period through the Power and Transmission rate schedules and GRSPs. Such implementation may include *de minimis* thresholds.

In this way, and consistent with the BP-18 Final ROD, Section 4.2 implements the Lower Financial Reserves Thresholds requirement in FRP Section 3.3 that "[f]or each business line, if financial reserves fall below the lower threshold, a rate action shall trigger the following fiscal year to recover, in part or in whole, the shortfall."[73] Bonneville has

[73] BP-18-A-04, Appendix A (FRP) § 3.3.

determined to phase in one mechanism of this rate action for the Power business line until FY 2022.

5. RESPONSE TO COMMENTS

5.1 Overview of Comments

Bonneville received numerous comments on its proposed Financial Reserves Policy (FRP) Phase-In Implementation. The comments present a diverse set of views in support of, and in opposition to, various aspects of the proposal. Generally, customers that purchase power and transmission from Bonneville viewed the rate actions resulting from the FRP as being too strong, whereas transmission-only customers viewed them as too weak. EWEB and the Commenting Parties[74] expressly stated that Bonneville should adopt its proposed policy, despite voicing certain misgivings discussed below.[75]

5.2 Bonneville's Decision to Delay Issuing the Record of Decision and Provide an Additional Opportunity for Comment

Almost all commenters requested that Bonneville delay issuing its final decisions on the FRP Phase-In Implementation to allow Bonneville and regional parties additional time to consider the FRP in the context of other finance-related processes.[76]

On June 13, 2018, Bonneville issued a notice delaying issuing this Record of Decision until the end of summer. Bonneville also provided another opportunity for public comment on the proposed FRP Phase-In Implementation following the close of the Integrated Program Review (IPR) process. Final comments on the FRP Phase-In Implementation were due on August 2, 2018.

This section of the Record of Decision responds to the total set of FRP-related public comments submitted during the comment periods closing May 11, 2018, and August 2, 2018.

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[74] Commenting parties: Avangrid, Avista, Idaho Power, PacifiCorp, PGE, & PSE

[75] EWEB May 11 Comments at 1; Commenting Parties May 11 Comments at 13.

[76] See Comments of Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric, and Puget Sound Energy, Inc., (Commenting Parties) on BPA Proposed Leverage Policy and Financial Reserves Policy Phase-in Implementation, FRLP180007, at 8 (May 11, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=335 ("Commenting Parties May 11 Comments"); Comments of the Western Public Agencies Group (WPAG) on Proposed Leverage Policy and Revisions to Reserve Policy, FRLP180012, at 1 (May 11, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=335 ("WPAG May 11 Comments "); EWEB May 11 Comments at 1, Snohomish May 11 Comments at 1, Mason May 11 Comments at 3, Powerex May 11 Comments at 3, AWEC May 11 Comments at 3, NRU May 11 Comments at 1, PPC May 11 Comments at 1–2.

5.3 Issue 1: Whether the FRP should have (1) a single mechanism to address reserves below a business line lower threshold (i.e., 60 days cash) or (2) separate rate mechanisms to address reserves below a business line lower threshold and below $0.

Public Comments

Both PPC and WPAG support separate rate mechanisms. PPC asserts that "[l]eaving the threshold for the Cost Recovery Adjustment Clause (CRAC) or successor mechanism at zero is highly beneficial. This allows accumulated financial reserves to be available to mitigate poor financial outcomes within a year, without unpredictable surcharges in the following year."[77] "This policy, combined with a fixed surcharge for when reserves are between zero and the lower threshold, strikes an adequate balance between rate stability, certainty, and building financial reserves towards desired levels."[78] "It is also equitable because the structure is parallel for both Power and Transmission."[79]

"WPAG also supports BPA's proposal to have a separate rate mechanism for FRP purposes when financial reserves are above BPA's TPP threshold (*i.e.,* above zero dollars) but below the lower reserve threshold under the FRP (*i.e.,* below sixty days cash on hand)."[80] WPAG states "[t]hese recommendations are consistent with WPAG's prior arguments that BPA should not apply the same CRAC mechanism in support of the FRP as it does for the TPP standard on the basis that the FRP and TPP are for different purposes."[81]

Evaluation

At the end of BP-18, Bonneville expected the FRP to be implemented with a CRAC mechanism at each business line's lower threshold (60 days cash).[82] Bonneville, however, left the issue open for this follow-on process to allow discussion of alternative rate actions, including the use of multiple rate actions or rate actions with multiple parameter bands for recovering reserves.[83] A single mechanism or multiple mechanisms could both have been appropriate methods of prudently managing Bonneville's financial reserves levels.

Bonneville has decided to establish two separate rate mechanisms. One rate mechanism addresses reserves when they are below 60 days cash on hand and the other addresses reserves when they are below $0. PPC and WPAG support a two-mechanism approach over a single-mechanism approach.[84] As with a single CRAC mechanism at the business line lower threshold, a two-threshold structure also supports the various purposes for holding

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[77] PPC May 11 Comments at 2.

[78] *Id*.

[79] *Id*.

[80] WPAG May 11 Comments at 1.

[81] *Id.*

[82] *Supra* Section I (C) and (D).

[83] *Id.*

[84] PPC May 11 Comments at 2; WPAG May 11 Comments at 1.

financial reserves; for example, supporting liquidity, cost recovery and repayment of the Federal debt, rate stability, and credit rating. Bonneville agrees that establishing separate mechanisms at the business line lower threshold and at $0, within the full context of this policy, strikes the proper balance "between rate stability, certainty, and building financial reserves towards desired levels" and is "equitable because the structure is parallel for both Power and Transmission."[85]

As a matter of clarification, the TPP standard can allow the CRAC threshold to be set below $0, but as a matter of prudently managing Bonneville's liquidity, Bonneville decided to set the CRAC threshold at $0.

Bonneville did not receive any comments opposing this general two-threshold structure or proposing an alternative structure.

Decision

The FRP will have separate rate mechanisms to address reserves below business line lower thresholds and below $0.

5.4 Issue 2: Whether the FRP should maintain the parameters of Power's current CRAC mechanism at the $0 threshold.

Public Comments

"Snohomish supports keeping the CRAC threshold at $0 in Power financial reserves."[86] Snohomish states that "[h]aving the CRAC thresholds move to support the FRP targets adds a level of cost and uncertainty that the PUD cannot accept."[87]

PPC supports "[l]eaving the threshold for the Cost Recovery Adjustment Clause (CRAC) or successor mechanism at zero [as] highly beneficial."[88] PPC states "[t]his allows accumulated financial reserves to be available to mitigate poor financial outcomes within a year, without unpredictable surcharges in the following year."[89] PPC states "[t]his rate stability aspect is one of the primary benefits of holding financial reserves."[90] PPC supports "no changes to the current structure of the Power CRAC as part of this policy. The current structure of dollar for dollar recovery of the first $100 million of a CRAC followed by any remainder up to the $300 million cap being spread over the following two years has been

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[85] PPC May 11 Comments at 2.

[86] Snohomish May 11 Comments at 2.

[87] *Id.*

[88] PPC May 11 Comments at 2.

[89] *Id.*

[90] *Id.*

in place for multiple rate periods."[91] PPC asserts that "[a]ny change to this approach should be considered as part of a rate case process."[92]

NRU likewise "supports the revisions to the FRP policy Section 4.2.2 that keep the CRAC mechanisms the same as they are today."[93]

WPAG also "supports BPA's proposal to keep the Cost Recovery Adjustment Clause ("CRAC") methodology BPA currently uses for Treasury Payment Probability ("TPP") purposes and, specifically, BPA's proposal to maintain the CRAC threshold at zero dollars."[94]

<u>Evaluation</u>

Rather than raising the Power CRAC threshold to the Power lower threshold over time, Bonneville proposed leaving the CRAC threshold at $0 and implementing a separate rate action at the business line lower threshold. These mechanisms would be symmetrical between business lines. Bonneville did not receive any comments opposed to this approach. The reasonableness of the *amount* of the separate rate action, in the full context of the FRP, is discussed in Issues 4 and 5 below.

At the public meeting held March 20, 2018, Bonneville proposed to include in the FRP a proposal to revise the CRAC mechanism so that, when triggered, it would have collected dollar-for-dollar to restore a business line's financial reserves to $0. Under the current, more nuanced, CRAC structure, the CRAC collects dollar-for-dollar for the first $100 million, and then collects $0.50 on the dollar up to a total CRAC limit of $300 million for Power and a total CRAC limit of $100 million for Transmission.[95]

Several commenters request that Bonneville not propose to modify the below-$0 CRAC parameters in order to implement the FRP. Bonneville modeled changes to the recovery parameters for the CRAC when financial reserves were below $0 as part of its evaluation of the FRP implementation. The modeling showed that such changes decreased the probability of reserves falling below 30 days cash and increased the probability of Power reserves reaching the business line lower threshold by 2028.[96] However, these impacts came at a cost to rate stability and to the avoidance of rate shock. Bonneville finds that modifying the CRAC beyond its current parameters is not necessary based on how Bonneville has modified the parameters of the rate action triggered when reserves are below a business line lower threshold. Bonneville finds that these mechanisms, operating in conjunction, adequately restore and maintain sufficient levels of financial reserves.

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[91] *Id.*

[92] *Id.*

[93] NRU May 11 Comments at 3.

[94] WPAG May 11 Comments at 1.

[95] BP-18-A-04-AP03 at 75 (Power CRAC); BP-18-A-04-AP04 at 91 (Transmission CRAC).

[96] *See* Bonneville April 20 Financial Reserve Policy Presentation, p. 11.

Further, Bonneville did not receive any comments requesting Bonneville to modify the current below-$0 CRAC parameters to implement the FRP.

The FRP Phase-In Implementation's adequacy in raising Power reserves to its lower threshold is discussed below in Issue 5.

Decision

In accordance with the FRP, Bonneville will maintain the parameters of Power's current CRAC mechanism at the $0 threshold.

5.5 Issue 3: Whether two rate actions should trigger if business line financial reserves are below $0.

Public Comments

NRU argues that "BPA should limit the amount collected in a fiscal year to the higher of the CRAC or the financial reserves rate action, not both. The purpose of the CRAC is to restore short-term liquidity to the agency. The purpose of the surcharge is to build financial reserves per policy decisions made by BPA. To moderate the financial burden placed on Power customers from the FRP, BPA should limit the amount collected in a fiscal year to the higher of one of the rate actions (either the CRAC or the financial reserves rate action)."[97]

Similarly, Mason PUD argues "that both a CRAC and a financial reserves surcharge should not occur in any given year."[98]

Evaluation

NRU and Mason PUD request that Bonneville implement either the CRAC or the FRP in any given year, but not both.[99] NRU specifically requests Bonneville collect the "higher of" the two rate actions; Bonneville assumes this is Mason PUD's proposal as well.[100] For example, if Power financial reserves were $10 million below $0, NRU and Mason PUD request Bonneville to only recover $40 million (the rate action to address reserves below 60 days cash). Bonneville's proposal, in contrast, would recover both $10 million (the CRAC to address reserves below $0) and $40 million (the rate action to address reserves below 60 days cash) for a total of $50 million.

Bonneville disagrees with NRU and Mason PUD's requests. The two rate actions are both needed tools that serve similar, but separate, purposes. It is appropriate to retain both. The $0-CRAC is designed to be a financial safety net that ensures Bonneville's near-term solvency and prudent use of liquidity tools. To that end, the CRAC requires rate action

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[97] NRU May 11 Comments at 4.

[98] Mason May 11 Comments at 2.

