Financial Plan Refresh
Public Comment Summary
February 23, 2022

Row #	Stakeholder	Comment	BPA Response
1	RNW and NRDC	BPA recently received increased borrowing authority in the federal Infrastructure Act, which is intended to facilitate transmission improvements. We believe that the borrowing authority should be used as intended, to upgrade and expand BPA's transmission system, and not simply used as a tool to improve BPA's leverage ratio. Studies in both Washington and Oregon show that expanded transmission and regional interconnection will be necessary to meet state clean energy policies. RNW and NRDC are concerned that BPA's plan for achieving a "net neutral" borrowing position may conflict with the type of investment that is needed to achieve the region's clean energy mandates and goals.	First, we disagree with the suggestion that Bonneville is using borrowing authority "to improve BPA's leverage ratio." Obtaining additional borrowing authority has no impact on leverage, but additional borrowing authority does improve Bonneville's access to capital position. Use of borrowing authority does not improve leverage; use of borrowing authority equates to issuing debt, therefore the use of borrowing authority places upward pressure on leverage. Bonneville fully intends to use borrowing authority to finance upgrades and expansion of the transmission system. Under the initial sustainable capital financing proposal, Bonneville would continue to utilize a significant amount of federal debt. 80-90% of transmission capital spending would be financed with debt. As discussed in response #2, we do not believe a sustainable capital financing policy would be "roadblock" to decarbonization efforts.
2	RNW and NRDC	BPA's focus on aggressive debt reduction may conflict with clean energy policies, as it will make investments in new infrastructure in the near term more difficult and will increase transmission costs for renewable resources necessary to meet 100% clean energy policies. Given the federal clean energy policy goals, BPA should be working to aid states in their efforts to decarbonize the electricity sector rather than being a roadblock to those efforts.	Bonneville does not believe a capital financing policy would be a "roadblock" to decarbonization efforts. The initial approach for a sustainable capital financing policy does not attempt to limit capital investments. Furthermore, it proposes to restrict revenue financing to no greater than about 1% incremental rate impact per rate period. Therefore, revenue financing would be constrained under an increasing capital investment scenario. We are also considering ways to include appropriate flexibility within the

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		We greatly appreciate your efforts at working towards decreasing BPA's debt. We ask that BPA consider the role they play in decarbonization of the electricity grid and work to ensure there is not a conflict between the financial goals and the infrastructure investments needed in the region.	policy to respond to changed circumstances, such as changing capital investment forecasts. Decisions about building transmission facilities and other infrastructure investments are not driven by capital financing. The Jan. 12 and Feb. 9 workshops discussed Bonneville's capital planning processes.
3	RNW and NRDC	BPA should provide more details on why it chooses to set its long-term target at 60% for its debt-to-asset ratio. This goal seems rather aggressive, given that BPA is shifting from a three-year debt ratio average of 85%. BPA should evaluate these goals compared to the "industry average" for federally-supported public entities similar to BPA, without the inclusion of other utilities such as co-ops or investor-owned utilities that do not share a similar federal backing as BPA.	As discussed in the Jan. 26th workshop, the "60% leverage by BP-40 target" is a clearer articulation of the current Financial Plan goal, and we would achieve this goal over the course of 20 years. As noted, we think it is reasonable to consider practices within the broader utility industry when setting rates as low as possible consistent with sound business principles. Regarding other federally-supported public entities, as noted in the earlier grounding workshops in October and November 2021, leverage calculations vary slightly from entity to entity. It is difficult to perfectly compare leverage calculations to Bonneville because of differences in how data is reported. However, all four agencies do make available annual financial data, either through in annual report or a 10-K filing with the SEC. By our calculation, TVA's ratio was about 61% as of FY 2020. The ratios for WAPA, SWPA, and SEPA may not be comparable without additional detail because their annual reports show "payable to U.S. Treasury," which include more than just the repayment of debt associated with capital investment. For example, this category includes interest owed to the Treasury. The PMAs receive appropriations for all of their costs, which must be repaid from revenues, so they may consider all costs payable to the Treasury. If we were to assume that SWPA and SEPA were only reporting

