February 19, 2016

Via Email: BPAFinance@bpa.gov

Department of Energy
Bonneville Power Administration
Transmission Services
P.O. Box 64109
Vancouver, WA 98666-1409

Re: Joint Comments on BPA Policy for Financial Reserves in Rates

Avista Corporation, Avangrid Renewables, LLC, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. ("Joint Commenters") respectfully submit these comments to the Bonneville Power Administration ("BPA") regarding BPA's draft reserves policy objectives and scope for developing a Financial Reserves in Rates Policy ("Policy"). In January, BPA distributed to a number of parties a document entitled "Scope of 'Financial Reserves in Rates' Policy" ("Scope Document") and indicated that a series of workshops on development of a Policy would be scheduled in the spring of this year. Joint Commenters appreciate BPA's commencement of a process to develop a Policy and submit these initial comments on this topic.[1]

A. Overall Objective to Guide Development of the Policy

The Administrator's Preface in the BP-16 Record of Decision stated at P-1 that

> . . . BPA will work with stakeholders to develop disciplined financial policies that will equitably apply to both power and transmission rates, including the use of financial reserves and risk mitigation measures in support of BPA's enduring financial strength.

This is an appropriate objective that should guide the development of the Policy.

[1] These Joint Comments are initial comments for informal discussion purposes only and do not necessarily represent positions to be taken by any Joint Commenter in a rate proceeding or other forum.

B. Evaluation of Risk and Financial Reserves in Setting BPA Rates

Joint Commenters would like to include, in the discussions regarding the Policy, exploration of the following approach regarding evaluation of risk and financial reserves in setting BPA rates:[2]

(i) In each rate case, allocate the BPA Treasury Note available for risk between the two business lines.[3]

- The share allocated to each business line ("Share of Treasury Note") should be proportionate to the variations in the cash flows of that business line.

- Even if a business line does not need its allocation of its Share of Treasury Note to satisfy the TPP requirement, a proportionate Share of Treasury Note should be allocated to such business line. Failure to allocate a proportionate Share of Treasury Note to each business line will over time result in unnecessarily high levels of financial reserves for one business line while supporting a low level of financial reserves for the other business line.

(ii) In each rate case, establish for each business line a target level of financial reserves[4] for the beginning of the rate period ("Target Level of Reserves").

- The Target Level of Reserves for each business line should be adequate to reasonably protect against variations in the cash flows of that business line during the rate period, taking into account (a) the magnitude of the uncertainties in the cash flows of that business line and (b) the liquidity provided by the Share of Treasury Note for that business line.

(iii) In each rate case, project for each business line the financial reserves for the beginning of the rate period ("Projected Level of Reserves").

[2] This approach consists of a number of steps to be followed in the development of BPA rates. These steps are complementary and are intended to work together as a package.
[3] Such allocation of the BPA Treasury Note is for BPA ratemaking and would not affect the availability of the BPA Treasury Note to meet liquidity needs of either business line during the rate period.
[4] As used in these Joint Comments, "financial reserves" refer to BPA financial reserves available for risk.

(iv) Adjust the revenue requirement of each business line for the rate period as follows:

- If the Target Level of Reserves exceeds the Projected Level of Reserves for a business line, increase the revenue requirement for the rate period for that business line by an amount equal to the lesser of (a) the amount by which the Target Level of Reserves exceeds the Projected Level of Reserves or (b) [X]% of the revenue requirement of that business line for the rate period.

- If the Projected Level of Reserves exceeds the Target Level of Reserves for a business line, decrease the revenue requirement for the rate period for that business line by an amount equal to the lesser of (a) the amount by which the Projected Level of Reserves exceeds the Target Level of Reserves or (b) [X]% (the same percentage as is used in item (iv) above) of the revenue requirement of that business line for the rate period.

(v) Determine the adequacy of the intra-year liquidity of each business line, assuming the revenue requirement and Projected Level of Reserves for that business line determined as described above and taking into account such business line's Share of Treasury Note. If either business line has inadequate intra-year liquidity, increase the revenue requirement for that business line to provide such liquidity.

(vi) Determine whether the proposed rates for each business line meet a 95% TPP, taking into account such business line's Share of Treasury Note. To the extent a business line has a TPP less than 95%, increase the revenue requirement for that business line to achieve a 95% TPP. To the extent a business line has a TPP greater than 95%, reduce the revenue requirement for that business line to achieve a 95% TPP.

(vii) Determine an appropriate credit rating for BPA. If the revenue requirements (as adjusted pursuant to steps (iv), (v) and (vi) above) in aggregate for both business lines are not adequate to support an appropriate credit rating for BPA, adjust both revenue requirements by a uniform percentage to the level necessary to support that credit rating.