[99] NRU May 11 Comments at 4; Mason May 11 Comments at 2.

[100] *Id.*

when business line financial reserves are below $0. This action ensures that Bonneville can meet its financial obligations, including its obligation to pay the U.S. Treasury on time and in full.

Building on this foundation, the FRP has set target ranges for financial reserves between 60 days cash on hand and 120 days cash on hand for each business line and includes rate actions to restore reserves if they fall below 60 days cash on hand. The FRP was adopted in part to address the policy gap that would allow Power reserves to remain at $0 without any directed rate action.[101] The FRP is a long-term policy that is intended to improve Bonneville's overall financial health. As discussed in the BP-18 ROD, [102] financial reserves provide many valuable benefits to Bonneville's customers. Bonneville determined financial reserves within the target range to be sufficient for its financial health.

Section 4.2 of the FRP includes two provisions for increasing financial reserves. Sections 4.2.1 and 4.2.2 address the method to build financial reserves to the lower threshold (60 days cash), and Section 4.2.3 addresses the method to bring financial reserves back to $0 when they are negative. The two actions serve different purposes, but together, both policies are important to ensuring Bonneville remains financially healthy and can meet its statutory obligations.

NRU's and Mason PUD's request for an exception to one of these rate actions would only be relevant when a business line's financial situation is at its worst—that is, below $0. But that is the time when Bonneville's need for financial reserves is most dire. Limiting Bonneville's ability to build reserves under circumstances when Bonneville most needs financial reserves is neither prudent nor reasonable.

The following table compares the FRP Phase-In Implementation which is adopted in this ROD (proposal G) against NRU's "greater of" proposal (proposal F) and the BPA draft Financial Reserves phase-in (proposal D) using the model provided to commenters during the public workshop.[103]

[101] BP-18-A-04 at § 6.1.

[102] *Id.*

[103] The proposal designations (D, F, and G) continue from the designations used in Bonneville's April 20 Presentation, p. 11, which compared various proposals against these same metrics.

	Proposals to increase Power financial reserves	**Credit Threshold** Probability Agency reserves drop below 30 days cash on hand for 2 consecutive years over a 10 year period	**FRP Target Met** Probability Power will increase financial reserves to 60 days cash on hand within 10 years	**Expected Annual Cost (Power)** Average annual cost of the rate mechanisms in the proposal
D	**BPA draft Financial Reserves phase-in** $40M Surcharge/PNRR $0 CRAC threshold	**13.6%** *50% CRAC after $100m*	**73%** *50% CRAC after $100m*	**$20M overall** $40M yrs 3-10, $4M yrs 11-20
F	**NRU: Greater of Surcharge or CRAC** Row D, adjusted so only CRAC or Surcharge applies	**17.0%** *50% CRAC after $100m*	**70%** *50% CRAC after $100m*	**$19M overall** $38M yrs 3-10, $4M yrs 11-20
G	**BPA FRP Phase-In Implementation** $30M Surcharge/PNRR BP-20 $40M Surcharge/PNRR after $0 CRAC threshold	**14.5%** *50% CRAC after $100m*	**72%** *50% CRAC after $100m*	**$20M overall** $39M yrs 3-10, $4M yrs 11-20

Bonneville appreciates NRU's and Mason PUD's concern that application of both rate actions in a single year may have significant rate impacts on its customers. But the potential of a large rate action occurring must be balanced against the FRP's other objectives and decision criteria. Under NRU's "higher of" proposal, a series of bad years could leave a business line "spinning its wheels" at $0, which is a concern the FRP was designed to address.[104] As a result, this "greater of" proposal (proposal F) increases Bonneville's risk of reserves falling below 30 days cash on hand for two consecutive years by 2.5 percent, as compared to the FRP Phase-In Implementation (proposal G). Such a result also does not promote equity between business lines if Power is not required to hold reserves above $0 or to contribute to holding agency reserves. The BP-18 record supported a finding that "there is an equity issue between the business lines that should be addressed through a financial reserves policy."[105] The FRP addresses this issue, in part, by requiring both business lines to contribute to agency financial reserves.[106] NRU's proposed exception could undermine the FRP's ability to realize that contribution. Furthermore,

[104] *See* BP-18 ROD § 6.6.4.3.1, p. 315.

[105] BP-18 ROD, § 6.4.4.2.1, p. 251.

[106] *See* BP-18 ROD, § 6.4.4.2.1, p. 244.

weakening the FRP's rate action when reserves are below $0 decreases by 2 percent the likelihood of Power reserves reaching the business line lower threshold within 10 years.[107] The potential rate action that NRU and Mason PUD seek to preclude is justified in view of these other considerations.

Decision

The FRP's rate actions to bring financial reserves back to $0 and to build financial reserves to the lower threshold are separate rate actions that will both apply if financial reserves are below $0.

5.6 Issue 4: Whether it is a reasonable business decision to establish a $40 million rate action when Power financial reserves are below its lower threshold.

Public Comments

Snohomish argues that Bonneville "has not provided its business case for increasing the phase-in amount from $20 million to $40 million."[108] Snohomish argues that Bonneville should develop a proposal with a lower near-term rate impact "that better aligns with the 70% certainty [of Power financial reserves reaching the 60-day business line lower threshold within ten years] of the Initial Proposal."[109] In view of "Power Services' FY 2018 end of year financial position at 33 days cash on hand" and "[t]he rate preview plac[ing] the Power rate increase at 5%," Snohomish "suggest[s] considering a $30 million phase in amount instead of $40 million—that equates to a $10 million increase for BP-20 and average overall rate increase of 0.5%—to get the desired objective of keeping costs at or below the rate of inflation."[110]

Mason PUD argues "Bonneville already has the tools it needs" to "manage long term wholesale market price exposure and promote rate stability."[111] Mason PUD suggests that, instead of adopting a policy with a $40 million rate action, Bonneville should primarily focus on "how to deal with the volatility of net secondary revenues and the expiration of contracts."[112] Mason PUD acknowledges that "[a] balance needs to be struck between Bonneville successully meeting its Strategic Plan's objectives and . . . the core intent of increasing its competitiveness."[113] Mason PUD feels that—based on the proposal's impact

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[107] Compare proposal F and proposal G above.

[108] Snohomish May 11 Comments at 1

[109] *Id.* at 1-2.

[110] Comments of Snohomish County PUD on BPA's Integrated Program Review, Capital Financing and Financial Reserves Policy, IPR1818 0024, at 2-3 (August 2, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=345 ("Snohomish August 2 Comments").

[111] Mason May 11 Comments at 1-2.

[112] *Id.* at 2.

[113] *Id.*

on rates, on the likelihood that agency reserves drop below 30 days cash for two consecutive years, and on the probability power reserves increase to 60 days cash within 10 years—"increasing the surcharge from $20M to $40M does not provide that balance."[114]

NRU argues that "a 65% probability that Power will achieve its lower threshold by 2028 . . . is a reasonably high probability," and as such "[t]he maximum amount BPA should collect from Power customers to build financial reserves is $20M per year."[115] NRU argues that "BPA must not lose sight of [a] key rating driver cited by the rating agencies, which is its long-term power sales agreements and Power's cost competitiveness."[116] NRU emphasizes that "[t]he amount of the financial reserves surcharge . . . *is* within BPA's control," and that "BPA has already taken actions in response [to credit rating agency concerns about declining financial reserves]."[117] "NRU continues to oppose BPA Staff's proposal to implement a rate action of $40M per year [and] urges BPA to adopt a more reasonable rate action of $20M per year as the phase-in, which would not contribute to the BP-20 rate increase."[118] NRU gives four reasons: (1) "The forecasted reduction of $89M of net secondary revenues for BP-20 further limits potential volatility in the amount of Power's financial reserves, which was one of the reasons BPA argued for a financial reserves policy" (2) "BPA has identified several hefty mistakes that directly impact the amount of financial reserves available for risk attributed to Power" (3) BPA is proposing to phase-in the Leverage Policy to ease rate increases for Transmission customers [and] [s]imilar consideration needs to be applied for Power customers . . ." and (4) "This is another opportunity for BPA to demonstrate to Power customers its commitment to bend the rate trajectory by moderating one of the factors causing power rate increases in BP-20."[119] NRU concludes, "Improving BPA's financial health is not easy, but it is necessary."[120]

PPC argues that the "incremental improvement in probability [of Power reserves reaching the business line lower threshold within 10 years] cannot be viewed as worth the cost without further understanding of the overall rate picture."[121] "PPC strongly opposes raising the surcharge level to accrue additional financial reserves in the BP-20 rate period. The current $20 million surcharge in combination with a large reduction to the assumed

[114] *Id.*

[115] NRU May 11 Comments at 3.

[116] *Id.*

[117] *Id.*

[118] Comments of NRU on Integrated Program Review, Financial Reserves Policy, and Access to Capital, IPR1818 0032, at 2 (August 2, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=343 ("NRU August 2 Comments").

[119] *Id.* at 2-3.

[120] *Id.* at 3.

[121] PPC May 11 Comments at 2.

level of net secondary is already burdensome to customers and represents a significant decrease in financial risk to the agency without additional action."[122]

WPAG argues that "BPA has not presented a satisfactory business case to justify its proposal."[123] WPAG asserts that the proposal "would only moderately improve the probability that Power Services will meet the lower FRP threshold in ten years," but "will further undermine BPA's rate competitiveness."[124] WPAG claims Bonneville "should not be adding new costs . . . without making at least offsetting cuts elsewhere."[125] In addition, WPAG argues that "$40 million/year . . . far exceeds the increased borrowing costs to Power Services if BPA's credit rating were downgraded."[126] WPAG asserts that "before adopting the FRP proposal BPA must make a renewed showing that the intangible benefits it relied upon in the BP-18 ROD to support a $20 million/year phase-in are also adequate to justify the increase to $40 million, and are not outweighed by any associated harm (intangible or otherwise) that may also arise if the proposal is adopted."[127] "WPAG remains convinced" that "BPA has not made the business case to increase the Financial Reserve Policy surcharge to $40 million."[128] Given that "BPA is currently projecting an $89 million reduction to the net secondary revenue credit for BP-20 . . . it is punitive for BPA to impose an additional $20 million surcharge on power customers to further mitigate the same risk."[129] WPAG argues "[t]his is particularly so where Power Service's days cash on hand already appears to be on the rise without further rate action by BPA, and where every incremental rate increase by BPA diminishes the likelihood that it will be rate competitive in 2028."[130]

EWEB "recognize[s] this increase will be difficult on all rate payers; however, we also believe that establishing this policy and developing a reserve bank is instrumental to improving BPA's long term financial credibility."**[131]** EWEB is also supportive of WPAG's comments, primarily including: "1) appreciation [for] the work BPA has done in cutting costs, improving efficiencies, and changing culture, and 2) encouragement for BPA Power

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[122] Comments of PPC BPA Integrated Program Review (IPR) and Financial Plan Implementation, IPR1818 0041, at 3 (August 2, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=345 ("PPC August 2 Comments").

[123] WPAG May 11 Comments at 1.

[124] *Id.*

[125] *Id.*

[126] *Id.* at 2.

[127] *Id.*

[128] Comments of WPAG on Regarding BPA's Integrated Program Review, IPR1818 0017 , at 6, n. 8. (August 2, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=345 ("WPAG August 2 Comments").

[129] *Id.* at 5.

[130] *Id.* at 5-6.