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			payables associated with debt repayment—which does not appear to be the case—their ratios would be 100% and 129% respectively. WAPA, which has other long term liabilities unlike SWPA and SEPA, had a leverage ratio was about 49% as of FY 2020. If we were to combine the data for the three PMAs and TVA, the combined leverage ratio would be about 64%.
4	RNW and NRDC	Mr. Oosterveld presented a case for why BPA's "industry average" included entities not comparable to BPA, and offered a suggestion for which utilities should be included in a peer group. We agree that BPA may be comparing itself with the wrong peer group and consequently imposing unnecessary rate impacts through 2040.	Please see Bonneville response to January 26th comments, row #4.
5	RNW and NRDC	We request BPA further evaluate the potential rate impacts and revenue financing required for each rate period through 2040 under scenarios ranging from 60% to 80% and consider how each scenario may impact the ability of BPA customers to meet their clean energy mandates.	Please see Bonneville response to January 26th comments, row #13.
6	Avista, MSR, PGE, PSE	The February 23 Presentation did not provide an adequate opportunity for informed discussion of comments submitted prior to the workshop that directly relate to topics raised in the February 23 Presentation, inasmuch as those comments were not posted prior to the presentation. BPA should provide a forum for informed discussion of those comments after posting them.	The February 23rd workshop was structured in the same manner as other Financial Plan Refresh workshops. That is, Bonneville posted materials in advance, allowed for questions and comments during the workshop, requested feedback on the workshop content be submitted during the two-week comment period that followed, and is responding to those comments. The March 23rd workshop will also include time to discuss prior presentation topics, comments, and Bonneville responses. Bonneville agreed to hold one or more workshops to discuss the accounting and ratemaking treatment of revenue

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			financed assets. In the Feb 23rd workshop, we explained Bonneville does not agree there is a "double recovery" issue. We described the mechanics of the "higher of" methodology, including the impact of revenue financing. We explained our expectation that the power revenue requirement will continue to be set based on cash needs for the foreseeable future, and that financial plan goals will result in the transmission revenue requirement also being set based on cash needs for the foreseeable future. Finally, we discussed why we are not inclined to develop an offset to depreciation expense. Moreover, the issues raised by Commenting Parties are not being decided as part of the Financial Plan Refresh, but rather, would be determined through the 7(i) ratemaking process. That forum provides additional process, as well as a context where these concepts are being applied.
7	Avista, MSR, PGE, PSE	The "reasonable period" established by statute for amortization of the Federal investment represents a period of years that is neither unreasonably long nor unreasonably short. Establishing BPA rates based on an amortization of the Federal investment over an unreasonably short period of years violates the statutory requirement. During the February 23 Presentation, BPA staff appeared to suggest that this statutory standard should be interpreted as establishing only an upper bound on the "reasonable period" for amortization of the Federal investment--in essence construing the statutory language "over a reasonable period of years" as meaning "within a reasonable period of years" with no lower bound on the period of years.	Bonneville is not defining the "reasonable period of years" standard as part of the Financial Policy Refresh process. However, this standard has not prohibited Bonneville from repaying Federal investment earlier than 50 years, and has not prohibited the use of revenue financing or reserve financing. We also do not believe it prohibits the levels of revenue financing contemplated under the initial approach shared at the Jan. 26th workshop. This standard has also been discussed in Section 4.3.5.1 of the Leverage Policy ROD, and in BP-22 rebuttal testimony, Fredrickson *et al.,* BP-22-E-BPA-36 at 26. Section 4.3.5.1 of the Leverage Policy ROD states:

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			"The statutory language ("reasonable period of years") has been interpreted by Bonneville and the Department of Energy for many years to mean establishing the maximum time frame over which Bonneville must repay Federal investment in Federal assets (typically a maximum of 50 years or less). Significantly, the statutory language does not dictate how Bonneville must finance its capital programs." BP-22 rebuttal testimony, Fredrickson *et al.,* BP-22-E-BPA-36 at 26, states: "The 'reasonable number of years' standard refers to the allowable time to repay the funds that the Federal government has invested in BPA's power and transmission systems. In other words, it is referring to the allowable repayment period for Congressional appropriations and U.S. Treasury bonds. The repayment period is viewed as a maximum over which the debt must be repaid. Power's Federal debt must be repaid within 50 years; Transmission's within 35 years. There is no restriction on whether debt can be repaid faster. Indeed, since its creation, BPA has often repaid its Federal debt faster than the maximum repayment period. For example, the recently completed first phase of Regional Cooperation Debt (RCD) refinancing resulted in the early repayment of 2.7 billion dollars of Congressional appropriations.

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			In the case of revenue financing, BPA is not borrowing from the Federal government. There is no Federal investment to repay. The 'reasonable number of years' standard is not applicable."
8	Avista, MSR, PGE, PSE	BPA should provide adequate rationale and support for the "Goals" and "Initial Approach" outlined in its January 26, 2022 Financial Plan Refresh Presentation (particularly given the recent substantial increase in BPA's borrowing authority) and demonstrate that they are consistent with the statutory standards applicable to BPA rates. Regardless, such "Goals" and "Initial Approach" cannot preempt or supplant the requirement for a full and complete justification of BPA rates pursuant to section 7 of the Northwest Power Act.	The Jan. 26th workshop provided an overview of why these goals are important, and Bonneville responded to related comments. Bonneville has also discussed these issues in developing the Leverage Policy and in the BP-22 rate proceeding.
9	Avista, MSR, PGE, PSE	BPA's discussion of "double recovery" during the February 23 Presentation did not address the stated concern that Minimum Required Net Revenue ("MRNR") leads to an overstatement of revenue requirements over time that result in rates that are set to collect more than BPA's costs.	Bonneville disagrees. Our presentation did address this topic, and in it we disagreed with Commenting Parties' premise. MRNR does not represent accelerated depreciation. Bonneville's costs are not limited to the results of the repayment methodology. Bonneville's long-standing methodology sets the revenue requirement at a level sufficient to recover its costs for each rate period, including costs associated with debt repayment, risk mitigation, financial health, and depreciation expense.
10	Avista, MSR, PGE, PSE	BPA should abandon its higher of methodology and determine revenue requirements based on forecasted cash requirements; if BPA retains its higher of methodology (which it should not), BPA must accrue a regulatory liability for MRNR and reduce the revenue requirement in subsequent rate period(s) to account for the MRNR. In any	Please see Bonneville's response to Commenting Parties' February 9 comments, posted as *BPA response to Avista group comments*, under the Jan. 26 Workshop section.

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		event, if the accrual and amortization of such regulatory liability is not effective in eliminating the overstatement of revenue requirement, BPA should abandon the higher of methodology and determine revenue requirement based on forecasted cash requirements.	
11	Avista, MSR, PGE, PSE	It seems rather arbitrary and unreasonable to propose no increase in borrowing when BPA was just given such a substantial increase in borrowing authority. At a minimum, the increased borrowing authority should be addressed by BPA in the context of explaining (i) why it does not appear to be taken into account in establishing the "Goals" and "Initial Approach" and (ii) why it does not permit appropriate adjustments to the "Goals" and "Initial Approach" that would benefit BPA customers and still be consistent with "sound business principles."	In the BP-22 rate proceeding, Bonneville stated that even if we gained additional borrowing authority, we would still pursue development of sustainable capital financing and debt management practices. Additional borrowing authority was very welcomed, and while it resolved our access to capital challenges, it did not address other concerns. Under the initial approach discussed at the Jan. 26th workshop, borrowing and debt outstanding will increase. Transmission's debt outstanding is forecast to grow by about $1 billion dollars. The additional borrowing authority allows us to construct a phase-in approach over a longer timeframe that has rate impact considerations at the forefront, while still achieving our long-term goals. The initial approach shared on Jan. 26th achieves these goals over a 20-year period. We have requested feedback on potential modifications or alternatives to the initial approach, and are considering ways to include appropriate flexibility in the policy to respond to changed circumstances.
12	Avista, MSR, PGE, PSE	During the February 23 Presentation, BPA staff initially appeared to suggest that the principle of regulatory liabilities under the FERC Uniform System of Accounts was not applicable to the "higher of" methodology used by BPA to establish revenue requirements and, thus, rates. Later, they seemed to assert that, even if the principle is applicable, it would only apply if the BPA Administrator (as the regulator	Bonneville is not deciding, as part of the Financial Plan Refresh, whether to record revenue financing or MRNR as a regulatory liability. This is a rate case issue. MRNR is not an expense. As the name suggests, "minimum required net revenues" is a net revenue target. It represents the net revenues necessary to ensure there is adequate cash

