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REBUTTAL TESTIMONY OF

NADINE M. COSEO, DANIEL H. FISHER, REBECCA E. FREDRICKSON, AND ALEXANDER LENNOX

Witnesses for Bonneville Power Administration

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SUBJECT: JOINT POWER AND TRANSMISSION REVENUE FINANCING ISSUES

Section 1: Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

A. My name is Nadine Coseo, and my qualifications are contained in BP-22-Q-BPA-08.

A. My name is Daniel H. Fisher, and my qualifications are contained in BP-22-Q-BPA-11.

A. My name is Rebecca Fredrickson, and my qualifications are contained in BP-22-Q-BPA-13.

A. My name is Alexander Lennox, and my qualifications are contained in BP-22-Q-BPA-21.

Q. Please state the purpose of your testimony.

A. The purpose of our testimony is to address issues raised by the parties' Direct Cases that either directly or indirectly impact both the Power and Transmission revenue financing proposals. Our joint response is provided in this testimony. Specific objections or concerns raised in the parties' Direct Cases regarding only one of the Power or Transmission revenue financing proposals are addressed in the applicable rebuttal testimony: Fisher *et al.*, BP-22-E-BPA-35 (Power) or Fredrickson *et al.*, BP-22-E-BPA-36 (Transmission).

Section 2: Overall Policy Context

Q. Please describe the overall policy context for your proposal to revenue finance in both Power and Transmission rates.

A. The Power and Transmission revenue financing proposals are focused on two equally important and related issues: maintaining available borrowing authority and concerns about the overall amount of outstanding debt. The reasons that each business line has proposed to take action in relation to these issues in BP-22 are somewhat different.

For the borrowing authority issues, Staff has concerns about both near-term and long-term availability of borrowing authority. The Initial Proposal shows that Transmission is the primary contributor to the near-term concerns about available borrowing authority and that no transmission revenue financing in BP-22 would likely translate into severe rate impacts in BP-24 and subsequent rate periods. As explained in the testimony of Fredrickson *et al.*, BP-22-E-BP-36, the *near*-term constraints contribute significantly to the basis for the transmission revenue financing proposal for BP-22, but this in no way minimizes the more general need for Transmission to begin taking rate action, like revenue financing, to help address concerns about the overall amount of its outstanding debt and the unsustainable trajectory of its net borrowing.

Power stands in a different position than Transmission with respect to the near-term borrowing authority issue. Power is paying back more in Federal debt than it is taking out, making it an overall net Federal debt repayer. Viewed in isolation, the near-term borrowing authority constraint would not appear to be a primary reason to include revenue financing in Power rates this rate period. However, Power's position as a net payer of Federal debt does not answer whether Power should, nonetheless, take prudent financial actions in this rate period to reduce its own outstanding debt and improve its financial flexibility. As we explain at length in the testimony of Fisher *et al.*, BP-22-E-BPA-35, Power is uniquely positioned this rate period to revenue finance a portion of its capital assets, thereby avoiding debt, and creating both near-term and long-term benefits to Power rates. Those benefits include further deleveraging the Power business line, preserving Power's current liquidity, increasing rate stability, reducing future interest costs, helping maintain BPA's credit rating, preserving borrowing authority, and positioning Power as the supplier of choice in 2028. Importantly, we can support all of these objectives without raising Power rates.

Section 3: Process Concerns with BPA's Revenue Financing Proposal

Section 3.1: Pre-Rate Case Process

Q. Several parties raised concerns with how BPA developed its proposals to revenue finance in BP-22 for both Power and Transmission rates. Please describe their general concerns.

A. It was a common theme in many of the parties' direct cases that the way our revenue financing proposals were developed was faulty. Several parties noted that BPA typically develops policies and positions before the rate case in pre-rate case workshops, but that the revenue financing proposals were developed late in the workshop process with little discussion with stakeholders. E.g., Chalier, BP-22-E-AW-01, at 7. The Alliance of Western Energy Consumers (AWEC) specifically notes that it was "not the result of a careful, reasoned process." *Id.*

Joint Party 02 (JP02) makes a similar argument, noting it "was only at the last pre-rate case workshop on September 20, 2020, that customers were informed about the extent of the borrowing authority problem and BPA's apparent urgency to address the matter in BP-22." Morrison *et al.*, BP-22-E-JP02-01, at 3. JP02 also notes customers were given only two weeks to comment on the merits of the concept before the proposal went into BPA's Initial Proposal. *Id.* at 3-4.

The Northwest Requirements Utilities (NRU) raised similar issues, and contrasted BPA's development of its revenue financing proposal with other policies it developed, such as the Financial Reserve Policy (FRP). Stratman, BP-22-E-NR-01, at 14. NRU notes that the FRP collected $40 million, and was the product of a robust process, while here, BPA proposes to collect $95 million with no guiding policy and a limited public process. *Id.* at 15. NRU notes that BPA's revenue financing proposal deserves equal policy development as the FRP. *Id.*

The Snohomish County Public Utility District (Snohomish) acknowledges that "[c]ustomers have been aware of the financial challenges the Agency is facing," but notes that "it was only at the final pre-rate case workshop on September 29, 2020, that customers were informed about the extent of the borrowing authority problem and BPA's stated urgency to take action in BP-22." Morrison & Hunter, BP-22-E-SN-01, at 2. Snohomish argues that the process and analysis for Staff's proposal is insufficient. *Id.* at 3.

The M-S-R Public Power Agency (M-S-R) argues BPA created "an element of procedural shock" by not presenting the revenue financing proposals until the end of the pre-rate case workshops. Arthur, BP-22-E-MS-01, at 29. M-S-R finds it troubling that BPA would impose revenue financing after creating customer expectations—at the July 28, 2020 workshop—that it would not be imposed under the Leverage Policy. *Id.* at 29-30.

Powerex Corp. (Powerex) expresses concern that, "[i]n contrast to the anticipated and collaborative public process," BPA provided "little opportunity for customer engagement or exploration of long-term solutions" by first proposing revenue financing at the last pre-rate case workshop. Opatrny, BP-22-E-PX-01, at 7.

Joint Party 03 (JP03) argues that inadequate process denied parties the opportunity to adequately analyze the issues, discuss alternatives, and discuss customer feedback. Kester *et al.*, BP-22-E-JP03-01, at 4.

Other parties raised similar concerns. Gray & Mendonca, BP-22-E-PN-01, at 6; Andersen *et al.*, BP-22-E-WG-01, at 5-6; Deen & Linn, BP-22-E-PP-01, at 2-3. The Public Power Council (PPC) noted that despite pre-rate case workshops starting in October of 2019, BPA did not provide customers notice of its proposal until September 29, 2020. Deen & Linn, BP-22-E-PP-01, at 3. The general sentiment from these parties is that BPA should not continue with its revenue finance proposals until this process can occur and a comprehensive policy that considers other alternatives is established. Andersen *et al.*, BP-22-E-WG-01, at 5-6; Stratman, BP-22-E-NR-01, at 16, 21; Gray & Mendonca, BP-22-E-PN-01, at 12.