[131] EWEB May 11 Comments at 1.

to continue to look for additional savings in an effort to retain its power customer's load post-2028."[132]

Seattle City Light (Seattle) "requests that BPA defer finalizing and implementing the FRP until BPA provides customers a financial analysis of the costs and benefits of the policy."[133]

The Alliance for Western Energy Consumers (AWEC) requests that "[g]iven the potential for another 5% rate increase, and the modest improvements to BPA's financial condition reported in the recent quarterly business review, AWEC further requests that BPA identify opportunities to avoid incremental $20 million planned net revenues for risk associated with BPA's proposed changes to the financial reserves policy."[134]

Benton PUD (Benton) is "highly concerned by the BPA power and transmission rate increase projections recently shared at the Rate Case Workshop on July 25, 2018." As such, Benton "recommend[s] BPA consider additional actions to maintain future power rate increases below the rate of inflation, including deferring the $20 million increase to the financial reserves accumulation."[135] "Although we understand BPA's position relative to higher financial reserves and credit ratings, increasing reserves at this time must be viewed through the context of rate competitiveness, which is another key credit rating factor."[136]

Evaluation

Staff's proposed FRP Phase-In Implementation included a provision that a $40 million per year rate action would trigger if Power financial reserves are below its lower threshold. As discussed below, Bonneville will adopt this proposal with one modification: Bonneville has decided to phase in this $40 million per year rate action until FY 2022 (BP-22) by implementing a $30 million rate action in FY 2020 and FY 2021, consistent with the other terms of the FRP, if Power Services' financial reserves are below its lower threshold. For the BP-20 rates, application of this $40 million annual rate action would result in an additional $20 million increase in power rates, incremental to the $20 million FRP rate action imposed in BP-18. While financial health is a core objective of Bonneville, that objective must be balanced against cost competitiveness. Several commenters request

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[132] Comments of EWEB on BPA's Proposed Integrated Program Review, IPR1818 0031 , at 1 (August 2, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=345 ("EWEB August 2 Comments").

[133] Comments of Seattle of City Light on 2018 Integrated Program Review (IPR), Financial Reserves, Leverage, IPR1818 0023, at 2 August 2, 2018, *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=345 ("Seattle August 2 Comments").

[134] Comments of AWEC on BPA's Leverage and Financial Reserves Policies, XFRPL180004, at 2 (August 2, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=345 3 ("AWEC August 2 Comments").

[135] Comments of Benton on BPA's 20L8 lntegrated Program Review, IPR1818 0003 , at 1 (August 2, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=345 ("Benton August 2 Comments").

[136] *Id.* at 1-2.

Bonneville avoid increasing Power rates as a consequence of the FRP Phase-In Implementation.

For the reasons discussed below, Bonneville believes that—when viewing the FRP holistically—$40 million is the appropriate annual rate action to restore Power reserves when they fall below its lower threshold. But, with cost and revenue pressures remaining a key concern, Bonneville agrees with commenters that a more measured pace for implementing this rate action is appropriate for the near-term. To that end, Bonneville will phase in this rate action in BP-20 from $20 million to $30 million per year for FY 2020 and FY 2021. Thereafter, beginning in FY 2022 (BP-22), the full $40 million rate action will be in effect.

Commenters generally raise three main objections to the proposed rate action of $40 million triggering when Power reserves are below the business line lower threshold. First, commenters claim Bonneville has not explained why it must depart from the decisions it made in the BP-18 rate case.[137] Second, commenters claim Bonneville has not made a reasoned business case for an increase.[138] Third, commenters claim that Bonneville has not properly balanced the competing objectives of the FRP.[139] Bonneville's response to these concerns follows.

5.6.1 Bonneville's FRP Phase-In Implementation is Consistent with Decisions in the BP-18 Rate Case

In BP-18, Bonneville made a final decision adopting the Financial Reserves Policy. The FRP set lower and upper thresholds for financial reserves, creating a target range. Contrary to Mason PUD's assertion that "Bonneville already has the tools it needs such as the $750M line of credit, two-year rate cases, the Cost Recovery Adjustment Clause (CRAC) that enables short-notice rate increases, the Tiered Rate Methodology in general, and the 95% Treasury Probability Payment,"[140] the BP-18 ROD determined that Bonneville's then-existing tools left a policy gap and that action was required.[141] The BP-18 ROD found that financial reserves provide valuable benefits to BPA's customers, yet Bonneville had no formal policy to ensure that it retained levels of financial reserves above its need for

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[137] *See* Snohomish May 11 Comments at 1, Mason May 11 Comments at 2, NRU May 11 Comments at 3, PPC May 11 Comments at 2, WPAG May 11 Comments at 2.

[138] WPAG May 11 Comments at 1; WPAG August 2 Comments, at 6, n.8; Snohomish May 11 Comments at 1; Seattle August 2 Comments at 2.

[139] *See* NRU May 11 Comments at 3; NRU August 2 Comments at 2-3; Mason May 11 Comments at 2; WPAG May 11 Comments at 1; WPAG August 2 Comments at 5-6; PPC May 11 Comments at 2; PPC August 2 Comments, at 3; Snohomish May 11 Comments at 1-2; Snohomish August 2 Comments at 2-3; EWEB August 2 Comments at 1; AWEC August 2 Comments at 2; Benton August 2 Comments at 1-2.

[140] Mason May 11 Comments at 2.

[141] BP-18 ROD at §§ 6.1, 6.4.

ultimate solvency over a two-year rate period. [142] Bonneville resolved the issue by adopting the FRP.

Immediately requiring Power financial reserves to reach 60 days cash ($300 million) in the BP-18 rate period would have resulted in drastic rate increases in the first year of implementing the FRP.[143] Bonneville determined that a phase-in was prudent to mitigate FRP-related Power rate increases.[144] However, the rate case process did not afford Bonneville and stakeholders sufficient time to resolve the question of how best to restore reserves that are below a business line lower threshold. Bonneville intentionally allowed for further discussion regarding this phase-in, including the mechanisms for implementing rate action and how quickly the rate action would recover below-threshold shortfalls.[145]

In the interim, Bonneville included an initial $20 million in the BP-18 rates to begin building Power financial reserves toward the lower threshold plus a commitment to engage in a follow-on process to consider alternative methods of phasing in a rate mechanism at the Power business line lower threshold and alternatives to how quickly such mechanisms would restore below-threshold reserves.[146] The FRP Phase-In Implementation described herein satisfies that commitment.

Several commenters question Bonneville's decision to require Power to build financial reserves by more than the $20 million per year rate action in the BP-18 ROD.[147] Snohomish argues that Bonneville "has not provided its business case for increasing the phase-in amount from $20 million to $40 million."[148] NRU argues "[t]he maximum amount BPA should collect from Power customers to build financial reserves is $20M per year."[149] WPAG argues that "before adopting the FRP proposal BPA must make a renewed showing that the intangible benefits it relied upon in the BP-18 ROD to support a $20 million/year phase-in are also adequate to justify the increase to $40 million, and are not outweighed by any associated harm (intangible or otherwise) that may also arise if the proposal is adopted."[150]

Commenters misunderstand Bonneville's actions in the BP-18 rate case. Bonneville was never satisfied with $20 million as the standalone rate action to recover below-threshold Power financial reserves. At the time of the BP-18 ROD, Bonneville expected that the

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[142] BP-18 ROD, § 6.1, at 197; § 6.2; § 6.4.

[143] BP-18 ROD § 6.6.4.3.1, at 312.

[144] BP-18-A-04, Appendix A (FRP) § 4.2; Final ROD at § 6.6.4.3.1.

[145] BP-18-A-04, Appendix A (FRP), §§ 4.1 and 3.3.

[146] *See supra* § I(D).

[147] *See* Snohomish May 11 Comments at 1; Mason May 11 Comments at 2; AWEC August 2 Comments at 2; NRU May 11 Comments at 3; NRU August 2 Comments at 2; PPC May 11 Comments at 2; PPC August 2 Comments at 3; WPAG May 11 Comments at 2; WPAG August 2 Comments at 5.

[148] Snohomish May 11 Comments at 1.

[149] NRU May 11 Comments at 3.

[150] WPAG May 11 Comments at 2.

$20 million increase in rates would be paired "with a mechanism to increase the Power CRAC threshold."[151] In fact, Staff testified that "[i]f the goal is to have a Power CRAC threshold of about $300 million . . . then . . . $30 million would be more prudent."[152] Notably, this statement also assumed the $30 million rate action would be paired with establishing a CRAC at the business line lower threshold after reserves had been restored. In the interim, Bonneville decided:

> $20 million in PNRR in power rates is a substantial and appropriate action as it begins the process of realigning Power Services' contribution to agency financial reserves. By including $20 million in PNRR, BPA is signifying a policy change from the status quo, which would otherwise permit Power Services' contributions to agency financial reserves to be as low as $0.[153]

The rate action of $20 million in BP-18 was a first step, pending further decisions in this public process. In response to a comment from Seattle City Light suggesting Bonneville previously felt collecting $20 million per year was adequate, Bonneville clarified the interim nature of the BP-18 rate action:

> $20 million was an interim solution, not the final policy solution. BPA stated in the closing documents that BPA would pursue in public workshops accelerating the pace in which the 60 days cash minimum threshold was reached. "While I am adopting the Financial Reserves Policy in this decision, I have left some implementation features open for further development, including how to phase in the lower threshold for Power's financial reserves and how to best leverage financial reserves to manage long-term wholesale market price exposure and promote greater rate stability. I believe that the region will be best served by focusing on these elements in future processes, such as the upcoming long-term strategic planning discussions and BP-20 Rate Case workshops."[154]

Bonneville made no finding that a rate action of $20 million per year was sufficient to meet all FRP objectives. As discussed above in Section 2.4, Bonneville allowed flexibility in what proposals could be considered in the present process. Consistent with the decisions in BP-18, Bonneville is now phasing in a rate mechanism that collects $40 million per year in Power rates and retaining the CRAC mechanism at $0.

In view of cost competitiveness concerns and Bonneville's prior determination that a phase-in was prudent to mitigate FRP-related Power rate increases,[155] Bonneville will phase in this $40 million per year rate action until FY 2022 by implementing a $30 million

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[151] BP-18 ROD, § 6.6.4.3.1, p. 318.

[152] BP-18 ROD § 6.6.4.3.1, p. 316 (quoting Harris *et al.*, BP-18-E-BPA-33, at 144).

[153] BP-18 ROD, § 6.6.4.3.1, p. 316.

[154] BPA Response to Comment #9 (quoting BP-18 ROD, Administrator's Preface, p. P-4).

[155] *see* BP-18-A-04, Appendix A (FRP), § 4.2; Final ROD at § 6.6.4.3.1.

rate action in FY 2020 and FY 2021, consistent with the other terms of the FRP. This phase-in is in lieu of phasing in a dollar-for-dollar CRAC at the business line lower threshold (60 days cash), as initially contemplated in the BP-18 ROD.

Viewing the $40 million rate action in the FRP as an increase relative to the FRP-terms proposed in BP-18 rates is therefore incorrect. The $20 million interim rate action was adopted for BP-18 assuming Bonneville would also adopt a different CRAC mechanism for the subsequent rate periods. Now that Bonneville is no longer proposing to modify the current CRAC mechanism to support the FRP, Bonneville must implement some other action, beyond a $20 million per year rate action, to more adequately restore and retain financial reserves. Claims that Bonneville is simply "increasing the phase-in amount" or "expanding the surcharge" ignore that the entire phase-in construct has changed.[156] Bonneville's FRP Phase-In Implementation must be viewed holistically. Specifically, Bonneville is not only adding to the costs of the FRP by gradually increasing the annual rate action from $20 million to $30 million to $40 million, but is also removing costs associated with phasing in a higher CRAC threshold.

