Department of Energy

Bonneville Power Administration
P.O. Box 3621
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EXECUTIVE OFFICE

December 13, 2024

In reply refer to: F-2

Subject: Fiscal Year 2024 Transmission Reserves Distribution Clause Final Decision

The Bonneville Power Administration (BPA) has concluded its decision process on the application of the fiscal year 2024 Transmission Reserves Distribution Clause (RDC). After careful consideration of the feedback received during the comment period, I am adopting the staff recommendation, released on November 12, 2024. This decision supports our strategic goal to sustain BPA's financial strength and our ability to provide competitive rates over the long term.

The Transmission RDC Amount of $82.8 million will be applied toward flexible debt reduction, with BPA retaining the flexibility to forego some or all of the planned debt reduction to preserve BPA's liquidity.

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

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

Sincerely,

JOHN
HAIRSTON

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Date: 2024.12.13 08:12:02 -08'00'

John L. Hairston
Administrator and Chief Executive Officer

ATTACHMENT A

FY 2024 TRANSMISSION RESERVES DISTRIBUTION CLAUSE
BONNEVILLE POWER ADMINISTRATION RESPONSE TO COMMENTS

1. INTRODUCTION

During the November 11, 2024 FY 2024 Quarterly Business Review Technical Workshop (QBRTW), staff presented its calculation of the Fiscal Year (FY) 2024 Transmission Reserves Distribution Clause (RDC) and its recommendation for use of the RDC amount. Staff calculated a Transmission RDC Amount of $82.8 million for FY 2024 and proposed applying the entire amount to flexible debt reduction. Stakeholders were provided until November 22, 2024, to submit written comments on the calculation and proposal.[1]

Seattle City Light (SCL) and Northwest Requirements Utilities (NRU) support staff's proposal. SCL Comments at 1; NRU Comments at 1. SCL appreciates BPA's transparency and consideration of customers' perspective. SCL Comments at 1. NRU supports BPA's proposed capital spending levels and appreciates BPA's "strong financial management." NRU Comments at 1. While NRU views the RDC triggering as due to delays in hiring and program expenditures, it believes the RDC triggering is as "an achievement worth celebrating." *Id.* BPA appreciates the support.

The Public Power Council (PPC), Western Public Agencies Group (WPAG), Powerex Corp., Northwest & Intermountain Power Producers Coalition and Renewable Northwest (NIPPC/RNW), and Alliance of Western Energy Consumers (AWEC) submitted comments urging BPA to apply the FY 2024 Transmission RDC to rate relief or otherwise opposing staff's proposal.

2. RESPONSE TO COMMENTS

2.1 Flexible Debt Reduction

Public Comments

NIPPC/RNW argue staff's proposal to repurpose the FY 2024 Transmission RDC to flexible debt reduction is unsupported by analysis. NIPPC/RNW Comments at 2.

Evaluation of Comments and Response

Staff presented and explained its proposal for the FY 2024 Transmission RDC at the 2024 QBRTW.[2] Staff described the focus on Financial Plan goals, including the Sustainable Capital Financing Policy goal of achieving agency and business unit debt-to-asset ratios of no greater

[1] Submitted comments can be accessed at https://publiccomments.bpa.gov/CommentList.aspx?ID=524.
[2] *Available at* https://www.bpa.gov/-/media/Aep/finance/quarterly-business-review/qbr-2024/fy24-q4-qbrtw.pdf.

than 60% by 2040. The importance and value of debt management, and the rationale for the policy and its goals, are described in the Sustainable Capital Financing Policy (SCFP) ROD.[3]

Transmission is now projected to have a debt-to-asset ratio of approximately 74% in 2040. This forecast reflects Evolving Grid 1.0 projects. Evolving Grid 2.0 projects are estimated to add an additional $3 billion in capital spending. Applying the RDC Amount to flexible debt reduction is consistent with BPA's Financial Plan and will make incremental progress towards the policy goal in the Sustainable Capital Financing Policy. It also will produce long-term benefits in terms of reducing interest expense. Transmission interest expense is projected to roughly double from BP-24 to BP-26, due to the combination of increased capital expenditures and slightly higher interest rates. Applying the RDC Amount to reduce debt is expected to reduce interest expense by approximately $3.7 million per year, starting in FY 2026.