Q. How do you respond to these concerns as they relate to the Power revenue financing proposal?

A. We acknowledge that the pre-rate case process that led to the current proposal was shorter and less robust than what BPA typically uses before making a proposal for Power. The timing of the pre-rate case discussion of our Power revenue financing proposal was due to the fact that the unanticipated prospect for a rate decrease was not known until later in the pre-rate case workshop process. Certainly, had we known about that decrease in Power rates earlier, we would have incorporated our proposal for revenue financing into the workshop schedule and been able to engage in a longer dialogue with customers. Once it became clear that a rate decrease was possible, BPA Staff began evaluating alternatives based on present circumstances, which included the opportunity to take out less debt to benefit future rates.

Q. What about the timing of the discussion of Transmission revenue financing in pre-rate case workshops?

A. For Transmission, the September 29, 2020, workshop was the first pre-rate case meeting that Staff was ready to present the issues and options after the completion of internal discussion of near-term borrowing authority issues. As in previous workshop procedures, we requested customer feedback on the Staff recommendation and shared what we would be proposing in the October customer meeting. As described in the Initial Proposal, Staff calibrated the forecast leverage calculation discussed in the July 2020 workshop to better align with actuals. These changes resulted in revised assumptions about revenue financing in Transmission rates under the Leverage Policy for BP-22. The need for internal analysis and discussion of the issues resulting from the change in assumptions contributed to the timing of when Staff was able to address the proposed level of Transmission revenue financing in pre-rate case workshops.

Q. Some parties noted that BPA did not follow its "six step process" for pre-rate case workshops in reaching its revenue financing proposals. Kester et al., BP-22-E-JP03-01, at 3-6. For instance, JP03 contends "[t]his failure denied parties the opportunity to adequately analyze the issues, discuss alternatives and discuss customer feedback." Id. at 4. How do you respond?

A. We disagree. BPA noted, when describing its workshop process, that "multiple steps might be addressed in a single workshop." Second Exhibit to Direct Testimony of JP03, BP-22-E-JP03-03, at 3. The presentation at the September 29, 2020, pre-rate case workshop introduced and described the issue, provided data and analysis, discussed alternatives and Staff's proposed solution, and requested comments from customers.

Further, while we value the dialogue with stakeholders, the pre-rate case process is not a substitute or prerequisite for the formal proceedings where BPA must make actual decisions on the record about its rates. BPA's Initial Proposal is part of the nine-month BP-22 rate case process, in which parties are able to seek additional data, provide comments, and suggest alternatives before the Administrator makes a final decision based upon the whole record. BPA need not identify an issue and hold pre-rate case workshops in order to include that issue within its Initial Proposal.

Q. NRU agrees that the rate case is a public process, but also notes that BPA traditionally holds robust public processes prior to the rate case to work with its customers. Stratman, BP-22-E-NR-01, at 15-16. NRU specifically notes BPA developed its Financial Plan, FRP, and Leverage Policy entirely, or largely, outside of the rate case. Id. at 16. The Pacific Northwest Generating Cooperative (PNGC) also recognizes that BPA has taken certain complex policies through the rate-case process, but only after conducting a robust process outside of the proceeding. Gray & Mendonca, BP-22-E-PN-01, at 11-12. How do you respond?

A. We are not proposing a new long-term policy in or through our proposals for revenue financing. Therefore, the idea that a robust policy development workshop process should have occurred before making the revenue financing proposals in the BP-22 rate case is inapposite. Our proposal is limited to the facts in this rate case. Whether each business line should revenue finance over the BP-22 rate period, and what amount, is an issue to be decided based on the record in this rate case. Both Power and Transmission have included a certain amount of revenue financing in their respective proposals in response to each business line's current circumstances and financial position. BPA has already committed to addressing its financial health, including access to capital issues, sustainable capital funding approaches, and other financial health objectives, in another forum.

Q. Powerex cites modifications to Minimum Required Net Revenue (MRNR) as evidence of "the expediency of putting into place the revenue financing proposal. . . ." Opatrny, BP-22-E-PX-01, at 7-8. How do you respond?

A. Modeling is often fluid and dynamic. It is not unusual for repayment studies and revenue requirements to evolve as the Initial Proposal is developed. This does not mean that we are acting hastily. Instead, it is a recognition that there is a degree of uncertainty and fluidity embedded in any process, and that Staff needs to be flexible and responsive to changing assumptions and results. The change in MRNR cited by Powerex is evidence of Staff adapting the modeling to a changing assumption. That is, the change in MRNR in this case is the indicator of the existence of revenue financing. Lennox *et al.*, BP-22-E-BPA-20, at 5.

Section 3.2: Long-Term Policy

Q. Several parties raised concerns that BPA's revenue financing proposal was not guided by a long-term policy. Please describe their general concerns.

A. AWEC argues that, because BPA has not adopted a comprehensive, long-term access-to-capital strategy, BPA cannot demonstrate an appropriate level of revenue financing for this rate period. Chalier, BP-22-E-AW-01, at 22. AWEC argues that a policy "would help define what is appropriate and 'sound' in this proceeding." *Id.* at 16. Powerex argues revenue financing is not needed in BP-22 because BPA does not have a policy "designed specifically to manage BPA's limited borrowing authority, nor does it have a policy/rate mechanism that requires revenue financing." Opatrny, BP-22-E-PX-01, at 4. Snohomish notes "BPA is conducting a separate process outside the rate case to discuss additional measures to address the Agency's debt-management challenges [and] Snohomish views these upcoming discussions as an opportunity to develop a framework that sets a level of revenue financing that accomplishes Transmissions' long-ter[m] goals." Morrison & Hunter, BP-22-E-SN-01, at 4.

NRU argues that BPA's financial health "should be governed by thoughtful, well-vetted policy that has been developed in a public process, is supported by robust analytics and is developed in the context of other existing policies and practices." Stratman, BP-22-E-NR-01, at 5. NRU states, "[i]t is inappropriate, risky and sets bad precedent to make ad hoc decisions to include revenue financing in rates without the guidance of an established and well-vetted policy." *Id.* M-S-R states, "[i]t seems to me that the policy should be addressed before BPA seeks to impose significant revenue financing on customers." Arthur, BP-22-E-MS-01, at 18. Joint Party 01 (JP01) and the Calpine Corp. (Calpine) note that "while BPA has formally adopted a Financial Reserves Policy (to manage its financial reserves) and a Leverage Policy (to manage its debt-to-asset ratio), BPA has not formally adopted any policy related to management of its borrowing authority between specific business units." Tilghman & Goggin, BP-22-E-JP01-01, at 63; Smith, BP-22-E-CP-01, at 1.

Q. Do you agree with the parties' comments that it was necessary for BPA to develop a policy on access to capital before making the revenue financing proposals?