Bonneville's decision is a reasonable trade-off. Bonneville has determined that—rather than phasing in a dollar-for-dollar CRAC at 60 days' cash for each business line—phasing in a fixed-amount rate action to recover below-threshold reserves of $40 million per year for Power and $15 million for Transmission, paired with retaining the current CRAC mechanism at $0, will adequately recover financial reserves when they fall below a business line's lower threshold.

The customer comments focus on the difference between the dollar amount of the proposed rate action and BP-18's $20 million PNRR, while ignoring the interrelated nature of the proposed decision to retain the CRAC mechanism at $0. Ratcheting up the CRAC threshold would have been a powerful mechanism. In fact, in BP-18, Power customers and industrial customers of Power customers argued the Good Year Ratchet and IRPL were too harsh.[157] Snohomish recently commented that "[h]aving the CRAC thresholds move to support the FRP targets adds a level of cost and uncertainty that the PUD cannot accept."[158] The current proposal to implement a rate action of $40 million per year at the Power business line lower threshold, rather than a dollar-for-dollar CRAC, removes this cost and uncertainty and provides greater rate stability. These benefits are notably absent from customers' straight comparison of $20 million to $40 million. Bonneville heard customer concerns with raising the CRAC threshold and has proposed a policy that retains the CRAC mechanism at $0, while still balancing the FRP's other competing objectives.

5.6.2 The FRP Phase-In Implementation is a Reasonable Business Decision

WPAG argues that Bonneville "has not presented a satisfactory business case," and that Bonneville "should not be adding new costs to its revenue requirement (such as its FRP

[156] Snohomish May 11 Comments at 1; Mason May 11 Comments at 2.

[157] *See* BP-18 ROD, § 6.6.4.3.1, p. 313.

[158] Snohomish May 11 Comments at 2.

proposal in this instance) without making at least offsetting cuts elsewhere."[159] WPAG argues Bonneville should not make a final decision until the conclusion of Bonneville's Integrated Program Review (IPR), where Bonneville could identify specific offsetting cuts.[160] Snohomish also argues that Bonneville "has not provided its business case for increasing the phase-in amount from $20 million to $40 million."[161]

Bonneville disagrees that it must demonstrate specific cuts in order to afford the impact of the FRP. Appropriate levels of financial reserves are necessary for financial health. In BP-18, Bonneville determined what levels are appropriate, as evidenced by the FRP's upper and lower thresholds. Power reserves are currently well below its lower threshold, and as such, proposing rate action to increase financial reserves is appropriate. That being said, as a practical matter, Bonneville is extremely focused on managing its costs and has taken significant actions in the IPR process. In response to customer comments, Bonneville has delayed this decision until after the last IPR workshop, and has continued to look for savings in order to achieve its Strategic Plan objectives of maintaining costs at or below inflation.

WPAG also contends that "BPA must make a renewed showing that the intangible benefits it relied upon in the BP-18 ROD to support a $20 million/year phase-in are also adequate to justify the increase to $40 million, and are not outweighed by any associated harm . . ."[162] WPAG states, "BPA's proposal to include $40 million/year in the revenue requirement for Power Services for FRP purposes far exceeds the increased borrowing costs to Power Services if BPA's credit rating were downgraded [i.e., 'quantifiable benefits.']."[163] WPAG notes that Bonneville's decision to adopt the FRP relied on "certain unquantifiable intangible benefits such as the positive impact BPA's credit rating may have on its customers' credit ratings, consistent market demand for BPA's debt even under challenging market conditions, access to alternative forms of financing, and maintenance of favorable credit requirements with BPA's various trading partners."[164]

Similarly, Seattle "requests that BPA defer finalizing and implementing the FRP until BPA provides customers a financial analysis of the costs and benefits of the policy" and "suggests that BPA conduct a financial analysis that considers the consequences to BPA, as it did in BP-18, as well as Power and Transmission customers, who pay the costs and

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[159] WPAG May 11 Comments at 1; *see also* WPAG August 2 Comments at 6, n. 8.

[160] *Id.*

[161] Snohomish May 11 Comments at 1.

[162] WPAG May 11 Comments at 2.

[163] *Id.*

[164] *Id.* (*citing* BPA's March 20, 2018 Leverage and Financial Reserves Policy Questions and Responses, at 5; and BP-18 ROD, BP-18-A-04, at 239*).*

receive the benefits."[165] Seattle asserts that "[a]bsent a financial analysis of the policy, [Seattle] does not have sufficient information to provide substantive comments."[166]

Bonneville has already decided and justified that 60–120 days cash is the range of financial reserves Bonneville "needs to maintain its financial health and conduct its business consistent with its statutory obligations."[167] No new analysis is required for Bonneville to establish rate actions to restore and maintain financial reserves within this range; the analysis in BP-18 continues to support the FRP's business case. Having determined that it is necessary to maintain financial reserves within a certain range, the present decision is only whether a CRAC at $0 and phasing in a rate action of $40 million per year is an appropriate manner of recovering this cost over time. As discussed above, Bonneville's FRP Phase-In Implementation mitigates potential future rate impact as compared to a proposal ratcheting a CRAC threshold up to the business line lower threshold. Bonneville has held three public workshops, responded to public comments including performing requested analyses, made models available for commenters to conduct further analyses, and—at customers' request—delayed issuing a decision on the FRP Phase-In Implementation to allow for further public comment. This record is more than sufficient for commenters to have been able to fully consider and comment on the issues and for Bonneville to make an informed decision. The FRP Phase-In Implementation is a reasonable business decision.

5.6.3 Bonneville's FRP Phase-In Implementation Reasonably Balances Competing Objectives

Several customers argue that the proposed FRP Phase-In Implementation improperly balances the FRP's competing objectives. Specifically, they argue that competitiveness concerns should be weighed more heavily, resulting in a smaller rate action when reserves are below a business line lower threshold (specifically Power's lower threshold).

NRU acknowledges Bonneville's response to credit rating agencies' concern with financial reserves, but encourages Bonneville to "not lose sight of another key rating driver cited by the rating agencies, which is its long-term power sales agreements and Power's cost competitiveness."[168] NRU argues $20 million should be the maximum annual rate action, given the "reasonably high probability" of restoring reserves to Power's lower threshold and no incremental rate pressure.[169] Mason PUD argues that "increasing the surcharge from $20M to $40M" does not properly balance Bonneville's Strategic Plan objectives with

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[165] Seattle August 2 Comments at 2.

[166] *Id.*

[167] BP-18 ROD, § 6.6.6.2.

[168] NRU at 3. Bonneville discussed the FRP's impact on credit rating factors in BP-18 ROD, §6.4.3. Bonneville properly considered all relevant credit rating factors, including cost-competitiveness, BP-18 ROD, §§ 6.4.3.2.5 and 6.4.3.2.6. Bonneville determined that the FRP would support Bonneville's credit rating, *id.* at §§ 6.4.3.2.1 and 6.4.3.2.4, and that Bonneville's customers would be better served by the FRP than by a credit rating downgrade, *id.* at § 6.4.3.2.7.

[169] NRU May 11 Comments at 3; NRU August 2 Comments at 2-3.

competiveness.[170] Mason PUD focuses on how the current proposal "only provides a 1% decrease in probability that agency reserves would drop below 30 days' cash on hand for two consecutive years over a 10-year period and an 8% increase in probability power will increase financial reserves to 60 days' cash on hand within a 10-year period."[171] WPAG similarly argues that the current proposal only moderately improves these probabilities, but adds a fixed cost that undermines Bonneville's competitiveness, diminishing the likelihood Bonneville will be rate competitive in 2028.[172] PPC argues "the current $20 million surcharge . . . is already burdensome to customers,"[173] and that "incremental improvement in probability cannot be viewed as worth the cost without further understanding the overall rate picture."[174] AWEC requests Bonneville avoid an incremental $20 million rate action given potential rate increases.[175] Snohomish suggests a $30 million annual rate action to keep costs low and better align with the BP-18 Initial Proposal's 70 percent probability of restoring Power reserves to 60 days cash within 10 years.[176] Benton recommends Bonneville defer the $20 million increase in view of rate competitiveness concerns.[177]

Bonneville's FRP Phase-In Implementation reasonably balances the FRP's competing considerations, including cost competitiveness. Bonneville takes competitiveness seriously, but must also maintain its financial health in order to continue delivering on its multipurpose mission.[178] Bonneville's commitment to ensuring its competitiveness has informed both its decision to implement a $40 million rate action when financial reserves attributable to Power are below its lower threshold and its decision to phase in that rate action with a $30 million rate action in FY 2020 and FY 2021. This phase-in is also consistent with Bonneville's expectation in BP-18 that FRP-related impacts would be phased in for Power. In recognition of the fact that Bonneville has adopted the FRP at a time when financial reserves attributable to Power have been allowed to decline well below 60 days cash (and therefore the annual rate action is likely to trigger for the foreseeable future), and as a demonstration of Bonneville's commitment to competitiveness by bending Power's rate trajectory, Bonneville finds it reasonable to phase in the rate action in BP-20. Thereafter, the rate action will be $40 million per year, consistent with the other terms of the FRP.

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[170] Mason May 11 Comments at 2.

[171] *Id.*

[172] WPAG May 11 Comments at 1; WPAG August 2 Comments at 5-6.

[173] PPC August 2 Comments at 3.

[174] PPC May 11 Comments at 2.

[175] AWEC August 2 Comments at 2.

[176] Snohomish May 11 Comments at 1-2; Snohomish August 2 Comments at 2-3.

[177] Benton August 2 Comments at 1-2.

[178] 2018-2023 Strategic Plan at p. 11.

In the April 20 public meeting presentation, Bonneville presented the following chart,[179] which is referenced in the above customer comments:

	Proposals to increase Power financial reserves:	Credit Threshold probability Agency reserves drop below 30 days cash on hand for 2 consecutive years over a 10 year period	FRP Target Met probability Power will increase financial reserves to 60 days cash on hand within 10 years	Expected Annual Cost (Power) average annual cost of the rate mechanisms in the proposal
A	**Pre-BP18** $0 CRAC threshold $0 PNRR/Surcharge	21%	57%	$18M overall **$31M yrs 3-10, $9M yrs 11-20**
B	**BP18 Initial Proposal** IRPL Good year ratchet	13%	70%	$23M overall **$38M yrs 3-10, $11M yrs 11-20**
C	**BP18 Final ROD** $20M PNRR $300M CRAC threshold (once reserves >$300M)	15%	65%	$23M overall **$39M yrs 3-10, $10M yrs 11-20**
D	**BPA draft Financial Reserves phase-in** $40M Surcharge/PNRR $0 CRAC threshold	~~11%~~ 14% *50% CRAC after $100m*	~~75%~~ 73% *50% CRAC after $100m*	$20M overall $40M yrs 3-10, $4M yrs 11-20
E	**Public Customers Preferred Proposal** $20M Surcharge/PNRR $0 CRAC threshold	19%	65%	$18M overall $34M yr 3-10, $5M yr 11-20

Bonneville also modeled its FRP Phase-In Implementation which is adopted in this ROD (proposal G) using the model provided to commenters during the public workshop. The results are similar to the "BPA draft Financial Reserves phase-in" (proposal D).