NIPPC/RNW argue staff's proposal is unsupported because BPA's future capital investments are uncertain. NIPPC/RNW Comments at 2. BPA's forecasts represent BPA's best projections of capital spending and resulting debt-to-asset ratios. BPA's forecasts were discussed in the BP-26 Integrated Program Review Initial Publication and Closeout Report.[4] As discussed in the FY 2023 RDC Response to Comments, flexible debt reduction is reasonable, even when the specific amount of increased capital spending is uncertain. FY23 Transmission RDC Response to Comments at 14.[5] The RDC process does not contemplate a comprehensive review or precise quantification. *Id.* Applying the FY 2024 Transmission RDC to flexible debt reduction is reasonable given the forecasts for significant expansion to Transmission's capital program and resulting debt-to-asset ratio. However, even if the precise forecast does not materialize, BPA and customers will benefit from interest expense savings. *See id.* at 13-15.

Paying down debt is especially prudent given the indications of demand for significant transmission investments on the horizon. NIPPC/RNW note their support for investment in an upgraded transmission system and in expanding the total transmission capability. NIPPC/RNW Comments at 2. This is consistent with the feedback BPA is receiving from other stakeholder groups in other forums as well. The growth in BPA's capital forecasts responds to customer demand to expand and upgrade the Transmission grid and for new transmission service.

NIPPC/RNW also argue staff's proposal is unsupported because BPA has not provided an estimate of incremental revenues associated with the Evolving Grid projects. NIPPC/RNW Comments at 2. A cost-benefit analysis is not called for by the Transmission RDC rate schedule and is unnecessary for flexible debt reduction to be a reasonable purpose for the RDC amount. Under the RDC, the Administrator has discretion to consider and balance the short- and long-term benefits to BPA and its customers based on what is known at the time. *See* FY 2023 Transmission RDC Response to Comments at 9-10. All costs and revenues forecast for a given rate period, including those associated with the Evolving Grid projects, will be reflected in the transmission rates BPA sets.

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[3] *Available at* https://www.bpa.gov/-/media/Aep/finance/financial-policies/sustainable-capital-financing-policy-record-of-decision.pdf.
[4] *Available at* https://www.bpa.gov/about/finance/bp-26-ipr.
[5] *Available at* https://www.bpa.gov/-/media/Aep/rates-tariff/rate-adjustments/FY-2024-Adjustments/2023-12-22-fy23-trans-rdc-decision-letter-with-response-to-comments-attachmentA.pdf.

Finally, NIPPC/RNW advocate for increased transparency around cost-benefit calculations and decision-making criteria in whether TSEP projects qualify as Evolving Grid projects. NIPPC/RNW Comments at 2. The criteria for identifying Evolving Grid projects falls outside the scope of this RDC decision. In either case, the projects are reflected in BPA's capital forecasts. BPA held a public meeting about Evolving Grid on December 4, 2024, and comments are being received in that forum.

2.2 Rate Reduction Proposals

Public Comments

NIPPC/RNW urge BPA to apply the RDC amount as an immediate rate credit, arguing that doing so "is consistent with BPA's financial policies." NIPPC/RNW Comments at 2. NIPPC/RNW maintain the RDC Amount "is surplus to all of BPA's short-term and long-term financial targets" because "[t]he $130 million already retained from customers is more than sufficient to satisfy the 10% default amount of the Revenue Financing Policy." *Id.* at 3.

WPAG, Powerex, and AWEC propose BPA use the RDC Amount to lower BP-26 transmission rates. WPAG Comments at 1; Powerex Comments at 1; AWEC Comments at 1. PPC and WPAG recommend postponing a decision on the RDC to allow for a decision in the BP-26 rate case. PPC Comments at 1; WPAG Comments at 1.