A. No. While BPA has placed an emphasis in recent years on the development of policies to guide Agency financial decisions consistent with the 2018 Financial Plan, nothing requires the establishment of a policy before taking rate action. As with any business, BPA must have flexibility to adjust to changing circumstances. Sometimes BPA is able to propose taking an action along with developing a policy to guide how and when future rates should also take similar actions. The FRP is an example of such a policy. In other instances, BPA may take a one-time action that has both long- and short-term benefits based on what is known at that time. Either way, BPA needs flexibility to choose which path makes the most sense. Based on current circumstances, it is appropriate to introduce our revenue financing proposals in this case without an established policy.

Q. Powerex argues that BPA's access to capital issues require discussions with customers regarding long-term solutions, and that "BPA does not appear to have a defined plan to address its capital concerns." Opatrny, BP-22-E-PX-01, at 8-9. Other parties raise similar concerns, contending that BPA should first develop a policy, and then consider alternatives, like revenue financing. Chalier, BP-22-E-AW-01, at 6-8; Deen & Linn, BP-22-E-PP-01, at 12; Andersen et al., BP-22-E-WG-01, at 10-11; Morrison et al., BP-22-E-JP02-01, at 8; Stratman, BP-22-E-NR-01, at 10-11. How do you respond?

A. The 2018 Financial Plan, as did its two predecessors, identifies access to capital as an Agency priority. The 2018 Financial Plan also establishes a goal of maintaining $1.5 billion in available borrowing authority, but it provides little detail about achieving those objectives. We acknowledge that the dual revenue financing proposals in this proceeding could have been aided by a long-term policy that addresses those details. We heard from customers that they would like to be part of the discussion to address the capital concerns. We agree that there is value in collaborating with customers and plan to have that long-term discussion after the BP-22 rate proceeding. That does not suggest, however, that we lack a defined objective or sound basis for taking action in this rate period. The facts of this case provide the urgency and opportunity to take actions in this rate period.

The specific action we can take to achieve this objective for both business lines is simple: incur less debt. How we fold this action into a broad-sweeping strategy on access to capital, deleveraging, and the other financial issues facing BPA would require a much broader (and longer) conversation. We are supportive of having those conversations, but we do not think that means we cannot take measured steps now. To put it simply, no matter what policy, plan, or criteria BPA may ultimately adopt on the broader financial issues facing the agency in a separate process, we do not see how deciding to take out less debt today would in any way be contrary to that policy or plan. Indeed, our proposals generally support the purposes of the Financial Plan, *e.g.*, strengthening financial health by improving the balance sheet which reduces interest expense, provides financial flexibility, and supports a strong credit rating.

Q. Has BPA historically taken debt management actions without a long-term policy?

A. Yes. BPA does not have a policy on debt management. Nonetheless, BPA frequently takes debt management and debt financing actions without formal policy guidance. Since the late 1990s, BPA has worked successfully with Energy Northwest (EN) on efforts to refinance EN bonds to reduce interest expense (*e.g.*, Accelerated Front-end Savings and Regional Cooperation Debt (RCD) or to extend access to U.S. Treasury borrowing authority (*e.g.*, Debt Optimization/Debt Service Reassignment and Regional Cooperation Debt phase 2 (RCD2)). BPA embarked on a Power prepay program that generated over $300 million to finance capital investments. Transmission's cost structure includes over $1 billion of lease-financed assets. Power and Transmission rates have both occasionally included revenue financing. Transmission rates from 2006 through 2017 included the use of current financial reserves to finance capital investments. All of these efforts were completed on a case-by-case basis, without a formal policy in place.

Q. Does this mean BPA is opposed to establishing a policy later that will account for any revenue financing adopted in this proceeding and other actions the business lines have taken previously to support BPA's long-term financial health?

A. No. We intend to have a more robust discussion with stakeholders outside of the rate case on the broader question of BPA's financial health, including access-to-capital issues, sustainable capital funding approaches, and other financial health objectives.

Because these are long-term issues, we plan to have the broader financial health and long-term debt management discussion with customers after the rate case. We anticipate this process kicking off in the fourth quarter of FY 2021.

Q. *NRU, PPC, and PNGC also make suggestions on the topics BPA should consider in its external access to capital process. Please summarize these positions.*

A. NRU contends that BPA's access to capital process needs to consider an "all of the above" strategy. Stratman, BP-22-E-NR-01, at 16. This means looking at equity issues between the business lines to ensure each is supporting the Agency's financial health to meet its resiliency objective. NRU notes that the FRP and the Leverage Policy include substantial efforts to ensuring equitable treatment between the business lines. The access-to-capital policy should do so also. *Id.* NRU and PPC both make a variety of specific recommendations for the policy to consider, such as business line capital spending levels, historical and forecast borrowing authority use, and others. *Id.* at 16-17; Deen & Linn, BP-22-E-PP-01, at 12-13. PNGC supports PPC's recommendations. Gray & Mendonca, BP-22-E-PN-01, at 12. PPC recommends that the outcome of this policy process should be agreement on a clearly articulated leverage trajectory for each business line and the Agency as a whole, along with the pursuit of an "all of the above" access to capital strategy within that context. Deen & Linn, BP-22-E-PP-01, at 13. The Western Public Agencies Group (WPAG) contends that in any post-rate case process, the actions and "down payments" power customers have made through RCD, expensing energy efficiency, and being a net repayer of borrowing, should be considered. Andersen *et al.*, BP-22-E-WG-01, at 11.

Q. *How do you respond?*

A. The parties identify a number of helpful suggestions as to what the scope and topics of the follow-on policy process should consider. We appreciate these suggestions and agree that they cover a wide range of areas that BPA and stakeholders should evaluate as BPA weighs crafting a broader policy.

Q. *PNGC notes that BPA needs to do a "better job" of balancing its concerns and the concerns of its customers. Gray & Mendonca, BP-22-E-PN-01, at 13. PNGC is deeply concerned with undertones in BPA's testimony that it is "running out of money." Id. PNGC notes that this is a serious physical and financial risk to the region, and those problems must be addressed, but BPA's "opportunistic" proposal does not do enough to holistically evaluate those long-term issues. Id. at 13-14. How do you respond?*

A. BPA has never said or implied that it is "running out of money." We have said that borrowing authority is being depleted and that we risk violating the Financial Plan's limit to retain $1.5 billion of borrowing authority. This is not the same as "running out of money."

Moreover, none of the issues described by BPA are new. BPA has engaged its customers to address its limited Treasury borrowing authority for decades. The holistic approach to capital financing has been described in three different financial plans (1993, 2007, and 2018) and in multiple public workshops over the decades. The general tools are no different today than they were in the 1990s. BPA has been able to delay, but not solve, its access-to-capital challenge. We fully expect to continue to address this challenge with our customers in the future.

Section 4: Equity Considerations

Section 4.1: Intergenerational Equity

Q. *The parties raised a number of concerns with the Power and Transmission revenue financing proposals as it relates to intergenerational equity. Starting from a broader perspective, what were some common themes you saw in their respective Direct Cases?*

A. The parties raise two common themes in their Direct Cases. The first common theme is the claim that our proposal violates the traditional application of the principle of intergenerational equity as understood in ratemaking literature. The second theme questions our reference to intergenerational equity in the context of preserving borrowing authority.

Q. Please explain the first theme.

A. In general, these parties contend that the intergenerational equity principle demands recovering the cost of a long-lived asset over the asset's useful life, which ensures that current and future ratepayers pay commensurate amounts for their use of that asset. These parties generally claim that our proposal to revenue finance a portion of our capital assets in this case violates this principle. They argue that it is inequitable for current ratepayers to pay more for an asset than is justified by their use while future ratepayers will receive the benefit of that asset without the attendant cost. That, as we understand it, is the "inequity" that our proposal allegedly creates.

Q. How do you respond to this first theme?

A. First and foremost, we are aware of the intergenerational equity rate making principle as mentioned in rate making literature – it is one of many considerations that utilities often consider when setting rates. Other principles and considerations include revenue sufficiency, understandability, feasibility, fairness stability, simplicity, efficiency, effectiveness, and acceptance. It is also quite well established that these widely applied principles and considerations can be in competition with each other, which means their application is far from absolute and must be balanced.

Second, the parties' concerns with intergenerational equity all presume that BPA has an unconstrained source of borrowing for its capital program or, at the very least, an absolute way to solve that constraint later. Our testimony recognizes and considers the relative limitations and benefits of different financing alternatives in proposing to revenue finance a portion of BPA's capital program this rate period.

As we have described extensively in our Direct Case, and again in this rebuttal, BPA is facing serious borrowing authority challenges in the near-term and over the longer-term horizon. We believe the situation requires action now, rather than waiting until BP-24 or when we are up against our borrowing authority limit. Once that limit is reached, BPA may have no choice but to include revenue financing or some similar mechanism to pay for its capital expenditures. In all of the parties' references to intergenerational equity, we have not heard how considerations of "equity" will address a situation in which BPA has no available borrowing authority to fund capital expenditures. Nor do we believe it prudent to pin the financing of our capital program on the basis of hope for a future "creative solution" which, heretofore, has not been identified or is uncertain to be implemented by the time we reach the constraint. *See* Chalier, BP-22-E-AW-01, at 15. Also, as we explain more fully below, our proposal preserves borrowing authority, thereby mitigating a greater inequity to future ratepayers. The fact that this constraint is now acute – after years of discussions – demonstrates the need to begin taking action.

Third, the parties' rigid definition of the intergenerational equity principle quickly unravels when evaluated against the reality of financing assets in the utility industry and the recovery of the costs of those assets. Following the parties' logic, to comply with their definition of intergenerational equity, *all* assets with a long useful life should be 100-percent debt financed to ensure that the asset is appropriately "paid" by each generation of ratepayers. Further, the debt would need to be extended to its maximum maturity to match the full useful life of the assets. However, as far as we understand, most if not all the utilities served by BPA have debt-to-asset ratios that are significantly less than 100 percent. Regardless of the specific financial vehicle that causes assets to be greater than debt, this effectively means that utilities are recovering the cost of their assets over a period shorter than the assets' useful life. Taken together, this shows that application of the intergenerational equity principle in utility asset financing and ratemaking is, in practice, not as rigid as the parties suggest. In other words, having a debt-to-asset ratio that is less than 100 percent can also be equitable, or at the very least, unavoidable once other ratemaking objectives are considered and applied.

Q. In your response above, and in your Direct Case, you mention that investor-owned utilities (IOUs) and public utilities (Publics) do not debt finance 100 percent of their capital programs, but are not accused of similar intergenerational equity issues. Fisher et al., BP-22-E-BPA-15, at 20-21. Several parties describe this comparison as inapposite. Please describe your understanding of these parties' position.

A. AWEC contends that BPA's reference to the financing actions of IOUs and Public customers is inapplicable to BPA. Chalier, BP-22-E-AW-01, at 12. For IOUs, AWEC notes that these utilities must minimize the capital cost to their customers and use equity financing, which is equivalent to revenue financing and is the most expensive form of capital. *Id.* IOUs that collect equity for capital will be expected to earn an equity return, which AWEC contends transfers dollars from customers to investors. AWEC contrasts this situation to BPA. BPA's healthy equity component helps ensure BPA's credit rating, which is already generally higher than most IOUs. AWEC asserts that this comparison is, thus, inappropriate. *Id*. AWEC grants that most consumer-owned utilities (COUs) have an element of revenue financing in their rates. *Id.* However, AWEC notes that for cooperatives, the beneficiaries of the reserves of the utility are its members, which receive distributions on an annual basis. *Id.* at 12-13. AWEC claims this is "clearly different from the situation BPA faces with its customers." *Id.* at 13. As for municipalities and peoples' utility districts (PUDs), AWEC claims these entities are political subdivisions and are held accountable by its members through the utility's governance structure. *Id.* This, AWEC claims, shows "there is no meaningful analogy to BPA's revenue financing scenario." *Id*. AWEC contends comparison to other entities is "inapt," and inclusion of revenue financing in BPA's rates must be measured against BPA's rate directive to set rates as low as possible consistent with sound business principles. *Id.* The PPC makes similar points in its testimony. Deen & Linn, BP-22-E-PP-01, at 7.

JP03 raises a similar argument and contends that BPA's references to how other utilities' financing processes assign costs and benefits does not establish that BPA's proposal is consistent with intergenerational equity. Kester *et al.*, BP-22-E-JP03-01, at 18-19. JP03 also notes that BPA's survey of other utilities does not include other power marketing administrations (PMAs), which JP03 claims BPA did not consider. *Id.* at 19.

Q. Do you agree?

A. This argument is not convincing. Taken at its face value, this argument would imply that the "consistent with sound business principles" component of BPA's statutes has no meaning whatsoever given no other businesses are like BPA. AWEC and the PPC painstakingly evaluate what BPA is not, but provide no evaluation for what BPA is. If BPA is not to evaluate sound business principles in comparison to other electric-power utilities co-located in the Pacific Northwest, it's hard to imagine the source of those business principles. It is imminently reasonable and consistent with sound business principles for BPA to consider its financing practices in comparison to other utilities in the region. In doing that, we find utilities in the region are operating at debt-to-asset ratios less than 100 percent and, therefore, conclude that they recover the costs of assets over a period shorter than their useful life. Moreover, it is evident from documents posted by utilities that it is common for utilities to revenue finance up to 60 percent of their capital programs, a claim uncontested by the parties. If these utilities can finance their assets with something less than 100 percent debt, we believe it is a sound business practice for BPA to do so as well.

JP03's contention that we should have considered the financing approach used by other PMAs is also misplaced. Other PMAs have vastly different obligations and statutory authorities than BPA. One, the Southeastern Power Administration (SEPA), is purely a marketing agent for energy produced at U.S. Army Corps of Engineers (Corp) facilities. All three – SEPA, the Southwestern Power Administration (SWPA), and the Western Area Power Administrations (WAPA) – historically have relied on appropriations to fund capital projects. Thus, these entities bear very little resemblance to BPA. Nevertheless, even if this comparison were relevant, BPA's proposal would be reasonable. Both SWPA and SEPA have noted in public reports that customer financing has been used for some capital projects in their respective systems. The Tennessee Valley Authority (TVA), while not a PMA, uses funds from operations as well as debt to finance capital investments. It has a leverage ratio of approximately 60 percent. Thus, our proposal to include revenue financing in current rates is appropriate and is not inconsistent with the practice of other PMAs or federally-chartered entities.

Q. Earlier you mentioned that there were two major themes presented in the parties' Direct Cases. Please further explain the second major theme.

A. The second theme questions our reference to intergenerational equity in the context of preserving borrowing authority. For example, AWEC argues that intergenerational equity is an established principle of ratemaking that refers to the notion that each generation using a utility asset should pay their fair share of that asset. Chalier, BP-22-

E-AW-01, at 9-10. AWEC contends that intergenerational equity is not about preserving a scarce resource, but about ensuring each generation pays its fair share of an asset. *Id.* at 10-11. JP01 and Calpine raise a similar argument, noting it is inappropriate to apply intergenerational equity "to the immeasurable and entirely speculative costs and benefits of the preservation of BPA's borrowing authority." Tilghman & Goggin, BP-22-E-JP01-01, at 65; Smith, BP-22-E-CP-01, at 1. They argue "BPA's assertion that the deferral of borrowing creates benefits for future generations is self-defeating" because it is not reasonable for current customers to pay for the benefit of future generations. Tilghman & Goggin, BP-22-E-JP01-01, at 66. Powerex also disagrees with Staff's characterization as "inappropriately focus[ing] on spreading the benefits of the federal borrowing authority across multiple generations and miss[ing] the more common interpretation . . . that those customers who benefit from the use of investments should contribute to the costs of those investments." Opatrny, BP-22-E-PX-01, at 13. M-S-R believes that BPA's characterization "obfuscates the issue" because, although BPA's current borrowing authority is limited, it could increase. Arthur, BP-22-E-MS-01, at 23. M-S-R argues that "the lack of a current proposal to increase [BPA's] borrowing authority does not mean that it is fair for current ratepayers to pay for assets to be used by future generations of customers." *Id.*

Q. What is your response?

A. We find these objections unpersuasive. Many of the parties that challenged our application of intergenerational equity fail to recognize the direct impact BPA's limited borrowing authority can have on the amount of time BPA would recover the assets' costs from its customers. Parties myopically conclude that anything less than 100 percent debt financing fails the intergenerational equity principle, but then completely ignore the intergenerational impact that would result if BPA had unmet capital needs and no remaining borrowing authority. Intergenerational equity should consider the impact on present and future ratepayers, both of revenue financing and of deciding not to revenue finance. As discussed above, the parties' arguments presume that BPA can forever meet its growing capital needs while maintaining 100 percent debt financing. BPA's capital spending projections have shown that this is not the case and thus the parties are effectively arguing to create a bigger intergenerational problem, as they defined it, for future rate payers.

Q. *In your view, how is intergenerational equity supported by the revenue financing proposals in this rate period?*

A. In our view, maintaining BPA's borrowing authority so that it is available for both current and future rate payers results in a more equitable allocation of that resource. By way of example, Table 1 below shows two hypothetical scenarios for addressing BPA's borrowing authority constraint. Scenario A shows an example where BPA waits until the borrowing authority problem becomes "acute" and then takes action. Scenario B shows an example of where BPA takes rate action early on and spreads it across multiple rate periods. In both scenarios, on average, the same amount of revenue financing is achieved over the 10-year period.

Table 1: Two Hypothetical Scenarios for Revenue Financing

Scenario A	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	10-Year Average
Debt Finance %	100%	100%	100%	100%	100%	60%	60%	60%	60%	60%	80%
Revenue Finance %	0%	0%	0%	0%	0%	40%	40%	40%	40%	40%	20%

Scenario B	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	10-Year Average
Debt Finance %	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Revenue Finance %	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%

The question we ask ourselves is under which of these scenarios is intergenerational equity better represented? We believe the answer is Scenario B because it spreads the rate action across multiple generations of ratepayers. It seems to us that most of the parties are contending that Scenario A should be adopted in the hope that "something else" will be decided before the crisis becomes unavoidable (hypothetical year 6). While this may be an expedient way for keeping near-term rates low, it does not strike us as either equitable nor a sound business action. Given our history discussing these issues, it is unlikely that a solution will be identified that does not include revenue financing. Even if some alternative course is implemented, it may (as was the case of the Leverage Policy) turn out to be less effective than originally expected. Without "something else," ratepayers in hypothetical year 6 face a steep increase in their rates for no other reason than BPA's inaction in the prior five years. We think that is a less equitable outcome for that and all future generations.

Q. What other broad policy issues do you see with the parties' perspective that intergenerational equity requires BPA to debt finance its capital program for the life of the assets?

A. Foundationally, we see the parties' claim that we tie specific financing decisions to the "useful life" of assets as unreasonably constraining BPA's ability to economically and efficiently manage the financing of its capital asset program. For a large capital program such as BPA's, intergenerational equity is properly evaluated from the perspective of the capital portfolio as a whole rather than a focus on individual assets. From a portfolio perspective, the amount of revenue financing proposed in this proceeding represents only a small percentage of BPA's total capital expenditures. Some degree of acceleration or deceleration of cost recovery within the period of use for certain assets does not necessarily mean that rates are inequitable. It just reflects the reality of financing a large utility capital program and the availability of more than one source of financing.

Accelerating the recovery of the initial cost of an asset also recognizes a broader view of the costs of the asset. Maintenance costs of an asset can change dramatically as the asset ages, with very little spending in the early years and significantly more nearer the end of its life. Accelerating the recovery of the initial cost reduces the impact of other increasing costs, such as maintenance costs, that can occur as assets age.

Furthermore, if intergenerational equity requires BPA to tether the financing and useful life of an asset together to ensure "everyone pays the same" for the asset, then BPA has no choice in the source and timing of its capital funding. This approach to financing would completely disregard sensible business factors such as interest rates, the timing of bond maturities, and other important financing elements potentially costing BPA, and thus its customers, millions of dollars. Consider a simple example.

Assume BPA needs to purchase a piece of equipment with a useful life of 50 years for $45 million. Suppose the current U.S. Treasury borrowing interest rate is 10 percent for a 50-year term. Over the 50-year useful life of the asset and financing period, BPA would incur approximately $225 million in interest expense for this bond. Assume also that a shorter term bond for $45 million over 10 years is issued for 5 percent interest, for a total of about $23 million in interest expense over the 10-year financing period. If intergenerational equity considerations control decisions – as put forward by these parties – BPA would not be able to take advantage of the lower interest rate because *future* rate payers would pay less for that asset. Instead, following the parties' logic on intergenerational equity, BPA should pay the high-interest rate debt so that all generations "pay the same amount" for the same asset, even though the resulting interest expense to BPA is about 10 times the cost.