	Proposals to increase Power financial reserves	**Credit Threshold** Probability Agency reserves drop below 30 days cash on hand for 2 consecutive years over a 10 year period	**FRP Target Met** Probability Power will increase financial reserves to 60 days cash on hand within 10 years	**Expected Annual Cost (Power)** Average annual cost of the rate mechanisms in the proposal
D	**BPA draft Financial Reserves phase-in** $40M Surcharge/PNRR $0 CRAC threshold	**13.6%** *50% CRAC after $100m*	**73%** *50% CRAC after $100m*	**$20M overall** $40M yrs 3-10, $4M yrs 11-20
G	**BPA FRP Phase-In Implementation** $30M Surcharge/PNRR BP-20 $40M Surcharge/PNRR after $0 CRAC threshold	**14.5%** *50% CRAC after $100m*	**72%** *50% CRAC after $100m*	**$20M overall** $39M yrs 3-10, $4M yrs 11-20

[179] Bonneville April 20 Financial Reserve Policy Presentation at p. 11.

Several commenters exclusively focus on the difference between a $20 million and $40 million annual rate action as being the incremental cost of the FRP Phase-In Implementation. Considering that the FRP is to be a long-term policy, this chart demonstrates Bonneville's analysis of the overall expected cost of these policy proposals. Bonneville's FRP Phase-In Implementation's (proposal G) expected average annual cost to Power over the entire modeled period is $20 million. While the expected annual cost is $39 million for years 3–10, this drops to $4 million in years 11–20. This is only marginally more expensive than a proposal for a $20 million rate action and a CRAC at $0 (proposal E), which, as discussed above, is not an alternative proposal Bonneville has been willing to accept. Proposal E has an expected annual cost to Power of $18 million, with $34 million in years 3–10 and $5 million in years 11–20. It may seem counterintuitive that this proposal is expected to cost $34 million per year in the near term rather than $20 million, but this reflects the increased likelihood that the $0 CRAC would be triggered.

Notably, Bonneville's current proposal, "BPA FRP Phase-In Implementation" (proposal G), has a lower expected average annual cost than a proposal that would limit the below-lower-threshold rate action to $20 million but raise the CRAC threshold to 60 days cash when financial reserves are restored to 60 days cash (proposal C). That proposal has an expected average annual cost of $23 million, with $39 million in years 3–10 and $10 million in years 11–20. Bonneville's current proposal (proposal G) is expected to cost less than this $20-million-plus-raised-CRAC alternative (C) in the long term, and nearly the same in the short term. This reflects the rate stability benefit of maintaining the CRAC at $0 and the value of the $40 million rate action in effectively moving Power reserves away from $0. Arguments that focus exclusively on the difference between $20 million and $40 million as the incremental cost of a policy ignore these benefits.

In effect, Snohomish argues that Bonneville should design the policy to solve for a single metric: the probability that Power reserves are restored within 10 years (FRP Target Met).[180] While Bonneville's Initial Proposal in BP-18 resulted in a 70 percent probability of restoring Power financial reserves to the lower threshold within 10 years, it also would have eventually established a CRAC mechanism at 60 days cash. Solely focusing on achieving this 70 percent probability ignores how Bonneville's FRP Phase-In Implementation now allows reserves between $0 and 60 days cash to provide greater rate stability. Stated another way, Bonneville's proposal gives up a certain amount of security that below-threshold reserves will be fully recovered over the next rate period. This difference is reflected in the expected average annual cost to Power of $11 million per year in years 11–20 under the BP-18 Initial Proposal, as compared to $4 million under the current proposal. In this way, the relative increased probability of restoring financial reserves to its lower threshold in the near term should be viewed in conjunction with the relative increased rate stability benefit of retaining the CRAC at $0. Bonneville did not design this policy to back into a single metric, but rather considered the policy holistically, analyzing all relevant implications to balance competing objectives.

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[180] *See* Snohomish May 11 Comments at 1–2.

Commenters also argued that Bonneville should not increase the rate action above $20 million for four other reasons: (1) Bonneville projects a reduction to the net secondary revenue credit for BP-20, (2) Power reserves improved in FY 2018, (3) Bonneville identified mistakes that impacted Power financial reserves levels, and (4) Bonneville's Leverage Policy includes a phase-in provision for Transmission. These reasons are not persuasive for the following reasons.

WPAG, NRU, and PPC point to a projected reduction in the net secondary revenue credit for BP-20 as justification for not increasing the $20 million rate action.[181] These commenters argue that the projected reductions in the net secondary revenue credit of $89 million coupled with an additional $20 million surcharge on power rates is a significant burden to Power customers.[182]

The projected net secondary revenue credit reduction in BP-20 is not a reason to weaken the reserves-recovering rate action to be taken when reserves are below a business line lower threshold in this long-term policy. Commenters' arguments confuse several issues.

First, it is not clear why a near-term reduction in the volatility of reserves attributable to Power, relative to the previous rate period, should result in a slower recovery of necessary reserves. Rather, commenters' arguments imply that Power now has less need for reserves. This is not true. Bonneville already decided in BP-18 that each business line should hold financial reserves of at least 60 days cash on hand.[183] Bonneville determined that the days cash metric reflected a business line's need for reserves.[184] A near-term decrease in the volatility of a business line's financial reserves would not require Bonneville to revisit that decision.

Second, Bonneville's projection is based on the best available information to accurately forecast the net secondary revenue Bonneville will receive. Commenters are correct that

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[181] WPAG August 2 Comments at 5-6 ("One major source of uncertainty mitigated by the Financial Reserves Policy is BPA's net secondary revenue risk. However, BPA is currently projecting an $89 million reduction to the net secondary revenue credit for BP-20. This will significantly reduce BPA's net secondary risk exposure compared to BP-18, but at a substantial cost to BPA's power customers. Under such circumstances, it is punitive for BPA to impose an additional $20 million surcharge on power customers to further mitigate the same risk."); NRU August 2 Comments at 2 ("The forecasted reduction of $89M of net secondary revenues for BP-20 further limits potential volatility in the amount of Power's financial reserves, which was one of the reasons BPA argued for a financial reserves policy."); PPC August 2 Comments at 3 ("Variability in BPA's net secondary revenues relative to forecasts is the largest source of uncertainty in power rates. BPA's initial rate preview indicated an $89 million reduction in the forecast for net secondary revenues in the BP-20 rate period. While this level of reduction represents a very large upward pressure on rates, it also creates a significant decrease in the risk that BPA is required to mitigate in power rates through financial reserves and other mechanisms. Given the confluence of these factors, PPC strongly opposes raising the surcharge level to accrue additional financial reserves in the BP-20 rate period. The current $20 million surcharge in combination with a large reduction to the assumed level of net secondary is already burdensome to customers and represents a significant decrease in financial risk to the agency without additional action.").

[182] *Id.*

[183] BP-18 ROD, § 6.6.6.2, p. 361.

[184] *See* BP-18 ROD, § 6.6.4.2.2.1.

actuals are often different from forecasts and that this credit is particularly volatile. But Bonneville's projection continues to simply be its best forecast of the expected value. The expected value for BP-20 is significantly lower than the expected value for BP-18, but the expected value for BP-22 may be higher or lower than BP-20.

Third, the terms of a long-term policy should not be governed by current circumstances. Current circumstances can inform long-term policy decisions, but only as one example of diverse possible future circumstances. Bonneville has analyzed various proposals for their probability in achieving certain metrics. Financial reserves attributable to Power are currently significantly below its lower threshold and rate action is required to restore those reserves. The issue in establishing this long-term policy is what rate action is reasonable whenever financial reserves are below a business line lower threshold. Bonneville should not set a rate action to be imposed in future rate cases based solely on near-term impact of a rate case forecast.

WPAG, AWEC, and Snohomish point also to the improvement in FY 2018 of financial reserves attributable to Power as justification for not increasing the $20 million rate action.[185]

Again, the relative improvement of Power financial reserves over one fiscal year should not determine what rate action is reasonable as part of a long-term policy. Financial reserves attributable to Power remain below its lower threshold, and rate action is required to restore those reserves. Under Bonneville's FRP Phase-In Implementation, even if Power was only $40 million below its lower threshold, the rate action would remain the same. While this public process did not prohibit discussion of more nuanced rate actions with separate recovery bands, Bonneville proposed a simpler version with only two separate rate actions for when reserves fall below a business line lower threshold and below $0. Further, this one-year improvement does not constitute a trend. Actual reserves will almost always vary from forecast amounts; Power net revenues have a forecast standard deviation of $250 million.[186] That is to say, current increases are not guaranteed next year and do not justify adopting a long-term policy with a smaller rate action provision.

NRU argues that $20 million is "a more reasonable rate action" because "BPA has identified several hefty mistakes that directly impact the amount of financial reserves available for risk attributed to Power."[187] NRU provides two examples: (1) "once BP-18 rates were set,

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[185] WPAG August 2 Comments at 5 (An additional $20 million would be punitive "particularly…where Power Service's days cash on hand already appears to be on the rise without further rate action by BPA."); AWEC August 2 Comments at 2 ("Given…the modest improvements to BPA's financial condition reported in the recent quarterly business review," BPA should attempt to avoid the "incremental $20 million planned net revenues for risk associated with BPA's proposed changes to the financial reserves policy."); Snohomish August 2 Comments at 3 (Stating "[a]t the July 31 QBR, BPA showed Power Services' FY 2018 end of year financial position at 33 days cash on hand—still short of the target 60 days—but much improved compared to the 4 days cash on hand for BP-18" before suggesting that Bonneville consider "a $30 million phase in amount instead of $40 million.").

[186] BP-18 ROD at 228.

[187] NRU August 2 Comments at 2.

BPA identified an error that resulted in an overestimation of secondary revenues by $19.4M per year;" and (2) "$70M of reserves were inappropriately moved to reserves not for risk, again affecting Power reserves through no action or inaction of Power customers."[188]

While Bonneville acknowledges that these examples impacted the reported level of financial reserves attributable to Power, Bonneville is unclear how this would make $20 million a more reasonable rate action. First, these events had different effects; the first decreased actual Power reserves and the second had a net zero impact on Power reserves. Second, as discussed above, while current circumstances are relevant as examples, they do not prescribe the reasonableness of long-term policies.

NRU also argues that $20 million is "a more reasonable rate action" because "BPA is proposing to phase-in the Leverage Policy to ease rate increases for Transmission customers. Similar consideration needs to be applied for Power customers, especially given that Power rates have increased over 30% over the last couple rate periods, while Transmission rates have actually decreased in recent years. Consideration of rate impacts should look not only to future rate impacts, but historical increases."[189]

Bonneville has considered rate impact and competitiveness in adopting the FRP Phase-In Implementation. Bonneville has balanced these considerations with competing objectives. Further, Bonneville is phasing in the impact of the FRP for Power. While the FRP and Leverage Policy are both concerned with financial health, they are separate policies with separate objectives.

To conclude, the FRP Phase-In Implementation proposal is a reasonable means of replenishing financial reserves that fall below the business line lower thresholds established in the FRP. The FRP Phase-In Implementation has an expected average annual cost to Power of only $20 million, has a low probability (14.5 percent) of allowing Agency reserves to drop below 30 days cash for two consecutive years over a 10-year period, and has a high probability (72 percent) of increasing Power financial reserves to its business line lower threshold within 10 years. These probabilities compare favorably against the other proposals considered. While several comments argue that Bonneville should adopt a proposal with a lower near-term cost, they have presented no proposal that achieves that objective and still achieves the same levels of performance for all other criteria. Bonneville has analyzed the relevant implications, considered numerous alternatives, and determined that this mechanism reasonably balances competing objectives.