Evaluation of Comments and Response

NIPPC/RNW maintain that applying the Transmission RDC to rate reductions would be consistent with BPA's financial policies. NIPPC/RNW Comments at 2. BPA agrees that rate reduction is one of the business line-specific purposes that the Administrator considers in repurposing an RDC Amount, and BPA has applied RDC Amounts to reduce transmission rates in the past. However, rate reduction is not the only permissible use of the Transmission RDC, nor is it required by BPA's Financial Reserves Policy (FRP) or statutory ratemaking directives. *See* FY23 Transmission RDC Response to Comments at 9. Debt reduction is another permissible purpose explicitly stated in the FRP and BP-24 Transmission RDC rate mechanism. FRP § 3.4.1; 2024 Transmission, Ancillary, and Control Area and Rate Schedules and General Rate Schedule Provisions (GRSP), BP-24-A-02-AP01, GRSP § II.H.[6]

NIPPC/RNW describe the Administrator as having "unfettered discretion" to decide whether and how to repurpose the Transmission RDC Amount. NIPPC/RNW Comments at 3. While NIPPC/RNW's characterization is an overstatement, the RDC does allow the Administrator the discretion to consider the short- and long-term benefits of various uses for financial reserves, based on the circumstances at the time. The discretion must be exercised within the terms of the Transmission GRSP Section II.H, including that any repurposed financial reserves be applied to

[6] FRP *available at* https://www.bpa.gov/-/media/Aep/finance/financial-policies/frp-phase-in-implementation-policy-final.pdf; Transmission rate schedules *available at* https://www.bpa.gov/-/media/Aep/rates-tariff/current-transmission-rates/2024-Transmission-Rates/2024-Final-Proposal-Transmission-Rate-Schedules-and-GRSPsFERC-approved.pdf.

"Transmission-specific purposes." The RDC does not require or prioritize rate reduction above other purposes.

NIPPC/RNW refer to a 2022 "Revenue Financing Policy" as the source of the Administrator's allegedly "unfettered discretion" to decide the Transmission RDC, and to a Leverage Policy that they claim results in an overly conservative perspective on BPA's debt-to-asset ratio. NIPPC/RNW Comments at 3. There appears to be some confusion about BPA's policies and rate mechanisms. The SCFP, which was adopted in 2022, addresses BPA's approach to revenue financing, but it does not include the terms for deciding the Transmission RDC. Those terms are in the Transmission RDC rate schedule language, which was adopted in the BP-24 rate proceeding. As for the Leverage Policy, it was sunset with the establishment of the SCFP. BPA assumes NIPPC/RNW's objections about the debt-to-asset ratio are directed toward the SCFP. BPA explained its rationale for adopting the SCFP in the accompanying Record of Decision. BPA is not revisiting the SCFP in this decision.

NIPPC/RNW "support BPA investment in an upgraded transmission system and in expanding the total transmission capability, as well as reforms to TSEP and long-term transmission service contracting practices that might help accelerate BPA's decisions to construct new transmission." NIPPC/RNW Comments at 2-3. However, they assert "collecting funds to pay for new investments must be tied to final decisions to move forward with those capital investments, not merely in anticipation of those important decisions," and that "[o]ver-collecting customer funds in current rates in anticipation of future investment is inconsistent with financial policies – and statutes – that tie customer rates to the actual level of BPA's investment." NIPPC/RNW Comments at 3. AWEC also asserts immediate rate reduction would "be directly responsive to BPA's statutory mandate to provide electric power at the lowest possible rates." AWEC Comments at 1. As discussed in the FY23 Transmission RDC Response to Comments at 12, BPA is neither collecting funds for hypothetical costs, nor deciding to collect additional funds. FY23 Transmission RDC Response to Comments at 2-3, 8-9.

NIPPC/RNW offer a calculation that "is purely to illustrate a quantitative way, using BPA's own current Financial Policies, to calculate an appropriate amount to return to customers." NIPPC/RNW Comments at 3. As for NIPPC/RNW's argument the RDC Amount is surplus to BPA's financial targets, BPA disagrees that the amount is surplus. Even with applying the RDC Amount to flexible debt reduction, BPA is not forecast to achieve the Sustainable Capital Financing Policy's goal of 60% debt-to-asset ratio by 2040.

We also clarify some aspects of NIPPC/RNW's calculation. NIPPC/RNW state that BPA deployed $130 million to other uses in FY 2023. NIPPC/RNW Comments at 3. The FY 2023 Transmission RDC totaled $130.4 million, but that amount was applied in FY 2024. $80 million of the total was applied to flexible debt reduction, and the remaining $50.4 million was held as reserves available for risk in the BPA Fund to offset higher costs than anticipated in IPR. The FY 2022 Transmission RDC, which totaled $63.1 million, was applied in FY 2023, but none of that amount was applied to flexible debt reduction. Nearly half of the FY 2022 Transmission RDC was used for rate reduction.

Regarding NIPPC/RNW's calculation of capital expenditures, in FY 2023, Transmission capital expenditures totaled $659 million.[7] In FY 2024, capital spending totaled $919 million. The revenue financing in BP-24 and BP-22 rates is discussed in the FY 2023 Transmission RDC Response to Comments at 15. Further, FY 2023 was under BP-22 rates. The BP-24 rate period covers FY 2024 and 2025. The present FY 2024 RDC triggered based on the financial reserves following the first year of the BP-24 rate period.

Regardless, it is reasonable to apply the RDC Amount to flexible debt reduction. Transmission is still forecast to not meet the debt-to-asset policy goal, and reducing debt will have long-term benefits.

WPAG and Powerex point to the FY 2022 RDC decision as an example of BPA applying an RDC Amount to reduce future rates. WPAG Comments at 1; Powerex Comments at 1. In the FY 2022 RDC decision, BPA held $16.4 million as reserves for risk to support a settlement that maintained BP-24 transmission rates at the same levels as in the BP-22 rate period and applied $17.7 million as a dividend distribution applied in FY 2023. BPA acknowledges that holding reserves for a future use is an available option under the FRP and does not violate BPA's statutory ratemaking directives or principles. *See* FY 2023 Transmission RDC Response to Comments at 6-9. BPA is nevertheless making a different decision for the FY 2024 Transmission RDC based on the circumstances at hand. Applying the entire amount to flexible debt reduction is reasonable in light of Transmission's forecast debt-to-asset ratio and long-term interest expense savings. Even with this RDC decision, there is room for growth in maintaining BPA's financial strength in the face of significant capital expansion to meet customer needs. Decisions about BP-26 Transmission rates must be made in the BP-26 rate proceeding.

2.3 Intergenerational Equity

Public Comments

AWEC urges BPA "to return the RDC funds immediately as a rate credit in 2025 to the same customers who paid rates during the past year." AWEC Comments at 1. AWEC argues, "return of RDC funds better meets the principle of intergenerational equity." AWEC reasons, "RDC funds represent an overcollection from customers that occurred during the BP-24 rate period, so it is appropriate to return the benefit of these dollars during that same rate period rather than spreading the benefits across potentially decades. *Id.*

WPAG and PPC argue that the sequential triggering of three Transmission RDCs is indicative of systematic over-recovery of costs. WPAG Comments at 1; PPC Comments at 1.

Evaluation of Comments and Response

BPA disagrees that an RDC Amount represents an overcollection from customers. As discussed in the FRP Phase-In Implementation ROD:

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[7] This amount does not include amounts financed via third-party financing such as PFIA.

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

FRP Phase-In Implementation ROD at 35.[8] BPA disagrees that rate reduction is a mandatory or prioritized purpose under the RDC. Intergenerational equity does not dictate a certain result here. It is a principle applied in the ratemaking context that must be balanced with other ratemaking principles and objectives. This principle does not foreclose debt repayment from being an appropriate high-value purpose under the RDC. The RDC is designed to consider both short- and long-term benefits and debt repayment is an appropriate option for the Administrator to consider consistent with the FRP. *See* FY 2023 Transmission RDC Response to Comments at 12 (explaining BPA's disagreement that RDC Amounts should be used only for rate reduction and that individual RDC decisions are not intended to revisit the adoption of the FRP itself).

2.4 Reopen Financial Policies

<u>Public Comments</u>

NIPPC/RNW "suggest BPA reopen its Financial Policies related to use of the Transmission RDC amount in order to discuss reasonable limits to the Administrator's discretion to deploy those surplus reserves," and "should commit to prioritizing return of a significant amount of the Transmission RDC amount to current customers." NIPPC/RNW Comments at 3-4.

<u>Evaluation of Comments and Response</u>

BPA expects to take a comprehensive look at its financial policies and risk mitigation, in collaboration with customers and stakeholders, prior to the BP-29 rate period.

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[8] *Available at* https://www.bpa.gov/-/media/Aep/finance/financial-policies/rod-20180925-financial-reserves-policy-phase-in-implementation.pdf.