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		of BPA) elected to make such an accrual. The positions taken by BPA staff are misplaced and fail to recognize that each time application of the "higher of" methodology results in the collection of MRNR, a regulatory liability must be accrued by BPA because that MRNR represents a clear acceleration of expenses for ratemaking purposes to a period earlier than when those same expenses would be recognized under the accrual method of accounting. As explained by BPA in the February 23 Presentation, "MRNR is a cash requirement added to the Income Statement to ensure that revenues will be sufficient to meet cash flow needs."17 The practice of using MRNR to generate cash that is otherwise not available in the accrual-based Income Statement in order to repay debts in periods earlier than called for by the Income Statement results in an acceleration of expenses contemplated by the Uniform System of Accounts. The regulatory liability principle is applicable to BPA's ratemaking process through the FERC Uniform System of Accounts, and BPA cannot simply say that it does not have a regulatory agency that takes rate actions and therefore the requirement to accrue regulatory liabilities does not apply. The accrual of regulatory liabilities where contemplated by the FERC Uniform System of Accounts is not optional to BPA.	flow to meet Bonneville's cash needs. MRNR is not the acceleration of depreciation expense. There is no direct relationship between depreciation expense and debt. Depreciation exists regardless of decisions regarding how to finance capital investments. As has been noted in several public workshops, the total amount of depreciation associated with an asset will be different than the original cost of the asset, and is completely disassociated from the source of financing for that asset. As discussed in Bonneville's response to Commenting Parties' Feb. 9th comments (posted under the Jan. 26 Workshop section on bpa.gov), Bonneville staff does not believe revenue financing fits the criteria for a regulatory liability as described in ASC 980. Further, while the Administrator's decision to create a regulatory liability is informed by FASB guidance, the Administrator has discretion in whether to create, and how to structure, a regulatory liability. When Bonneville creates a regulatory liability, it is included in the appropriate FERC account. FERC's system of accounts defines what a regulatory liability is, but it does not obligate Bonneville to create one.
13	Avista, MSR, PGE, PSE	Further, BPA's failure to accrue regulatory liabilities under these circumstances would mean that BPA is failing to track generation and transmission revenues, costs, and resulting surpluses/deficits as required by FERC.18 Under the Northwest Power Act, FERC reviews BPA's rates to ensure they comply with specified statutory standards. Under this limited review, FERC has ordered BPA to separately account	We do not understand Commenting Parties' argument. Revenue financing is tracked by business unit. Whether revenue financing is recognized in the year it is charged, or over some undefined period as would occur with a regulatory liability, this does not affect the tracking by business unit. Further, as defined by FERC, Bonneville's separate accounting analysis is backward looking, showing actual financial results

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		for power and transmission revenues and deficits, including the tracking of deficiencies or surpluses in transmission revenues and whether they are collected or credited to the appropriate customer class.	by business unit. It is based on the same data as appears in Bonneville's end of year financial statements.