Decision

Bonneville will phase in the $40 million rate action for Power until FY 2022; the rate action will be $30 million per year in Power rates in FY 2020 and FY 2021, consistent with the terms of the FRP. The rate action directed by the FRP when financial reserves are below a business

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[188] *Id.*

[189] *Id.*

line lower threshold is a reasonable business decision that analyzed all relevant implications and balances competing objectives.

5.7 Issue 5: Whether the FRP mechanisms are adequate in raising Power reserves to its lower threshold.

Public Comments

MSR argues "it is essential that whatever phase-in mechanism BPA adopts will be the one best designed to reach the goal of Power meeting its threshold. Otherwise, Transmission customers are exposed to the dual problem of rates that over-collect and build reserves above what is necessary for liquidity and rate stability, along with the potential for even higher rates to revenue finance long-term capital projects."[190] MSR gives two reasons: (1) "Until Power meets its reserve targets, there is no relief valve to balance Transmission rates that have consistently over-collected BPA's costs,"[191], and (2) that "despite the Strategic Plan referencing reserves as a tool available to address leverage, that tool is not available to Transmission until Power meets its reserves target."[192]

Despite arguing that "BPA Should Adopt the Financial Reserves Surcharge Proposal," the Commenting Parties also argue that (1) "BPA should adopt or reaffirm 2028 as the time by which the financial reserves of each business line will be at least equal to the lower threshold of financial reserves for that business line," and (2) "[T]he level of the financial reserves surcharge should be revisited if it appears that Power Business Line financial reserves will not increase to the lower threshold for the business line within 10 years."[193] The Commenting Parties argue that increasing Power reserves is important because (1) "business line reserve level requirements are linked . . . to Agency financial reserve level requirements"; (2) "BPA's Transmission business line currently bears a disproportionate share of the responsibility for maintaining overall Agency financial reserves and in turn a disproportionate share of the burden of maintaining the Agency's preferred credit rating"; (3) "The Power Business Line has greater volatility in financial reserves than the Transmission Business Line" and therefore "it is particularly important that Power Business Line financial reserves not remain disproportionately low"; and (4) "Fitch Ratings has recently indicated that '[a]bsent a notable increase in the power business line reserves, a rating downgrade is likely.'"[194]

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[190] Comments of MSR on Regarding BPA's Proposed Leverage Policy Workshop at 2 (March 20, 2018), *available at* https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/Pages/Financial-Reserves-Leverage-Policies.aspx ("MSR March 20 Comments").

[191] *Id.* at 1.

[192] *Id.* at 2.

[193] Commenting Parties May 11 Comments at 13; Commenting Parties August 2 Comments at 19-20.

[194] Commenting Parties August 2 Comments at 19.

NIPPC agrees with and supports these comments.[195] NIPPC argues "Power Customers are not paying their fair share," which inequitably burdens Transmission customers because "[i]nstead of using cash accumulated in Transmission accounts above its current needs to reduce Transmission debt consistent with the leverage policy, those reserves will be dedicated to preserving BPA's cash position."[196] NIPPC argues that "Transmission Customers are currently meeting BPA's Liquidity target [and] Power customers must contribute their fair share as soon as possible in order to allow Transmission's excess cash reserves to be repurposed to meet the agency's other financial targets."[197] NIPPC stated it "may support" revising the FRP to "require Power customers to immediately fund their portion of the Agency's cash reserves" and "apply transmission cash reserves . . . to reduce debt in order to satisfy the Leverage and Access to Capital policies."[198]

Evaluation

5.7.1 Clarifications

At the outset, it is necessary to correct certain statements made by commenters in framing their arguments. First, Bonneville disagrees with MSR's characterization that Transmission rates "over-collect."[199] 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."[200] 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.[201] This variation does not mean that customers are thereby entitled to the difference.

Second, Bonneville disagrees with commenters characterizing Transmission reserves as excessive. For example, MSR argues financial reserves attributable to Transmission Services are "above what is necessary."[202] NIPPC argues Transmission Services' reserves are "above its current needs" and that Transmission customers are "currently meeting BPA's Liquidity target."[203] These comments are misplaced. As explained in the BP-18 ROD, prior to the adoption of the FRP, there was no policy determining when financial reserves

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[195] NIPPC May 11 Comments at 1.

[196] *Id.* at 2.

[197] Comments of NIPPC on BPA Integrated Program Review IPR1818 0013, at 2 (August 2, 2018), *available at* https://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=345 ("NIPPC August 2 Comments").

[198] *Id.*

[199] MSR March 20 Comments at 2.

[200] Transmission System Act § 9(1), 16 U.S.C. § 838g(1).

[201] BP-18 ROD, § 6.2.4, p. 200.

[202] MSR March 20 Comments at 2.

[203] NIPPC May 11 Comments at 2.

were more than sufficient.[204] The FRP was adopted to fill this gap, defining both "what is necessary" and what is "above . . . current needs" for the agency and the business lines. To be clear, all of Bonneville's financial reserves belong to Bonneville and the Administrator has access to all funds in the Bonneville Fund to meet any payment obligation.[205] Under the FRP, a business line's upper threshold does not define what is necessary for liquidity and rate stability. Under the FRP § 3.4.1:

> If business line financial reserves and agency financial reserves are above their respective upper thresholds, [e.g., 120 days cash and 90 days cash, respectively] the 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.[206]

Therefore, reserves are not "above what is necessary," and may not be repurposed, until they meet this two-part test, which looks at both the individual business line and the agency as a whole.

Because financial reserves for the agency have not met this two part test, they are not available for other purposes. For this reason, MSR's argument that the FRP prevents transmission customers from "enjoy[ing] similar rate relief [to Power], *without depleting its reserves below targeted levels*," is misplaced.[207] Since financial reserves attributable to Transmission are not "above what is necessary," any repurposing would deplete reserves below targeted levels. The FRP was designed to prevent financial reserves from falling in a similar way and to establish an overarching policy to ensure Bonneville retained appropriate levels of financial reserves. Equity concerns would not support allowing Transmission reserves to fall to inappropriate levels.

Third, MSR argues that there is "increased urgency for Power to meet its reserves threshold" in light of the Leverage Policy.[208] "That is, despite the Strategic Plan referencing reserves as a tool available to address leverage, that tool is not available to Transmission until Power meets its reserves targets."[209] Bonneville agrees that the Administrator must consider repurposing reserves for rate relief or to assist with leverage only if they meet the FRP's two-part financial reserves distribution test. But it is also important to clarify that a financial reserves distribution would not automatically be used to address leverage. The Administrator retains discretion to determine the use of financial reserves eligible for

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[204] BP-18 ROD, § 6.2.3, at 200, and § 6.1, at 197; *see also* BP-18 ROD, § 6.4.4.2.2, pp. 251-54 (Determining past declines in agency financial reserves were not the result of "shedding" excess financial reserves).

[205] *See* BP-18-ROD § 6.2.2.

[206] FRP § 3.4.1.

[207] MSR March 20 Comments at 2 (emphasis added).

[208] *Id.* at 1.

[209] *Id.* at 2.

repurposing under the financial reserves distribution.[210] Further, while both policies address Bonneville's financial health, these policies have separate purposes. The FRP "provides a consistent, transparent, and financially prudent method for determining financial reserves levels for BPA."[211] The Leverage Policy "sets near-term, mid-term, and long-term goals and limits the accumulation of additional debt that would increase Bonneville's debt-to-asset ratio."[212]

5.7.2 Bonneville's FRP Phase-In Implementation Mechanisms Raise Power Reserves over a Reasonable Time

The Commenting Parties state Bonneville should set 2028 as the date Power reserves will at least equal 60 days cash on hand and revisit the surcharge level if it appears this result will not be achieved.[213] MSR similarly argues "it is essential that whatever phase-in mechanism BPA adopts will be the one best designed to reach the goal of Power meeting its threshold."[214]

The FRP does not guarantee that either Power or Transmission financial reserves will be above 60 days cash on hand by 2028. Rather, the FRP provides policy guidance and directed rate action when financial reserves are below identified thresholds. Bonneville agrees that restoring Power reserves to its lower threshold within 10 years is an important goal.[215] However, the goal of building financial reserves must be weighed against other important agency objectives, such as ensuring the long-term competitiveness of its rates. Bonneville's FRP Phase-In Implementation strikes the proper balance between these objectives.

The Commenting Parties also argue that increasing Power reserves is important because "BPA's Transmission business line currently bears a disproportionate share of the responsibility for maintaining overall Agency financial reserves and in turn a disproportionate share of the burden of maintaining the Agency's preferred credit rating," and because "business line reserve level requirements are linked . . . to Agency financial reserve level requirements."[216] Bonneville recognizes that Transmission customers have a legitimate interest in seeing Bonneville's financial reserves attributable to Power restored to the business line lower threshold. In the BP-18 ROD, Bonneville found "that there is an equity issue between the business lines that should be addressed through a financial reserves policy."[217] Bonneville found the FRP would "help establish symmetrical methodologies and mechanisms between the business lines," "establish a metric by which

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[210] BP-18 ROD at § 6.6.4.5.2, pp. 326-28.

[211] BP-18 ROD at § 6.1.

[212] Leverage Policy § 1.

[213] Commenting Parties May 11 Comments at 13; Commenting Parties August 2 Comments at 19.

[214] MSR March 20 Comments at 2.

[215] BP-18 ROD, § 6.6.4.3.1, p. 318.

[216] Commenting Parties August 2 Comments at 19.

[217] BP-18 ROD, § 6.4.4.2.1, p. 251.

BPA could ensure that both business lines were making a contribution to the agency's financial reserves," and "help ensure equity in the *amount* of the contribution each business line is expected to make to the agency's financial reserves."[218] Additionally, the Commenting Parties are correct that business line and Agency reserve levels are linked; a financial reserves distribution can only trigger for Transmission if business line *and* agency financial reserves are above their respective thresholds. Therefore, financial reserves attributable to Power have an impact on whether financial reserves attributable to Transmission may be used for investment in other high-value business line-specific purposes. As such, Bonneville has included a metric projecting the percentage likelihood of Power reserves reaching 60 days cash on hand within 10 years in its analysis of potential financial reserves policies. Rebuilding Power reserves is an important objective for several reasons, but it is only one of several relevant competing criteria in adopting the FRP Phase-In Implementation.

MSR argues, "it is essential that whatever phase-in mechanism BPA adopts will be the one best designed to reach the goal of Power meeting its threshold."[219] NIPPC argues that Power customers must contribute their fair share of financial reserves "as soon as possible,"[220] and also states it "may support" revising the FRP to "require Power customers to immediately fund their portion of the Agency's cash reserves" and "apply transmission cash reserves . . . to reduce debt in order to satisfy the Leverage and Access to Capital policies."[221]

The FRP Phase-In Implementation will adequately address these concerns. Compared to the other proposals considered, there is a high likelihood that Power will reach its lower threshold for financial reserves by 2028.[222] To the extent commenters request Bonneville to take more drastic action, Bonneville declines to do so. Bonneville has already decided that immediately recovering dollar-for-dollar up to Power's lower threshold of 60 days cash would be unacceptable.[223] Given the rate impact this would entail, at a time when Bonneville is working diligently to keep rate increases as low as possible, this has never been an acceptable option.[224] Bonneville's decision is, therefore, a matter of balancing competing objectives.

As discussed above, Bonneville has decided to phase in a $40 million annual rate action for Power until FY 2022. In FY 2020 and FY 2021, the annual rate action will be $30 million increasing to $40 million beginning FY 2022, consistent with the terms of the FRP. A

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[218] BP-18 ROD, § 6.5.3.1, p. 269 (emphasis in original).