Taking the parties' ideas to its logical extreme, BPA would even be precluded from refinancing its high-interest debt for low-interest debt whenever terms of the two debts do not match the original life of the asset. Obviously, this nonsensical practice is not what is intended by intergenerational equity, as no utility would be required to make such irrational business decisions. The more logical and sound business approach is what we propose here: that, in accordance with intergenerational equity, BPA should consider the impact on *all* generations of ratepayers in exercising its discretion to make sound business decisions. That discretion includes making sound business decisions on *how* to finance the capital program – whether it be through incurring debt (for any length of time) or financing it with current rates.

Q. *The parties also raise specific intergenerational issues with Power's and Transmission's respective revenue financing proposals. Beginning with the Power proposal, what specific intergenerational issues did the parties raise?*

A. AWEC argues that using up borrowing authority today will not harm future rate payers. AWEC says BPA's assets have a useful life of 30-50 years. The benefit of the asset will be spread to all customers who use the asset. Chalier, BP-22-E-AW-01, at 11.

Q. *How do you respond?*

A. AWEC appears to misidentify the source of the potential intergenerational inequity that can arise when BPA's borrowing authority is abruptly exhausted. We agree that there is not an inequity with using borrowing authority; rather, the potential intergenerational inequity results when a future generation needs access to capital that previous generations exhausted. Our proposal is for BPA to take action now, so that the benefits of available borrowing authority can be enjoyed by past, current, and future rate payers.

Q. *WPAG also raised a specific intergenerational equity argument regarding Power. What did they argue?*

A. WPAG contends that our proposal does not follow intergenerational equity because it does not have a "long-term" plan in place to equitably assign revenue financing responsibilities between current and future generations. Andersen *et al.*, BP-22-E-WG-01, at 13. Instead, WPAG claims BPA is proposing to impose an *ad hoc* $190 million of additional revenue financing on the current generation of Power ratepayers because it can do so without raising rates. This requires current ratepayers to pay too much for these assets, while future ratepayers could never truly be made whole because of the passage of time and "generational churn." *Id.* at 13-14. WPAG further contends this inequity is exacerbated by the fact that current generations of Power customers are being called to pay more to preserve borrowing authority while the benefit of those actions are not guaranteed to be available for future Power customers. *Id.* at 13.

Q. What is your response?

A. WPAG has rightly identified that an inter-business line policy on access to capital could help guide each business line's responsibility for managing limited borrowing authority. This has become increasingly clear as the ramifications of a long-identified problem becomes more imminent. Ideally, the region would have adopted a long-term policy to deal with this problem three decades ago when it was first identified, but unfortunately we did not. Rather, the region has done what we are proposing to do now – work to address the issue on a case-by-case basis through actions like lease financing, prepay, redesignating capital regulatory assets to expense, non-federal debt actions, and revenue financing. Our proposal aligns with past precedent, though we do agree that a policy would have been helpful in the past and also at this moment.

That said, we do not have a policy to guide us as we face an access to capital problem that could hit us in earnest as early as BP-24. Rather than wait to adopt a policy and allow the potential BP-24 problem to worsen, we propose to maintain the status quo approach and take mitigating actions based on the opportunities available to us at the time. In this rate period, the opportunity in front of us is the ability to include revenue financing in power rates without raising rates. As discussed in Section 4 of Fisher *et al.,* BP-22-E-BPA-35, this revenue financing also provides other important benefits to Power. Further, our Power proposal allows planned revenue financing to be repurposed for liquidity if needed to maintain BPA's financial reserves.

Said another way, this problem is not new, our proposal to mitigate the problem aligns with BPA's past practices, our proposal has an undeniably modest impact on customers relative to BP-20 rate levels, and our proposal has the ability to dial itself back to the extent actual financial performance is worse than forecast.

Q. *Let's move to Transmission. What specific intergenerational equity issues did parties raise in regards to the Transmission revenue financing proposal?*

A. JP03 argues that preserving borrowing authority does not support intergenerational equity because BPA has not demonstrated "the extent, if any, to which depletion of federal borrowing authority is unavoidable." Kester *et al.*, BP-22-E-JP03-01, at 18. Therefore, "BPA has not shown that any particular amount of revenue financing in the BP-22 rate period is consistent with intergenerational equity." *Id.* at 19. Second, JP03 asserts that "BPA appears to be proposing to address the great majority of what it considers to be its near-term debt-capacity gap," and argues "BPA has not shown that addressing the great majority of any near-term debt-capacity gap in BP-22 is consistent with intergenerational equity." *Id.* at 19-20.

Q. How do you respond to JP03's first argument?

A. JP03 is correct that BPA's forecast borrowing authority shortfall is not certain. Forecasts are always uncertain. The problem is that we will only have certainty when it is too late to act. Parties have pointed at a number of issues arguing that there is uncertainty in the forecast. If they are correct, the only way to be certain is to wait for the event to happen or be so close to it occurring that there is no way to forestall it.

Q. How do you respond to JP03's second argument?

A. We disagree. JP03's argument seems to be that BPA should revenue finance equal amounts in BP-22 and BP-24 to solve for the borrowing authority shortfall in BP-24. Such an analysis would be overly simplistic. It ignores the purpose of revenue financing to address the unsustainable trajectory of Transmission's reliance on debt, and that the borrowing authority shortfall will continue to grow larger as Transmission continues to be a net borrower. Fredrickson *et al.,* BP-22-E-BPA-36, addresses the reasonableness of $45 million per year in light of various considerations and potential alternatives to revenue financing.

Q. What additional concerns did parties raise with the Transmission revenue financing proposal?

A. JP01 and Calpine argue "[t]he use of revenue financing creates measurable, inappropriate, and discriminatory intergenerational inequities." Tilghman & Goggin, BP-22-E-JP01-01, at 62; Smith, BP-22-E-CP-01, at 1. JP01 and Calpine describe BPA's proposal as essentially a method to generate excess revenue in order to fund long-lived capital investments directly from ratepayers through rate increases. Tilghman & Goggin, BP-22-E-JP01-01, at 62-63. They argue this is inequitable because future customers obtain the benefits of long-term capital investments without sharing any of the costs. *Id.* at 64-65. This inequity is "measurable" as is the difference between a revenue requirement including revenue financing and one with debt-financed principal and interest and operations and maintenance (O&M). *Id.* at 65.

Powerex argues that BPA's proposal violates the intergenerational equity principle because revenue financing results in collecting costs from customers who may not get the benefit of the assets they are funding. Opatrny, BP-22-E-PX-01, at 12. M-S-R defines intergenerational equity as "the ratemaking principle that each generation of customers should fund the portion of assets they utilize." Arthur, BP-22-E-MS-01, at 22.

Q. How do you respond?

A. These arguments fall within the first "general theme" that we address near the beginning of this Section 4.1.

We also disagree with JP01's and Calpine's argument that BPA's proposal is a method to generate excess revenue. Revenue financing is a capital-financing decision. Revenue financing has always been a potential tool for financing capital investments, even if BPA has not used it extensively. Moreover, until recently, it was an expected tool in implementing BPA's efforts to deleverage the Transmission business line through the Leverage Policy. Prior borrowing authority analysis assumed revenue financing in Transmission rates as large as $135 million to $200 million per year to achieve the Leverage Policy's mid-term and long-term targets, beginning in BP-22. Finally, as we noted earlier, revenue financing is used by other utilities.

As discussed above, intergenerational equity should look at the capital portfolio as a whole. Revenue financing does not occur in isolation. It is done in conjunction with debt issuances and debt repayment. For BPA, this means considering how highly the Agency and the business units are leveraged, *i.e.*, comparing debt to assets. BPA's strategic and financial plans identify mid- and long-term targets for leverage ratios. The mid-term target is to keep the business unit ratios in the 75-85 percent range. The Initial Proposal finds Transmission with a forecast ratio of 77.12 percent at the end of the BP-22 rate period. From that perspective, keeping Transmission's debt portfolio within the desired range helps address intergenerational equity concerns.

Section 4.2: Inter-Business Line Equity

Q. Several parties contend BPA is not considering "inter-business line equity." What does the term "inter-business line equity" mean?

A. The phrase "inter-business line equity" generally refers to a consideration of how a BPA action or policy affects Power rates (and customers) and Transmission rates (and customers). This equity consideration arises because not all Transmission customers are Power customers, and so the way a proposed action affects those different customer groups is a consideration in taking that action.

Q. Are Power and Transmission customers aligned on their inter-business line equity arguments?

A. In general, no. Power customers generally contend Transmission should be responsible for the bulk of any revenue financing that BPA proposes, while Transmission customers note that borrowing authority is a shared resource and addressing any shortfall should be shared between the business lines.

Q. Beginning with the Power parties, what inter-business line equity issues did they argue exist regarding the proposal to include revenue financing in power rates?

A. WPAG argues BPA did not take into account inter-business line equity when developing its proposal. Andersen *et al.*, BP-22-E-WG-01, at 9. WPAG argues this is important because Power customers are already providing support to BPA's borrowing authority through a series of actions, such as expensing energy efficiency, conducting RCD and RCD2, and being a net-repayer of borrowing authority. *Id.* at 11-12. In contrast, WPAG notes that from FY 2020-2030, Transmission will be a net borrower from the U.S. Treasury for approximately $3 billion, and is on a path to consume all borrowing authority by 2037. *Id.* at 7. WPAG further notes that for every $1 of net repaid debt by Power, Transmission borrows $2. *Id.* at 12. If any revenue financing is needed, WPAG argues "it needs to be focused on Transmission Services." *Id.* at 15. WPAG contends that BPA's omission of a discussion of inter-business line equity is a "fatal flaw." *Id.* at 9.

AWEC makes a similar argument, noting it is highly questionable to have power customers pay to relieve an access-to-capital problem that has been exacerbated by Transmission debt management. Chalier, BP-22-E-AW-01, at 14-15.

Q. What is your response?

A. We disagree that inter-business line equity concerns require a modification to our proposal. As we stated earlier, the benefits of this proposal to Power rates go beyond simply replenishing scarce borrowing authority. Not incurring debt has multiple benefits to Power, which we described in Section 2 of Fisher *et al.*, BP-22-E-BPA-35. Most importantly, those benefits can be achieved without incurring additional rate pressure. We think those facts alone explain why inter-business line equity considerations would not cause BPA to abandon its proposal.

This is not to say that we are ignoring the concerns parties are raising. Power certainly does have an interest in maintaining borrowing authority for the Agency and how each business line contributes to supporting that authority is an important issue. This follows from the fact that U.S. Treasury borrowing authority is an Agency resource. Both business units use it and both benefit from its existence. As discussed earlier, Power rates rely on the availability of the $750 million Treasury Note (which comes from borrowing authority) for liquidity. If BPA's borrowing authority is exhausted – no matter the reason – there would be significant financial repercussions to both business lines. Thus, having Power contribute to the availability of that resource is reasonable.

Q. Are there other ways Power benefits from the availability of borrowing authority?

A. Yes. Power benefits from the availability of borrowing authority in that unencumbered borrowing authority is of interest to credit-rating agencies when they assess BPA's credit worthiness – which is measured on an agency basis, not by business unit – prior to EN bond transactions. There are $3.5 billion of such bond transactions within RCD2, planned through 2030, that will directly benefit Power. Additionally, BPA and EN regularly enter into bond transactions to fund capital projects at the Columbia Generating Station (CGS), for fuel purchases and to refinance existing bonds to take advantage of interest rate savings. Depleted borrowing authority would jeopardize BPA's credit rating and potentially reduce the benefits of these upcoming bond transactions. Furthermore, revenue financing directly supports BPA's efforts to reduce and manage leverage, as measured by the debt-to-asset ratio. Less debt results in an improved balance sheet, which produces concomitant benefits on the income statement in the form of lower interest costs for years to come.

Q. PPC mentions that Power is including $95 million in revenue financing, which is almost 21 percent of the Power capital program, while at the same time Power is an overall net repayer of debt, is not contributing to the consumption of borrowing authority, and will pay off almost $1 billion in borrowing authority by 2031. Deen & Linn, BP-22-E-PP-01, at 8-9. PPC contrasts these facts to Transmission, which is the primary user of borrowing authority and is expected to continue to be so for the next 10 years. Id. at 7. Yet, BPA proposes to only require Transmission to revenue finance $45 million, which is 8 percent of Transmission's capital program. Id. at 9. PPC argues this approach is not consistent with inter-business line equity or cost causation. Id. at 6-7. How do you respond?

A. PPC's comparison focuses on the relationship between the respective revenue financing proposals as a percentage of each business unit's capital program. However, this comparison is misplaced. As stated above, the reasons that each business has proposed to take action in relation to these issues in BP-22 are somewhat different. Power's revenue financing is a function of what, as we describe in Fisher *et al.*, BP-22-E-BPA-35, Power can afford. We describe in that testimony how the $95 million is affordable so far as it maintains a flat base Power rate.

Transmission's revenue financing proposal, however, is founded on a different starting point. Transmission is facing a rate increase independent of the revenue financing proposal, but also is more likely to be impacted by the near-term borrowing authority constraint. As a result, the Transmission revenue financing proposal is for a specific amount, rather than being conditional. Thus, it is not appropriate to try to calibrate the two proposals against each other. We are explicitly not proposing such an approach, nor are we determining a long-term policy in this rate period.

Fundamentally, as discussed above, our proposals are not intended to assign relative responsibility for long-term management of borrowing authority. Instead, following historical practice, each business line's proposal is based on the unique circumstances facing that business line.

Q. BPA notes that Power may become a net consumer of borrowing authority in 2031. AWEC, however, contends that BPA has not provided sufficient analysis or documentation to demonstrate Power's need. Chalier, BP-22-E-AW-01, at 15. How do you respond?

A. BPA noted that starting in 2031, while still being a net debt repayer overall, Power will become a net consumer of borrowing authority. Beginning in 2031, Power's debt repayment focus switches from repayment of Federal debt to payment of the non-Federal debt that will be extended into the 2031-to-2044 timeframe under the RCD2 program. This highlights that all forms of non-Federal tools for borrowing authority replenishment are temporary in nature, pushing the borrowing authority problem out in time but not resolving the issue. Moreover, BPA followed its standard process for conducting its borrowing authority analysis, which included incorporating all currently planned access to capital tools and forecasted capital spending (borrowing) and repayment levels. As discussed above, Power benefits from the availability of borrowing authority.

Q. NRU, WPAG, and PPC note that without a guiding policy in place, there is no assurance that the investment power customers make in BP-22 would have any impact on Power's future ability to access capital. Stratman, BP-22-E-NR-01, at 20; Andersen et al., BP-22-E-WG-01, at 10; Deen & Linn, BP-22-E-PP-01, at 9. What do they mean?

A. NRU argues that BPA's borrowing authority is used up on a "first-come, first-served" basis. Based on projections, NRU notes that it appears Transmission will consume the borrowing authority freed-up by Power. Stratman, BP-22-E-NR-01, at 20-21. NRU argues it is "fundamentally inequitable" to expect power customers to directly fund restoration of borrowing authority without commensurate ability to use that borrowing authority in the future. *Id.* at 20. WPAG raises a similar argument in its testimony, noting it is "manifestly inequitable and inconsistent with cost causation principles to require Power Services to pay $190 million in revenue financing just so Transmission Services can borrow an additional $190 million." Andersen *et al.*, BP-22-E-WG-01, at 10. WPAG argues that it is unreasonable to ask power customers to do more to preserve borrowing, only to have the fruit of that sacrifice consumed by Transmission Services. *Id.* at 12. PPC makes a similar point in its testimony. Deen & Linn, BP-22-E-PP-01, at 9.

Q. How do you respond?

A. As stated earlier, NRU, WPAG, and PPC have identified a long-standing problem for which BPA has no policy to guide its solution – namely that BPA has shared, limited borrowing authority and two different business lines that have historically used and replenished it in different ways. To date, BPA's past practice has been to address this problem on a case-by-case basis consistent with the opportunities that arise. This case-by-case approach is consistent with our BP-22 proposal.

Both NRU and PPC identify historical actions that BPA has taken to help mitigate BPA's access-to-capital problem, such as RCD2, expensing energy efficiency, and others, all of which were decided without an inter-business line policy. Stratman, BP-22-E-NR-01, at 17-18; and Deen & Linn, BP-22-E-PP-01, at 8. We see no reason why BP-22 actions that support the availability of limited borrowing authority cannot be made without a policy whereas all previous actions that also impacted available borrowing authority could be made without a policy. Having said that, we do appreciate and support NRU and PPC suggestions that previous actions be considered as BPA establishes its long-term policy. Consistent with that support and past practice, we also would include the actions we propose to take in BP-22.

Q. Turning now to the Transmission customers, what inter-business line concerns did they raise with regard to the Transmission revenue financing proposal?

A. JP03 argues that it is arbitrary and unfair for BPA to assume "in estimating the rate impact from revenue financing that any borrowing authority shortfall would be remedied by transmission revenue financing alone." Kester *et al.*, BP-22-E-JP03-01, at 10. JP03 notes that both Power and Transmission have substantial outstanding and projected Federal borrowing, and that Power relies on the U.S. Treasury to meet its TPP. *Id.* at 10-12.

Q. How do you respond?

A. Although BPA has not established how much each business line should contribute to solving the borrowing authority shortfall in BP-24, there can be little question that Transmission will be responsible for some portion of it. As described throughout our testimony, Transmission is a net borrower of agency borrowing authority and may see a significant constraint on its ability to use that authority in BP-24 even with the rate action we propose here. Absent some near-term actions, funding for Transmission's capital program will likely have to be supplemented from some other source in BP-24. Given the near-term impact, it is prudent for Transmission to make moderate steps to address the shortfall, leaving room for further discussions and alternative tools, even if we have not determined the business lines' relative responsibility for managing borrowing authority. Taken together, we fail to see how having Transmission customers contribute to solve a problem that directly affects their primary source of capital funding violates inter-business line equity.

JP03 is also incorrect in suggesting that Power is somehow not supporting the joint Agency need for borrowing authority. Power has proposed to revenue finance $95 million a year. To be clear, the *reason* we believe this amount is appropriate for Power is not tied to Power's responsibility for solving the near-term shortfall; rather, as described above, other important policy considerations are driving that decision, including the ability to revenue finance and maintain flat Power rates (without sacrificing liquidity). Nonetheless, both business lines are proposing to include revenue financing in rates for this rate period, and any actual revenue financing achieved during the rate period will reduce the near-term shortfall. How these contributions are reflected in a long-term policy on relative responsibility for managing borrowing authority could be a topic during our discussions after the rate case.

Q. JP03 also argues that, "[i]nasmuch as both BPA power and transmission customers seem likely to be exposed to current financial strain as a result of the wildfires and COVID-19, the disparate proposed power rate increase (zero) and transmission rate increase (11.6 percent) appear inequitable." Id. at 16-17. How do you respond?

A. JP03's comparison of Power and Transmission rates is inapt. The costs and revenues that go into Power rates are fundamentally different than the cost and revenues that go into Transmission rates. For example, almost half of the Transmission rate increase is due to the expiration of the BP-20 rate settlement, in which BPA used an average of $55 million of financial reserves to offset operating expenses. To state that these rates should, in some way, be "equitable" in comparison to each other suggests that BPA should ignore its well-established methods of setting Power and Transmission rates and adopt a wholly unknown methodology of cost recovery. As far as we know, there is no statutory or sound business reason to tie the level of either Power rates to Transmission rates nor Transmission rates to Power rates.

Indeed, as history has shown, the rate changes by business line are a function of each business lines' cost and do not move in tandem. In the current rate case, Power rates are not proposed to change while Transmission's are proposed to increase. Conversely, in BP-18, Transmission's rate were roughly flat while Power's rates were increasing. *See* Administrator's Final Record of Decision, BP-18-A-04, at P-1. During BP-18, there were no calls from transmission customers to equitably reduce Power's rates. Insofar as equity in the level of Power and Transmission rate increases did not require BPA to depart from its normal ratemaking consideration in BP-18, it similarly follows that equity does not require a departure here.

Q. Does this conclude your testimony?

A. Yes.

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