Request Detail

Request ID: PS-BPA-26-22
Page Number: 149
Line Number: 8-10
Exhibit Filing: BP-18-E-BPA-33

Technical Contact Name: Jason Kuzma
Technical Contact Phone: 425.635.1416
Technical Contact Email: jkuzma@perkinscoie.com
Legal Contact Name:
Legal Contact Phone:
Legal Contact Email:

Request Filing: BP-18-E-BPA-33, page 149, lines 8-10:

BP-18-E-BPA-33, page 149, lines 8-10 appears to state that the Alternative Option in BP-18-EBPA-33 "aligns the need to hold financial reserves with the benefits derived from holding those financial reserves at the business line level."

(a) Do the referenced "benefits" include or take into account benefits of financial reserves in meeting a business line's need for financial reserves in light of the financial size and variability of the business line? Please explain and describe BPA's rationale for BPA's approach in this regard in the Alternative Option.

(b) Do the referenced "benefits" include or take into account any benefit to the Power business line from the assumed availability to the Power business line of the Treasury facility in TPP calculations and for intra-year liquidity? Please explain and describe BPA's rationale for BPA's approach in this regard in the Alternative Option.

(c) Do the referenced "benefits" include or take into account the fact that, for example, with financial reserves BPA can offset unanticipated expenses, smooth rate impacts, defer capital borrowings to later periods resulting in lower interest charges, and/or earn higher interest income. (See BP-18-E-BPA-33, at page 67, lines 20-23.) Please explain and describe BPA's rationale for BPA's approach in this regard in the Alternative Option.

https://www.bpa.gov/secure/ratecase/openfile.aspx?fileName=01.pdf&contentType=application%2fpdf

Response Detail

Date Response Filed: 3/28/2017 1:04:50 PM
Contact Name: Daniel Fisher
Contact Phone: 503.230.3202
Contact Email: dhfisher@bpa.gov
Response Text:
(a) The context of the referenced statement is from the perspective of the allocation of the Agency's lower threshold only. BP-18-E-BPA-33 at page 142. This is an important distinction because financial reserves provide multiple benefits and credit rating support is but one of those multiple benefits. Consistent with our statements in our rebuttal, "[a]lthough each threshold contributes to the overall strength of the FRP and all of its objectives, we view the lower threshold as primarily supporting BPA's credit rating and the upper threshold as primarily supporting rate stability." Id. at 124. Liquidity is also a benefit of financial reserves, but as we stated in our rebuttal, "BPA's TPP standard is currently BPA's primary way of assessing its need for liquidity, for ensuring BPA's ability to make required payments, and ensuring the adequacy of BPA's current liquidity." Id. at 32. Thus, given the focus of the referenced statement, specifically the allocation of the Agency's lower threshold which we view as primarily supporting the Agency's credit rating, the benefits we are referring to include the avoided increase in interest costs only. (b) Consistent with our answer in (a), TPP and liquidity was not considered in this context as we were focused on the lower threshold only and "we do not argue that the FRP is required for BPA's liquidity; merely that an objective of the FRP is to support BPA's liquidity." Id. at 32. (c) Our statement is focused on the lower threshold and not the upper threshold. We view the upper threshold as primarily supporting rate stability (i.e., offsetting unanticipated expenses and smoothing rate impacts.) To support rate stability, we included a wider deadband for Power as compared to Transmission in both our Initial Proposal and the Alternative Option. These deadbands are a function of each business line's size. As such, BPA's Initial Proposal and Alternative Option include a deadband for Power ($309 million) that is roughly three times larger than the deadband for Transmission ($99 million). This is roughly proportional to one standard deviation in net revenue for each business line ($250 million for Power, Id. at 115 and $90 million for Transmission). "With a narrow deadband, Power could easily find itself triggering an RDC in one year and then triggering a CRAC in the very next year." Id. at 115. We believe deferred capital borrowings and higher interest income is an important consideration in the Net Present Value calculation, Id. at 58., but we also believe that "interest income earned on higher levels of financial reserves would not by itself justify holding higher financial reserve levels." Id. at 42. Further, the benefits associated with interest income and deferred borrowing would be observed by both Power and Transmission and would mostly offset each other in a commensurate benefits evaluation if each business line had the same lower threshold. Therefore, the referenced statement does not include interest income and deferred borrowing for either

business line.
Files Submitted for this Response:

Request Detail

Request ID: PS-BPA-26-23
Page Number: 141
Line Number: 1-7
Exhibit Filing: BP-18-E-BPA-33

Technical Contact Name: Jason Kuzma
Technical Contact Phone: 425.635.1416
Technical Contact Email: jkuzma@perkinscoie.com
Legal Contact Name:
Legal Contact Phone:
Legal Contact Email:

Request Filing: BP-18-E-BPA-33, page 141, lines 1-7:

BP-18-E-BPA-33, at page 141, lines 1-7, includes the following:

> JP05 and WPAG suggest allocating the Agency's days cash requirement between the business lines based on the percentage of total capital expenditures attributable to each business line over the next 10 years. Deen et al., BP-18-EJP05-01, at 18-19; Saleba *et al*., BP-18-E-WG-01 at 10, 25. They chose total capital expenditures over projections of third-party borrowing, reasoning that BPA has many options for allocating BPA's remaining Federal borrowing authority that could greatly affect how much each business line needed to rely on third-party capital markets.

The JP05 proposed Financial Reserves policy includes the following:

> During the rate setting process for each rate period BPA will calculate a "Financial Reserves Allocation Factor" for both the Power and Transmission business lines. The allocation factor for each business line shall be its proportion of *BPA's total projected capital spending over the following ten years (upcoming rate period plus the following eight years) that is intended to be debt financed*, as published in the Capital Investment Review or successor process.

BP-18-E-JP05-01, Exhibit A, at section 3.3 (italics added).

(a) Under the Alternative Option in BP-18-E-BPA-33, would the lower threshold of each business line be based on the product of the Agency 60 days cash level and that business line's fraction of 10-year projection of (i) "BPA capital spending" or (ii) "BPA capital spending" that is intended to be debt financed? (See BP-18-E-BPA-33, at page 145, lines 5-8.) Please explain and describe BPA's rationale for BPA's approach in this regard in the Alternative Option.

(b) Under the Alternative Option in BP-18-E-BPA-33, would "BPA capital spending" include, or would the allocation of lower threshold between business lines include or take into account, capital investment that is paid (without borrowing) out of a business line's revenues or financial reserves? Please explain and describe BPA's rationale for BPA's approach in this regard in the Alternative Option.

(c) Under the Alternative Option in BP-18-E-BPA-33, would "BPA capital spending" include, or would the allocation of lower threshold between business lines include or take into account, refinancing of non-Federal borrowing? Please explain and describe BPA's rationale for BPA's approach in this regard in the Alternative Option.

(d) Under the Alternative Option in BP-18-E-BPA-33, would "BPA capital spending" include, or would the allocation of lower threshold between business lines include or take into account, refinancing of Federal borrowing? Please explain and describe BPA's rationale for BPA's approach in this regard in the Alternative Option.

(e) Under the Alternative Option in BP-18-E-BPA-33, would "BPA capital spending" include, or would the allocation of lower threshold between business lines include or take into account, the fact that the borrowing under the Treasury facility reduces or counts against BPA's remaining borrowing authority? (See BP-18-E-BPA-17, at page 4, line 24, through page 5, line 2.) Please explain and describe BPA's rationale for BPA's approach in this regard in the Alternative Option.

(f) Under the Alternative Option in BP-18-E-BPA-33, would "BPA capital spending" include, or would the allocation of lower threshold between business lines include or take into account, the fact that, for example, with financial reserves BPA can offset unanticipated expenses, smooth rate impacts, defer capital borrowings to later periods resulting in lower interest charges, and/or earn higher interest income. (See BP-18-EBPA-33, at page 67, lines

20-23.) Please explain and describe BPA's rationale for BPA's approach in this regard in the Alternative Option.