The financial reserves for each business line should be adequate in light of the magnitude of the uncertainties in the cash flows of that business line and the Share of Treasury Note allocated to that business line. In other words, the objective should be that financial reserves for each business line should equal the

Target Level of Reserves for that business line. If this is the case, financial reserves should be adequate to support an appropriate credit rating for BPA, assuming that the revenue requirement for each business line before any adjustments as described above is set at a level to recover projected costs.

C. The Policy Should Address a Risk Mitigation Package for Power Rates and Transmission Rates

1. BPA Has Applied Policy Objectives to Guide Development of BPA's Power Services Risk Mitigation

BPA has, for a number of rate cases, used the following policy objectives guide the development of BPA's power services risk mitigation:

(a) Create a rate design and risk mitigation package that meets BPA's financial standards, particularly achieving a 95 percent two-year Treasury Payment Probability (TPP).

(b) Produce the lowest possible rates, consistent with sound business principles and statutory obligations, including BPA's long-term responsibility to invest in and maintain the aging infrastructure of the Federal Columbia River Power System (FCRPS).

(c) Set lower, but adjustable, effective rates rather than higher, more stable rates.

(d) Include in the risk mitigation package only those elements that can be relied upon.

(e) Do not let financial reserve levels build up to unnecessarily high levels.

(f) Allocate costs and risks of products to the rates for those products to the fullest extent possible; in particular, prevent any risks arising from Tier 2 service from imposing costs on Tier 1 or requiring stronger Tier 1 risk mitigation.

(g) Rely prudently on liquidity tools, and create means to replenish them when they are used in order to maintain long-term price availability.[5]

2. BPA Should Adopt Comparable Policy Objectives to Guide Development of BPA's Transmission Services Risk Mitigation

BPA should adopt comparable policy objectives to guide the development of BPA's transmission services risk mitigation. In BP-16, Joint Party 04 recommended adoption of the following policy objectives to guide the development of the risk mitigation package for transmission rates in this proceeding (shown as blacklined revisions to the policy objectives set forth by BPA for the development of the risk mitigation package for power rates):

> The following policy objectives guide the development of the transmission risk mitigation package:
>
> (a) Create a rate design and risk mitigation package that meets BPA financial standards, particularly achieving a 95 percent two-year Treasury Payment Probability.
>
> (b) Produce the lowest possible rates, consistent with sound business principles and statutory obligations, including BPA's long-term responsibility to invest in and maintain the ~~aging~~ infrastructure of the Federal Columbia River ~~Power~~ Transmission System (FCRTS~~FCRPS~~).
>
> (c) Set lower, but adjustable, effective rates rather than higher, more stable rates.
>
> (d) Include in the risk mitigation package only those elements that can be relied upon.
>
> (e) Do not let financial reserve levels build up to unnecessarily high levels.
>
> (f) Allocate costs and risks of products to the rates for those products to the fullest extent possible~~; in particular, prevent~~

[5] Holland, *et al.*, BP-16-E-JP04-14-V01, at page 3, line 21 through page 4, line 20, quoting Lovell, *et al.*, BP-16-E-BPA-30, at page 2, lines 2-18..

~~any risks arising from Tier 2 service from imposing costs on Tier 1 or requiring stronger Tier 1 risk mitigation~~.

(g) Rely prudently on liquidity tools, and create means to replenish them when they are used in order to maintain long-term availability.

These objectives are not completely independent and may sometimes conflict with each other. Thus, BPA must create a balance among these objectives when developing its overall transmission risk mitigation strategy.

3. The Policy Objectives to Guide Development of BPA's Power Services Risk Mitigation and Transmission Services Risk Mitigation Should Be Supplemented to Incorporate the Above Approach to Evaluation of Risk and Financial Reserves in Setting BPA Rates

The above-described approach to evaluation of risk and financial reserves in setting BPA rates (in Section B above) includes determination of Projected Level of Reserves and Target Level of Reserves, adjustment of the revenue requirement of each business line based on those levels, and further adjustments to revenue requirement as necessary based on TPP, liquidity needs and credit rating needs. This approach should be explored and, if appropriate, added to the risk mitigation package for power rates and transmission rates.

Use of such policy objectives, which would be parallel for both business lines, should help ensure that power and transmission financial reserves are adequate but not unreasonably high and that each business line bears a reasonable share of the cost or burden of BPA's overall need for financial reserves to support Agency needs, including to support an appropriate BPA credit rating. Use of parallel policy objectives for the development of the risk mitigation packages for power and transmission rates mitigates the potential of ratepayers of one business line subsidizing the ratepayers of the other business line and is also consistent with the fact that power and transmission rates are generally subject to the same statutory standards.

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Joint Commenters appreciate BPA's consideration of these Joint Comments, look forward to working with BPA and others in the regions to address these matters, and would be happy to discuss these matters with BPA.