[219] MSR March 20 Comments at 2.

[220] NIPPC August 2 Comments at 2.

[221] *Id.*at 2.

[222] Table in Issue 4; Bonneville April 20 Financial Reserve Policy Presentation at p. 11.

[223] Alternatively, if NIPPC's reference to Power customers "immediately fund[ing] their portion" is an invitation for Bonneville to revisit its BP-18 decision determining the lower thresholds, *see* BP-18 ROD § 6.6.4.2.2.1, Bonneville declines.

[224] *See* BP-18 ROD, § 6.6.4.3, p. 312.

$15 million annual rate action will be triggered if Transmission reserves fall below its lower threshold. Bonneville's FRP Phase-In Implementation also retains the CRAC mechanism for each business line to recover financial reserves below $0. The Commenting Parties argue that Bonneville should adopt Staff's FRP Surcharge Proposal in order to increase Power financial reserves.[225] While Staff's proposed FRP Phase-In Implementation had the highest probability of restoring Power reserves of the options presented in the April 20 public meeting,[226] phasing in the $40 million rate action until FY 2022 only reduces the probability of restoring Power reserves within 10 years from 73 percent to 72 percent.[227] Again, the full $40 million annual rate action will be in place for the BP-22 rate period. For the reasons stated in Issue 4, Bonneville has determined that this phased-in approach strikes the proper balance between competing objectives.

Bonneville could adopt a mechanism that incrementally increases this metric, but only at the cost of other competing criteria. Notably, Power customers have argued for an alternative mechanism based on its impact to this same criterion (FRP Target Met), but in the opposite direction.[228] Additionally, in BP-18, staff had recommended that the phase-in should include $30 million in annual PNRR if the allocation methodology sets Power's lower threshold at $300 million.[229]

Here, in view of the impact of retaining a CRAC at $0 rather than increasing the CRAC threshold to the business line lower threshold, Bonneville is phasing in a rate mechanism to collect $40 million annually with a $300 million lower threshold (*i.e.,* 60 days cash). In contrast to the policy gap that existed before adoption of the FRP, this FRP Phase-In Implementation sets a range of acceptable reserves levels, establishes symmetrical mechanisms for both business lines, ensures that both business lines contribute to agency reserves, and implements a mechanism that results in a reasonable and equitable contribution amount. Bonneville has considered transmission customer arguments and chosen a proposal that balances those purposes with cost competitiveness.

The Commenting Parties argue that "it is particularly important that Power Business Line financial reserves not remain disproportionately low" because "[t]he Power Business Line has greater volatility in financial reserves than the Transmission Business Line."[230] "In that regard, Fitch Ratings has recently indicated that '[a]bsent a notable increase in the power business line reserves, a rating downgrade is likely.'"[231]

Bonneville has analyzed the different proposals based on the probability that Agency reserves drop below 30 days cash on hand for two consecutive years over a 10-year period.

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[225] Commenting Parties May 11 Comments at 13; Commenting Parties August 2 Comments at 19-20.

[226] *See Bonneville April 20 Financial Reserve Policy Presentation* at p. 11.

[227] *Supra* Issue 4.

[228] *See supra* Issue 4.

[229] Harris *et al.,* BP-18-E-BPA-33, at 144.

[230] Commenting Parties August 2 Comments at 19.

[231] *Id.*at 19.

While Bonneville cannot definitively predict credit rating actions, Bonneville has used this metric to represent the likelihood of negative credit rating action occurring, based on its interpretation of credit rating agency reports.[232] The model used to compare the relative probabilities of these proposals incorporated Power's volatility. Bonneville considered the FRP Phase-In Implementation's impact on reserve levels as they relate to this "Credit Threshold" metric. The FRP Phase-In Implementation results in a 14.5 percent probability, which is slightly better than the "BP-18 Final ROD" proposal (15 percent probability) while also being $3 million per year less expensive.[233] This approach strikes the proper balance between competing objectives.

Bonneville also declines to commit to revisit the level of the FRP surcharge at a specified time or under specified circumstances. The FRP is meant to be a long-term, overarching policy that "provides a consistent, transparent, and financially prudent method for determining financial reserves levels for BPA."[234] One reason for adopting the policy was to move away from *ad hoc* decisions regarding financial reserves based on immediate circumstances in favor of stability and predictability.[235] As with all Bonneville policies, customers are welcome to request and propose policy alternatives or modifications, but Bonneville has determined that the FRP Phase-In Implementation reasonably balances all competing objectives.

Decision

The FRP Phase-In Implementation is a reasonable business decision that analyzed relevant implications, balances competing objectives, and adequately raises Power reserves over time.

5.8 Commenters' Alternative Proposals

Some commenters proposed alternative FRP Phase-In Implementations. For the reasons set forth below, Bonneville has decided not to adopt these alternative proposals. In each case, the commenter's modification or alternative does not achieve the objectives that Bonneville believes its FRP Phase-In Implementation would achieve. Nonetheless, Bonneville appreciates the effort commenters put into developing these alternative proposals.

Seattle argues "[t]he proposed FRP neither justifies BPA's need for financial reserves nor explains the reasons for the decline in reserves for risk."[236] Seattle "urges BPA to undertake a comprehensive assessment of the causes of the decline and use that assessment to develop and implement a policy to reverse this trend."[237] In the BP-18 ROD,

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[232] Harris *et al.*, BP-18-E-BPA-33 at 16.

[233] Table in Issue 4; *Bonneville April 20 Financial Reserve Policy Presentation* at p. 11.

[234] BP-18-A-04, § 6.1, p. 198.

[235] *See* FRP, § 1; *see also* BP-18 ROD, § 6.4.2, p. 211.

[236] Seattle August 2 Comments at 2.

[237] *Id.*

Bonneville justified the need for financial reserves,[238] and explained how financial reserves accumulate and decline.[239] Bonneville determined there was a need for a financial reserves policy, §6.4, and adopted the FRP. Bonneville declines to develop and implement an alternate policy.

Powerex "urges BPA to develop principles to fairly adjudicate inter-business line equity when developing financial policies."[240] While this argument would appear to apply to the FRP, Powerex included it within its comments on Bonneville's Leverage Policy.[241] To avoid repetition, this argument is addressed in the Leverage Policy ROD, § 4.4.2.1.

Mason PUD states that "[w]hen it comes to the mechanism employed a surcharge is preferred. Bonneville is able to get the funds in a timelier manner and it is not embedded in rates."[242] Sections 4.2.1 and 4.2.2 describe the provisions for increasing financial reserves, including an "annual rate action." The FRP does not state whether this "annual rate action" will be a surcharge, PNRR, or other mechanism. For example, Section 4.2.1 of the updated FRP states:

> "If financial reserves attributable to a business line are below its lower threshold, then the annual rate action will be the lower of the following two, unless a larger increase in reserves is necessary to achieve the TPP standard:
>
> (1) $40 million per year in Power rates, if recovering Power financial reserves; $15 million per year in Transmission rates, if recovering Transmission financial reserves; or
>
> (2) the amount needed to fully recover financial reserves up to the applicable business line lower threshold."

Bonneville clarifies here that the mechanism used to implement the "annual rate action" in Sections 4.2.1 and 4.2.2 (*e.g.,* a surcharge, PNRR, or other mechanism) will be decided as a rate case issue.

The Commenting Parties argue that "If BPA Fails to Allocate Responsibility for Revenue Financing in Proportion to Outstanding Treasury Borrowing, BPA Should Revise the Upper Threshold Test for Financial Reserves During Phase-In to Partially Ameliorate the Inequities of the Proposed Leverage Policy . . . "[243] Under their proposal, "financial reserves equal to the lesser of $40 million per year and the amount of financial reserves of the Transmission Business Line in excess of the line's upper threshold—without regard to the level of agency reserves—can and should be used to fund transmission capital investment

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[238] BP-18-A-04 §§ 6.4 and 6.6.

[239] *Id.* at §§ 6.2.4 and 6.2.5.

[240] Powerex May 11 Comments at 3.

[241] *Id.*

[242] Mason May 11 Comments at 2.

[243] Commenting Parties May 11 Comments at 14.

as necessary to meet the revised debt-to-asset ratio test . . . [in order to] help ameliorate the unfair burden on the Transmission Business Line during the phase-in period for Power Business Line financial reserves."[244] The Commenting Parties reiterate this proposal in their August 2 comments.[245]

Bonneville clarifies that the "phase-in" will only continue through BP-20, after which the FRP will be fully phased in. Thereafter, if Power or Transmission reserves are below the respective lower threshold and above $0, the annual rate action will be $40 million or $15 million, respectively. It appears the Commenting Parties are, therefore, arguing to permanently change the FRP's upper thresholds. That is, in the event that (1) agency reserves are below its upper threshold, (2) one business line is above its business line upper threshold, and (3) the other business line has a rate action trigger to restore, in full or in part, reserves below its lower threshold, then the amount of that rate action would become an equal-amount financial reserves distribution for the other business line. Bonneville adopted the FRP in BP-18, including the upper thresholds. Bonneville does not find this proposal superior to the Financial Reserves Policy and declines to revisit its prior decision.

"NIPPC urges BPA to re-evaluate its cash reserves policy. When BPA proposed and adopted its Liquidity Policy, BPA and its customers were not aware that Transmission's cash reserves would be needed for other purposes."[246] This comment, in effect, requests Bonneville to revisit its decision to adopt the FRP. Bonneville declines to do so.

MSR urges Bonneville to apply the principles of customer equity and financial accountability for costs incurred for services provided in the formulation of its Financial Reserves Policy implementation and leverage/access to capital policies.[247] MSR proposes that "[w]hile the Financial Reserves Policy is being phased-in, Transmission should be able to access the incremental growth in its excess reserves above the level projected in BP-18 for the end of FY 2017 . . . Permitting the use of the excess reserves above the projection from BP-18 will not place BPA in a worse position than projected, and it will provide a means to mitigate the cost of the Leverage Policy. It will also serve to offset, to a degree, the inequity of Transmission not being able to access its reserves due to Power having used up $700 million in reserves over the past 10 years."[248] MSR reiterates this argument in its August 2 comments.[249] MSR also proposes no Transmission revenue financing under the Leverage Policy until financial reserves are above both the Transmission upper threshold and the Agency upper threshold.[250] These arguments address Bonneville's FRP and Leverage Policy. To avoid repetition, these arguments are addressed in the Leverage Policy

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[244] *Id.*

[245] Commenting Parties August 2 Comments at 14.

[246] NIPPC August 2 Comments at 6.

[247] MSR March 20 Comments at 2.

[248] *Id.* at 9.

[249] MSR August 2 Comments at 18.

[250] *Id.*

ROD. For the reasons in the Leverage Policy ROD, § 4.4.2.1, Bonneville will not adopt MSR's alternative proposals.

5.9 Issues Out of Scope

A few commenters submitted comments outside the scope of this process or commented on proposals that Bonneville has not proposed to adopt. Bonneville notes these comments here, but does not respond to them as they are beyond the scope of Bonneville's decision to adopt the FRP Phase-In Implementation.

NRU asks "that BPA adopt a more conservative estimate of secondary revenues to help address volatility [that] *must be* offset by cost reductions taken elsewhere in Power Services."[251]

The Commenting Parties argue "[t]he Proposed Leverage Policy, the inadequate financial reserves of the Power Business Line, and the cumulative effect of the two inequitably burden the customers of the Transmission Business Line."[252] This issue is discussed in the Leverage Policy ROD at § 4.3.3.3.

In view of seeing the "CRAC probability move from 72% on $42M to 8% on $5 to $50M in three-months," Mason PUD argues that "a discussion should occur about how Bonneville uses reserves" so that Mason PUD could "understand the principles behind the funds' use."[253] This comment is outside of the scope of the FRP. The FRP does not address how Bonneville may use its financial reserves beyond implementing a financial reserves distribution to consider repurposing financial reserves above the upper thresholds. The current follow-on process did not revisit Bonneville's decisions regarding upper thresholds.

Mason PUD "encourage[s] BPA to consider an overall rate target and, possibly, [one] well-below the rate of inflation for IPR costs."[254] This argument is addressed in the Leverage Policy ROD at § 4.4.2.1.

MSR argues that "[a] cap should be imposed on combined rate impacts of the Leverage Policy and other rate pressures, similar to the proposed phase-in of the Reserves Policy."[255] This argument is addressed in the Leverage Policy ROD at § 4.4.2.1.

Knight/Concerned Citizen requested Bonneville breach the Lower Snake Dams.[256] This comment is outside of the scope of the FRP.

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[251] NRU May 11 Comments at 4 (emphasis in original).

[252] Commenting Parties May 11 Comments at 5, n. 20.

[253] Mason May 11 Comments at 2.

[254] Mason May 11 Comments at 3.

[255] MSR March 20 Comments at p. 9; MSR August 2 Comments, at 18.

[256] Knight/Concerned Citizen at 1.

6. NATIONAL ENVIRONMENTAL POLICY ACT ANALYSIS

Bonneville has assessed the potential environmental effects that could result from implementation of its Financial Reserves Policy, consistent with the National Environmental Policy Act (NEPA), 42 U.S.C. § 4321, et seq.

As previously discussed in this ROD, Bonneville adopted its Financial Reserves Policy in the BP-18 Final ROD. The BP-18 Final ROD describes how Bonneville had conducted an environmental review under NEPA of the BP-18 proposal and determined that it falls within a class of actions excluded from further NEPA review pursuant to NEPA regulations applicable to Bonneville. The BP-18 Final ROD also describes how Bonneville thus prepared a categorical exclusion determination memorandum that documents this categorical exclusion of the BP-18 proposal from further NEPA review. The categorical exclusion for the BP-18 proposal is available at Bonneville's website: https://www.bpa.gov/efw/Analysis/CategoricalExclusions/Pages/2017.aspx.

The modifications of Bonneville's Financial Reserves Policy are limited solely to providing for the appropriate rate action when financial reserves fall below a business line lower threshold. These modifications are intended to ensure that there are sufficient revenues to meet Bonneville's financial obligations and other costs and expenses. The decision to modify the Financial Reserves Policy in this manner thus is primarily administrative and financial in nature, and its implementation is not expected to result in reasonably foreseeable environmental effects. In addition, any environmental implications associated with these modifications would not be significantly different from those described in the categorical exclusion for the BP-18 proposal. Therefore, Bonneville has determined that this decision to modify the Financial Reserves Policy is covered within the scope of the previous NEPA documentation for the BP-18 proposal.

7. CONCLUSION

For the reasons articulated above, the Administrator adopts the modifications to the Financial Reserves Policy attached to this Record of Decision as Appendix 1.

Issued at Portland, Oregon this 25th day of September, 2018.

/s/ Elliot E. Mainzer

Elliot E. Mainzer

Administrator and Chief Executive Officer

Appendix 1
Financial Reserves Policy

FINANCIAL RESERVES POLICY

1. Background and Purpose

The Financial Reserves Policy (Policy) provides a consistent, transparent, and financially prudent method for determining BPA's target ranges for financial reserves available for risk (financial reserves). The Policy establishes upper and lower financial reserves thresholds for Power Services, Transmission Services, and the agency as a whole, which define the target ranges. The Policy also describes the actions BPA may take when financial reserves levels either fall below a lower threshold or exceed an upper threshold. The Policy supports BPA's requirement to establish the lowest possible rates consistent with sound business principles.

Prior to the Policy, BPA did not have a consistent way to establish financial reserves target ranges and upper and lower financial reserves thresholds for each business line and BPA. This is of particular importance because financial reserves levels and financial reserves policies and practices have a direct effect on BPA's credit rating, which is determined at the aggregate BPA level. BPA, however, sets rates to recover costs for each business line individually. The lack of a consistent policy across the business lines and for BPA as a whole allows for *ad hoc* financial reserves decisions and different treatment for each business line.

Establishing prudent financial reserves lower thresholds over time for the business lines helps to maintain BPA's credit rating, solvency, and rate stability, which is consistent with sound business principles. Establishing prudent financial reserves upper thresholds for the business lines and BPA as a whole ensures that financial reserves do not grow to unnecessarily high levels but rather are invested back into the business or distributed as rate reductions, both of which lower revenue requirement costs.

2. Scope of the Financial Reserves Policy

The Policy affects financial reserves available for risk (financial reserves) attributed to Power Services (Power) and Transmission Services (Transmission).

The Policy establishes lower and upper financial reserves thresholds for Power Services and Transmission Services, and upper financial reserves thresholds for the agency at the ends of fiscal years. The Policy also provides guidance on the actions BPA should take when financial reserves fall below established lower threshold levels or rise above established upper threshold levels at the ends of fiscal years.

The Policy does not preclude or hinder in any way the Administrator's authority to use financial reserves for purposes deemed necessary by the Administrator.

The Policy is intended to provide a consistent framework within which BPA can manage its financial reserves. To that end, the Policy will constitute precedent that BPA will adhere to in future rate cases absent a determination by the Administrator that the Policy must be modified to meet BPA's changing operating environment.

3. Financial Reserves Thresholds

3.1 Definitions

Financial reserves available for risk. Financial reserves available for risk (financial reserves) consist of cash, market-based special investments, and deferred borrowing, all of which are highly liquid and unobligated for BPA to use to mitigate financial risk, less any outstanding balance on the Treasury Facility.

Days Cash on Hand Metric. Days cash on hand is the number of days a business can continue to operate using its own cash on hand with no new revenue. Days cash on hand is a common industry liquidity metric measuring the relationship between the amount of cash a business holds and the amount of average daily expenses incurred in operating the business.

3.2 Business Line Financial Target Ranges

Financial reserves target ranges for each business line shall be calculated independently each rate period, and consist of upper and lower financial reserves thresholds, which define the upper and lower ends of the target ranges.

3.3 Lower Financial Reserves Thresholds

Lower financial reserves thresholds shall be calculated independently for Power and Transmission each rate period based on the greater of: (1) 60 days cash on hand, and (2) what is necessary to meet the Treasury Payment Probability (TPP) Standard. For each business line, if financial reserves fall below the lower threshold, a rate action shall trigger the following fiscal year to recover, in part or in whole, the shortfall.

3.4 Upper Financial Reserves Thresholds

Upper financial reserves thresholds shall be calculated independently for Power and Transmission each rate period and will be the financial reserves' equivalent of 60 days cash on hand above the lower financial reserves thresholds. The agency upper threshold is the sum of Power and Transmission's lower thresholds plus 30 days cash on hand for the agency.

3.4.1 Financial Reserves Distributions

If business line financial reserves and agency financial reserves are above their respective upper thresholds, the 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.

3.5 Calculation of Lower and Upper Financial Reserves Thresholds

3.5.1 - Power Services		
Power lower financial reserves threshold	=	The greater of: (1) 60 days * (Power operating expenses / 365 days), and (2) the threshold needed to achieve a 95% TPP.
Power upper financial reserves threshold	=	Power lower financial reserves threshold plus 60 days * (Power operating expenses / 365 days)
Where:		
Power operating expenses	=	Power total expenses – (Power depreciation and amortization + Power net interest expense + Power non-federal debt service + Power purchases)

3.5.2 - Transmission Services		
Transmission lower financial reserves threshold	=	The greater of: (1) 60 days * (Transmission operating expenses / 365 days), and (2) the threshold needed to achieve a 95% TPP.
Transmission upper financial reserves threshold	=	Transmission lower financial reserves threshold plus 60 days * (Transmission operating expenses / 365 days)
Where:		
Transmission operating expenses	=	Transmission total expenses – (Transmission depreciation & amortization + Transmission net interest expense)

3.5.3 - Agency		
Agency upper financial reserves threshold	=	The sum of the Power lower financial reserves threshold and the Transmission lower financial reserves threshold plus 30 days cash on hand for the agency
Where:		
30 days cash on hand for the agency	=	30 days * (agency operating expenses / 365 days)
Agency operating expenses	=	Power operating expenses + Transmission operating expenses

4. Implementation

4.1 Overview

The Policy will be implemented each rate period through the Power and Transmission rate schedules and GRSPs. The lower and upper financial reserves thresholds for each business line will be recalculated each time BPA establishes new Power and Transmission rates. Lower and upper financial reserves thresholds will remain constant throughout each rate period. Lower and upper financial reserves thresholds will be computed using forecast rate period average operating expenses from the Power and Transmission revised revenue tests.

Implementation shall include parallel rate mechanisms for each business line each rate period that will trigger if financial reserves are below the lower financial reserves thresholds. Implementation shall also include parallel Financial Reserves Distributions for each business line each rate period that will trigger if financial reserves are above upper financial reserves thresholds.

4.2 Provisions for Increasing Financial Reserves

The methodologies for increasing financial reserves are described below. The specific rate mechanisms to achieve 4.2.1 through 4.2.3 will be determined in the applicable rate proceeding.

4.2.1 Except as provided in section 4.2.2, if financial reserves attributable to a business line are below its lower threshold, then the annual rate action will be the lower of the following two, unless a larger increase in reserves is necessary to achieve the TPP standard:

(1) $40 million per year in Power rates, if recovering Power financial reserves; $15 million per year in Transmission rates, if recovering Transmission financial reserves; or

(2) the amount needed to fully recover financial reserves up to the applicable business line lower threshold.

4.2.2 The $40 million per year rate action described above in section 4.2.1(1) is being phased in for Power until Fiscal Year (FY) 2022. In FY 2022 and thereafter, the $40 million per year rate action in section 4.2.1(1) will apply and this section 4.2.2 will be inapplicable. In FY 2020 and FY 2021, if financial reserves attributable to Power are below its lower threshold, then the annual rate action will be the lower of the following two, unless a larger increase in reserves is necessary to achieve the TPP standard:

(3) $30 million per year in Power rates; or

(4) the amount needed to fully recover financial reserves up to the Power lower threshold.

4.2.3 In addition to the rate action described above in sections 4.2.1 and 4.2.2, Bonneville will initially propose in each rate case a rate mechanism to increase each business line financial reserves in the event they fall below $0. Such rate mechanism will include the following parameters:

(1) When financial reserves are below $0 for Power Services, Bonneville will recover in each year of the rate period the first $100 million dollar-for-dollar.

Bonneville will recover only fifty cents on the dollar for any amounts greater than $100 million. This provision will be limited to an annual cap of $300 million; and

(2) When financial reserves are below $0 for Transmission Services, Bonneville will recover in each year of the rate period the first $100 million dollar-for-dollar. This provision will be limited to an annual cap of $100 million.

Implementation of the methodology described above, including the timing of when the calculations in (1) and (2) will be performed, will be determined each rate period through the Power and Transmission rate schedules and GRSPs. Such implementation may include *de minimis* thresholds.

BONNEVILLE POWER ADMINISTRATION
DOE/BP-4839 • September 2018