Response Detail

Date Response Filed: 3/28/2017 1:07:37 PM
Contact Name: Marcus Harris
Contact Phone: 503.230.5931
Contact Email: maharris@bpa.gov
Response Text:
BPA's Alternative Option applies JP05 and WPAG's benefits based lower threshold allocation methodology. The rationale and information regarding this proposal should be drawn from JP05 and WPAG's direct testimony. Deen et al., BP-18-E-JP05-01, at 18-19, Exhibit A pg. 2; Saleba et al., BP-18-E-WG-01 at 10, 12, 25. BPA responds as follows: a) The lower threshold would be based on BPA's overall planned capital spending that is planned to be debt financed over the following 10 years as described in Deen et al., BP-18-E-JP05-01, at 18-19, Exhibit A at. 2; Saleba et al., BP-18-E-WG-01 at 10, 12, 25. The rationale for this proposal is described in Deen et al., BP-18-E-JP05-01, at 23-24, Saleba et al., BP-18-E-WG-01, at 25, and Harris et al., BP-18-E-BPA-33, at 140-144, 146-152. BPA acknowledges the methodology put forward by JP05 and WPAG is a reasonable approximation of credit rating benefit (45% for Power and 55% for Transmission) because it closely represents the percentage of planned non-federal debt issuances over the next 10 years (42% for Power and 58% for Transmission) (see data response PP-BPA-26-3 for Power and Transmission planned non-federal debt issuances over the next 10 years) and it will likely be more stable over the long-term as the economics of BPA's various financing sources changes often more rapidly than planned capital expenditures. b) Reserves or revenue financed capital would be excluded from the overall planned capital spending as noted in Deen et al., BP-18-E-JP05-01, Exhibit A section 3.3. c) The allocation would not take into account refinancing of non-Federal debt. The Alternative Option uses the allocation methodology proposed by JP05 and WPAG, and neither of these parties included refinancing as part of their methodology. d) The allocation would not take into account refinancing of Federal debt. The Alternative Option uses the allocation methodology proposed by JP05 and WPAG, and neither of these parties included refinancing as part of their methodology. e) Borrowing under the Treasury Facility would not impact the allocation. f) See data response PS-BPA-26-22.
Files Submitted for this Response:

Request Detail

Request ID: PS-BPA-26-25
Page Number: 86
Line Number: 16-17
Exhibit Filing: BP-18-E-BPA-33

Technical Contact Name: Jason Kuzma
Technical Contact Phone: 425.635.1416
Technical Contact Email: jkuzma@perkinscoie.com
Legal Contact Name:
Legal Contact Phone:
Legal Contact Email:

Request Filing: BP-18-E-BPA-33, page 86, lines 16-17:

BP-18-E-BPA-33, at page 86, lines 16-17, includes the following: "With regard to the calculation of TPP, the Treasury Facility is a liquidity tool that BPA can and will use."

Has BPA actually drawn on the Treasury facility in the last 10 years? If so, when and by how much?

Response Detail

Date Response Filed: 3/28/2017 1:14:51 PM
Contact Name: Marcus Harris
Contact Phone: 503.230.5931
Contact Email: maharris@bpa.gov
Response Text:
BPA has drawn on the Treasury Facility six times in the last ten years; however these draws were not for liquidity but rather to ensure the adequacy and sufficiency of internal processes in the event BPA actually needed to draw on the facility for liquidity. BPA's draw dates and draw amounts are listed below. For each draw, BPA repaid the outstanding balance with the funds generated from the draw within 3 months of the draw date. Draw Date Draw Amount 12/31/2010 $10 million 5/19/2011 $100 million 5/31/2013 $100 million 5/31/2014 $10 million 5/31/2015 $10 million
Files Submitted for this Response:

Request Detail

Request ID: PS-BPA-26-28
Page Number: 145
Line Number: 6-10
Exhibit Filing: BP-18-E-BPA-33

Technical Contact Name: Jason Kuzma
Technical Contact Phone: 425.635.1416
Technical Contact Email: jkuzma@perkinscoie.com
Legal Contact Name:
Legal Contact Phone:
Legal Contact Email:

Request Filing: BP-18-E-BPA-33, page 145, lines 6-10:

BP-18-E-BPA-33 includes the following regarding the Alternative Option in such testimony:

> Each business line's lower threshold would be based on its fraction of a 10-year projection of BPA capital spending multiplied by the Agency 60 days cash level. Roughly speaking, for the BP-18 rate period, this would mean a lower threshold for Power of $180 million and for Transmission of $220 million.

BP-18-E-BPA-33, at page 145, lines 6-10.

(a) Please provide the derivation and calculation of the $180 million for Power lower threshold and $220 million for the Transmission lower threshold.

(b) How many days' cash on hand for Power is represented by $180 million?

(c) How many days' cash on hand for Transmission is represented by $220 million?

Response Detail

Date Response Filed: 3/28/2017 1:27:25 PM
Contact Name: Marcus Harris
Contact Phone: 503.230.5931
Contact Email: maharris@bpa.gov
Response Text:
(a) As stated in the testimony, the business line lower threshold is calculated by multiplying the percentage of 10-year capital expenditure for each business line by 60 Agency days cash on hand. A discussion regarding why 60 days cash was proposed is provided in Harris et al., BP-18-E-BPA-17, at 31-32, Harris et al., BP-18-E-BPA-33, at 20-21, 62-63, 69-72. The cited $180 million and $220 million were rough estimates used for discussion of the Alternative Option in BPA's Section 6 (Harris et al., BP-18-E-BPA-33, at 141-142, 145-150). The exact numbers are $184 million and $224 million for Power and Transmission respectively and these exact numbers were used in BPA's analysis of the Alternative Option (BP-18-E-BPA-33, Policy Analysis Tool: BPA's Alternative Option, available at https://www.bpa.gov/Finance/RateCases/BP-18/Pages/Models-and-Datasets.aspx, "Input" tab, cells E12 and E15). To check the derivation of the lower thresholds follow step 2a outlined in data response PP-BPA-26-60. b) $180 million in Power reserves is equivalent to 35 days cash on hand for Power. c) $220 million in Transmission reserves is equivalent to 134 days cash on hand for Transmission.
Files Submitted for this Response:

Request Detail

Request ID: PS-BPA-26-29
Page Number: 145
Line Number: 15-19
Exhibit Filing: BP-18-E-BPA-33

Technical Contact Name: Jason Kuzma
Technical Contact Phone: 425.635.1416
Technical Contact Email: jkuzma@perkinscoie.com
Legal Contact Name:
Legal Contact Phone:
Legal Contact Email:

Request Filing: BP-18-E-BPA-33, page 145, lines 15-19:

BP-18-E-BPA-33 includes the following regarding the Alternative Option in such testimony:

> The RDC thresholds would be set to the FRP upper thresholds. The upper threshold would be 60 days cash (for that business line) above the business line's lower threshold. For the BP-18 rate period, the Power RDC threshold would be about $480 million and the Transmission RDC threshold would be about $320 million.

BP-18-E-BPA-33, at page 145, lines 15-19.

(a) Please provide the derivation and calculation of the Power RDC threshold of about $480 million and Transmission RDC threshold of about $320 million.

(b) How many days' cash on hand for Power is represented by $480 million?

(c) How many days' cash on hand for Transmission is represented by $320 million?

Response Detail

Date Response Filed: 3/28/2017 1:29:19 PM
Contact Name: Marcus Harris
Contact Phone: 503.230.5931
Contact Email: maharris@bpa.gov
Response Text:
a) The business line upper thresholds were derived by adding 60 days cash on hand to the business line lower thresholds. For the exact derivation see steps 2a and 5a in data response PP-BPA-26-60. The cited $480 million and $320 million were rough estimates used for discussion of the Alternative Option in BPA's Section 6 (see generally Harris et al., BP-18-E-BPA-33, at 141-142, 145-150). The exact numbers are $493 million and $323 million for Power and Transmission respectively and these exact numbers were used in BPA's analysis of the Alternative Option [BP-18-E-BPA-33, Policy Analysis Tool: BPA's Alternative Option, available at https://www.bpa.gov/Finance/RateCases/BP-18/Pages/Models-and-Datasets.aspx, "Input" tab, cells E10 and E16] b) $480 million Power reserves is equivalent to 93 days cash on hand for Power. c) $320 million Transmission reserves is equivalent to 194 days cash on hand for Transmission.
Files Submitted for this Response:

Request Detail

Request ID: PS-BPA-26-30
Page Number: 50-51
Line Number: 50:26 - 51:2
Exhibit Filing: BP-18-E-BPA-33

Technical Contact Name: Jason Kuzma
Technical Contact Phone: 425.635.1416
Technical Contact Email: jkuzma@perkinscoie.com
Legal Contact Name:
Legal Contact Phone:
Legal Contact Email:

Request Filing: BP-18-E-BPA-33, page 50, line 26 through page 51, line 2.

BP-18-E-BPA-33 includes the following, which references §§ 3.3 and 3.5 of BP-18-E-BPA-17, Appendix A (BPA's proposed Financial Reserves Policy):

> For each business line, if financial reserves fall below the lower threshold, a rate increase (CRAC) will trigger to replenish financial reserves in the following fiscal year. *See id*., §§ 3.3, 3.5.

BP-18-E-BPA-33, page 50, line 26 through page 51, line 2.

(a) Does this language mean that, under BPA's proposed Financial Reserves Policy, a rate increase will occur if financial reserves fall below the lower threshold?

(b) Does this language mean that, under BPA's proposed Financial Reserves Policy, a rate increase in the amount by which financial reserves fall below the lower threshold will occur if financial reserves fall below the lower threshold?

Response Detail

Date Response Filed: 3/28/2017 1:31:23 PM
Contact Name: Byrne Lovell
Contact Phone: 503.230.3930
Contact Email: belovell@bpa.gov
Response Text:
Under BPA's proposal, there is a lower threshold for financial reserves for each business line. Each business line's rates will include a CRAC. The threshold for the Transmission CRAC will be set to the Transmission lower threshold immediately. The threshold for the Power CRAC will be set to the Power lower threshold only at the completion of the phase-in period (see BP-18-E-BPA-33, at 51); prior to that time, the Power CRAC threshold will be below the Power lower threshold. (a) Yes. Assuming that the Phase-in has been completed, if a forecast of end-of-year accumulated calibrated net revenue for a business line is below the CRAC threshold, i.e., the lower threshold, for that business line, a rate increase will take effect for the subsequent fiscal year. (b) Yes, assuming the Phase-in is complete, and for each business line the CRAC threshold is equal to the lower threshold, although the extent of the recovery would depend in part on the CRAC recovery parameters BPA sets in the rate case. BPA's proposed GRSPs include a cap of $100 million that can be collected in one year through a CRAC on Transmission rates and a cap of $300 million that can be collected in one year through a CRAC on non-Slice Power rates. There are two phases to the Power CRAC: the first $100 million of any Power shortfall will be collected dollar for dollar, while shortfall amounts in excess of $100 million will be collected 50 cents per dollar. For example, a Power shortfall of $20 million would trigger a $20 million CRAC; a shortfall of $99 million would trigger a CRAC of $99 million; a shortfall of $102 million would trigger a CRAC of $101 million; and a shortfall of $505 would trigger a CRAC of $300 million.
Files Submitted for this Response: