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TESTIMONY OF

DANIEL H. FISHER AND REBECCA E. FREDRICKSON

Witnesses for Bonneville Power Administration

**SUBJECT: SUSPENSION OF THE FINANCIAL RESERVES POLICY SURCHARGE**

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5 **SUBJECT: SUSPENSION OF THE FINANCIAL RESERVES POLICY SURCHARGE**

6 **Section 1: Introduction and Purpose of Testimony**

7 *Q. Please state your names and qualifications.*

8 A. My name is Daniel H. Fisher, and my qualifications are contained in BP-20E-Q-BPA-01.

9 A. My name is Rebecca E. Fredrickson, and my qualifications are contained in BP-20E-Q-  
10 BPA-02.

11 *Q. What is the purpose of your testimony?*

12 A. The purpose of our testimony is to describe Bonneville's proposal to suspend the  
13 Financial Reserves Policy Surcharge (FRP Surcharge) for the remainder of the BP-20 rate  
14 period. The proposed surcharges are shown in Attachment 1.

15  
16 **Section 2: Background and Context**

17 *Q. Please describe the FRP Surcharge.*

18 A. The FRP Surcharge collects additional revenue through adjustments to rates when  
19 Bonneville's financial reserves (cash and cash equivalents) fall below certain identified  
20 financial thresholds. The surcharge is a component of the Financial Reserves Policy  
21 (FRP), which was developed in the BP-18 rate proceeding. The FRP is designed to  
22 support the long-term financial health of the agency by ensuring Bonneville maintains a  
23 minimum level of financial reserves for liquidity and risk mitigation. The policy  
24 establishes upper and lower financial reserves thresholds for Power Services,  
25 Transmission Services, and the agency as a whole. The FRP also describes the actions  
26 Bonneville may take when financial reserves levels either fall below a lower threshold or

1 exceed an upper threshold. The lower financial reserves threshold for Power Services  
2 and Transmission Services is set at the equivalent to 60 days of operating cash. For  
3 Power Services, 60 days cash is approximately \$300 million; for Transmission Services,  
4 60 days cash is approximately \$100 million. If a business unit's financial reserves are  
5 below the identified threshold, the FRP Surcharge triggers, increasing that business unit's  
6 rates up to a specified amount for the fiscal year. Power and Transmission financial  
7 reserves are evaluated each fiscal year, with the application of the FRP Surcharge (if any)  
8 on December through September bills.

9 The FRP Surcharge for the FY 2020-2021 rate period was established in the  
10 BP-20 rate proceeding. The BP-20 rates received final Federal Energy Regulatory  
11 Commission (Commission) approval on April 17, 2020.

12 *Q. Please describe how the FRP Surcharge was implemented for the BP-20 rate period.*

13 *A.* For FY 2020, the Power FRP Surcharge triggered, resulting in a \$30 million increase to  
14 power rates beginning in December 2019. Based on current end-of-year projections, the  
15 Power FRP Surcharge is expected to trigger again in FY 2021. The Transmission FRP  
16 Surcharge did not trigger in FY 2020 and is not expected to trigger in FY 2021.

### 17 18 **Section 3: Suspension of FRP Surcharge**

19 *Q. Please describe the proposal to suspend the FRP Surcharge.*

20 *A.* We propose to suspend the FRP Surcharge for both Power and Transmission for the  
21 remainder of the BP-20 rate period. Specifically, the terms of the General Rate Schedule  
22 Provisions describing the BP-20 Power and Transmission FRP Surcharges currently in  
23 effect would be modified as described in Attachment 1.

1 Q. *Why are you proposing to suspend the FRP Surcharge for the remainder of the BP-20*  
2 *rate period?*

3 A. On March 13, 2020, the President declared the outbreak of COVID-19 in the United  
4 States a national emergency. Since then, much of the Pacific Northwest has been under  
5 stay-at-home orders. With near-record unemployment in many regional communities,  
6 many of Bonneville's utility customers have indicated that they have had to lay off staff,  
7 rely on cash reserves, and/or use short-term credit to maintain operations. In light of  
8 these challenges, groups representing most of Bonneville's power customers and many  
9 end-use industries requested Bonneville consider suspending the FRP Surcharge for the  
10 remainder of this rate period.

11 After considering this request, we believe that suspension of the FRP Surcharge  
12 for the remainder of the BP-20 rate period is both reasonable and appropriate under the  
13 circumstances. As described earlier, the purpose of the FRP Surcharge is to build  
14 financial reserves for Bonneville to ensure the agency's long-term financial health.  
15 While this remains a key agency objective and policy, we appreciate and understand the  
16 impact that this additional charge is having on our utility customers, many of which are  
17 financially struggling under unprecedented conditions. Throughout the pandemic,  
18 Bonneville has remained committed to supporting regional customers. Apart from other  
19 flexibilities we have offered, such as the extended payment options that are available to  
20 Power and Transmission customers on a case-by-case basis, we view suspending the FRP  
21 Surcharge as a meaningful step in providing immediate and substantive relief during a  
22 time of regional and national crisis without jeopardizing Bonneville's longer-term  
23 financial health.

1 Q. *Does this proposal require revision of the repayment study, Treasury Payment*  
2 *Probability, risk mitigation tools, or any other base Power or Transmission rates for*  
3 *BP-20?*

4 A. No. The fact that the proposal does not require a revision to base Power or Transmission  
5 rates is one of the reasons it is a workable approach to rate relief that can be addressed on  
6 an expedited basis. Base rates are the foundation of the repayment study. BP-20 base  
7 rates did not include a forecast of an FRP Surcharge in either FY 2020 or FY 2021. As a  
8 result, suspending the FRP Surcharge does not affect base rates or the repayment study.  
9 The FRP Surcharge was modeled in the Power and Transmission Risk Study for BP-20  
10 (BP-20-FS-BPA-05), but was not needed in order to meet the 95 percent Treasury  
11 Payment Probability standard. Suspension of the FRP Surcharge does not affect the  
12 parameters of the other risk mitigation tools. The surcharge adjusts base rates during the  
13 rate period. Suspending the surcharge merely ensures that base rates will not change for  
14 the remainder of this rate period due to the FRP Surcharge. Since base rates are the basis  
15 for the repayment study, Treasury Payment Probability, and risk mitigation tools, and  
16 base rates are not changing as a result of our proposal, these analyses need not be  
17 changed or amended.

18 Q. *When would the proposed suspension go into effect?*

19 Bonneville is proposing that the FRP Surcharge be suspended as of the effective date of  
20 the confirmation and approval of this rate schedule by the Commission. However, if the  
21 effective date given by the Commission is on any day other than the first day of the  
22 month, then the modified rate schedules would go into effect the first day of the  
23 following month. Until this time, the FY 2020 Power FRP Surcharge that is currently  
24 being charged to Power customers would continue to be charged on their monthly power  
25 bills.

1 Q. *Why do you propose to make the effective date of the rate schedule the beginning of the*  
2 *month?*

3 A. There would be added complications if Bonneville were to implement a within-month  
4 suspension of the surcharge. This is because several of Bonneville's power rates are  
5 adjusted if the surcharge triggers. Allowing for a within-month suspension would require  
6 adding an additional formula to the GRSPs that calculates specific monthly amounts for  
7 the rates subject to the FRP Surcharge (*i.e.*, PF Melded, Industrial Firm, New Resource,  
8 and PF Tier 1 Equivalent Energy Rates). It would also require that the Annual Power  
9 FRP Surcharge rate be calculated on a daily value instead of a monthly value – which  
10 adds even more complications. Lastly, it adds billing and other implementation  
11 complications that could ultimately outweigh the additional rate relief provided if, for  
12 example, the effective date was towards the end of the month. Given these reasons, we  
13 determined an all-on or all-off approach to a month was the preferred proposal.

14 Q. *Are there any other adjustments you are proposing to make to the Power or Transmission*  
15 *FRP Surcharges?*

16 A. We propose to make one additional adjustment to the Power FRP Surcharge.  
17 Specifically, suspension of the Power FRP Surcharge requires small changes to the Load  
18 Shaping Charge True-Up Rate and PF Melded Equivalent Scalar for Fiscal Year 2020,  
19 both of which would be adjusted depending upon the effective date provided by the  
20 Commission. *See* Attachment 1, Power FRP Surcharge § Q.2. These specific  
21 adjustments are needed because when the BP-20 power rate schedules were written, we  
22 assumed that if the surcharge triggered, the True-Up Rate and Scalar would be affected  
23 for the entire annual surcharge amount of \$30 million. The proposed changes to the  
24 calculation of the True-Up Rate and the Scalar are necessary to recognize the effect of the  
25 actual Surcharge amount charged in FY 2020 instead of the \$30 million trigger amount.

1 **Section 4: Rate Impacts of the Proposal**

2 *Q. How would your proposal impact Power and Transmission rates for the rest of the BP-20*  
3 *rate period?*

4 A. Because the Power FRP Surcharge triggered for FY 2020, suspension of the surcharge  
5 would provide rate relief of about \$3 million per month for power customers for the  
6 remainder of FY 2020. In addition, suspension of the surcharge would provide up to \$30  
7 million in power rate relief for all of FY 2021.

8 Suspending the Transmission FRP Surcharge would have no direct impact on  
9 BP-20 Transmission rates. Transmission’s financial reserves were above the threshold  
10 for triggering the Surcharge in FY 2020 and are expected to be high enough not to trigger  
11 the surcharge again in FY 2021.

12 *Q. Does suspension of the FRP Surcharge affect the Transmission Reserves Distribution*  
13 *Clause?*

14 A. Potentially. Another component of the Financial Reserves Policy discussed above is the  
15 Reserves Distribution Clause (RDC). The RDC addresses the opposite situation as the  
16 FRP Surcharge. The FRP Surcharge addresses the situation when Power or Transmission  
17 financial reserves are below established thresholds, while the RDC addresses the situation  
18 when financial reserves are above thresholds defined in the Financial Reserves Policy. If  
19 the upper thresholds are exceeded, the Financial Reserves Policy provides that financial  
20 reserves are eligible for repurposing for other high-value needs, such as paying upfront  
21 for capital projects, reducing debt, or rate relief.



1 For financial reserves to be eligible for RDC treatment, two conditions must be  
2 met: (1) the business unit's financial reserves must be above 120 days cash; and  
3 (2) agency financial reserves (*i.e.*, the combination of Power and Transmission financial  
4 reserves) must be at least 90 days cash (approximately \$600 million). Transmission  
5 financial reserves at the end of FY 2020 are forecast to be above the 120 day threshold,  
6 which would meet condition (1) for an RDC. Total agency financial reserves, however,  
7 are forecast to be below the 90 days cash threshold needed for meeting condition (2)  
8 (even with the Power FRP Surcharge in place). By suspending the FRP Surcharge for  
9 Power, financial reserves for Power are not intentionally growing, resulting in a lower  
10 probability that agency reserves will be above the 90 days cash threshold for the RDC to  
11 trigger for Transmission in FY 2021.

12 *Q. Is suspension of the FRP Surcharge the only reason the RDC would not trigger for*  
13 *Transmission?*

14 *A.* No. Growth from Power's financial reserves is an important component for meeting  
15 condition (2), but not the only reason. Transmission financial reserves could also decline,  
16 pushing Transmission financial reserves below the 120 days threshold or keeping agency  
17 financial reserves from exceeding the 90 days threshold.

18 *Q. Have you analyzed the probability that the Transmission RDC would trigger in FY 2021*  
19 *if the FRP Surcharge were to remain in effect?*

20 *A.* Yes. Our analysis suggests that the likelihood of the Transmission RDC triggering with  
21 or without the FRP Surcharge is small. Attachment 2, page 2, to our testimony includes  
22 current financial reserves projections for Power, Transmission, and Bonneville as a  
23 whole. These projections show Power's financial reserves growing for the remainder of  
24 the rate period even without the FRP Surcharge. Transmission financial reserves,  
25 however, are projected to decrease over the rate period primarily due to the use of  
26 reserves under the BP-20 transmission rates settlement. Using current forecasts, we

1 evaluated how the suspension of the FRP Surcharge impacted the probabilities of the  
2 RDC triggering for Transmission rates. In 88 percent of the games, the RDC does not  
3 trigger for FY 2021 even with the FRP Surcharge in place. *See* Attachment 2 at 3. This  
4 value increases slightly to 91 percent of the games if the FRP Surcharge is suspended. *Id.*  
5 These percentages translate to an expected value of \$3.9 million RDC for Transmission  
6 in FY 2021 with the FRP Surcharge in place or \$2.9 million with the FRP Surcharge  
7 suspended. Suspension of the FRP Surcharge reduces the expected value of  
8 Transmission RDC by about \$1 million and the probability of triggering by about  
9 3 percent. Putting this into perspective, if the entire difference between these two  
10 scenarios (\$1 million) were used to provide rate relief to Transmission rates, the benefit  
11 to Transmission rates would be roughly 0.1 percent.

12 Suspending the FRP Surcharge for the remainder of the current rate period will  
13 impact financial reserves levels leading to the BP-22 rate period. For reference purposes  
14 only, Attachment 2 provides information regarding the probability of the Transmission  
15 RDC triggering in FY 2022, assuming the same construct.

16 *Q. Are you suggesting that because the impact on the expected value of an RDC for*  
17 *Transmission is only \$1 million, that Transmission rates should not be considered in*  
18 *suspending the FRP Surcharge?*

19 *A.* No. We provide the above discussion to frame the impact that our proposal has on the  
20 *potential* RDC for Transmission. We acknowledge that, though the chance of an actual  
21 RDC is small and that the dollars at issue are marginal, an impact nonetheless exists.  
22 Balancing the need for immediate relief with the small potential impacts this proposal has  
23 on future RDC payments, we believe our proposal is reasonable and should go forward.  
24 This is not to say we are indifferent to discussing this impact or rate relief options  
25 applicable to transmission rates in the future. The workshops leading up to the BP-22  
26 rate proceeding would be an apt time and place for transmission customers to identify

1 their particular needs for relief due to the present pandemic. In that context, we will have  
2 more flexibility and options to discuss with stakeholders potential rate relief proposals for  
3 transmission.  
4

## 5 **Section 5: Impacts on Financial Reserves Policy**

6 *Q. By suspending the FRP Surcharge for the remainder of the BP-20 rate period, is*  
7 *Bonneville abandoning the FRP?*

8 A. No. The FRP, with its thresholds, goals, and objectives, remains intact. The suspension  
9 of the FRP Surcharge pauses the implementation of a rate feature designed to achieve the  
10 goals of the FRP. The FRP remains a keystone of Bonneville's financial policy for  
11 maintaining the financial health of the agency for the long term. It is only because of the  
12 unique and unprecedented conditions that the region is facing with a global pandemic that  
13 we propose to suspend a rate provision designed to implement the FRP for the remainder  
14 of the BP-20 rate period. This action does not dictate how the FRP is implemented in  
15 future rate processes.

16 *Q. Do the terms of the FRP permit a one-time adjustment like you propose in this case?*

17 A. Yes. The FRP was intended to be binding in future rate proceedings when setting rates,  
18 but also retain the Administrator's discretion to make adjustments when appropriate. *See*  
19 *Financial Reserves Policy § 2, available at*

20 <https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves->  
21 [Leverage/frpdocs/FRP%20PHASE-](https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/frpdocs/FRP%20PHASE-)

22 [IN%20IMPLEMENTATION%20Policy%20Final.pdf](https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/frpdocs/FRP%20PHASE-). Specifically, it states "the [FRP]  
23 will constitute precedent that BPA will adhere to in future rate cases absent a  
24 determination by the Administrator that the Policy must be modified to meet BPA's  
25 changing operating environment." *Id.* While we are not proposing to change the  
26 underlying policy in this proceeding, this language recognizes the Administrator's

1 discretion to modify its implementation to reflect “BPA’s changing operating  
2 environment.” We think that Bonneville’s “operating environment” has changed due to  
3 the COVID-19 pandemic. That change is confirmed by the near-unanimous request from  
4 Power customers to suspend the FRP Surcharge’s application for this rate period. In this  
5 context, we believe a limited suspension to the implementation of the FRP Surcharge for  
6 the remainder of the BP-20 is consistent with the provisions of the FRP.

7 *Q. How might your proposal impact Bonneville’s overall financial health?*

8 A. We do not think this proposal will adversely affect Bonneville’s overall financial health  
9 for the long term. We recognize that this proposal could have short-term consequences,  
10 such as negative impacts on the agency’s credit ratings. Those negative impacts,  
11 however, could arise regardless of this proposal due to the overall disruption the utility  
12 industry is experiencing because of the COVID-19 pandemic. While the FRP is a long-  
13 term policy, it has been implemented with an eye towards present conditions, such as  
14 through the phase-in feature to manage rate shock. Further, the financial impacts of the  
15 pandemic are not unique to Bonneville; many businesses are making short-term  
16 operational changes to address this unexpected and unprecedented event. Our proposal  
17 likely delays when we reach our financial reserves goal, but does not change the goal  
18 itself. In light of the current landscape, we believe this is a reasonable short-term  
19 tradeoff.

20 *Q. Does this conclude your testimony?*

21 A. Yes.

**ATTACHMENTS**

**Attachment 1 – Proposed Financial Reserve Policy Surcharges**

**Attachment 2 – Fiscal Year 2020 and 2021 Reserves and Transmission RDC**

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# Attachment 1

## Proposed Financial Reserve Policy Surcharges

### I. 2020 Power Rate Schedules and General Rate Schedule Provisions

The BP-20 Power Financial Reserves Policy (Power FRP) Surcharge, GRSP Section II.Q, shall be deleted in its entirety and replaced with the following language.

### Q. Power Financial Reserves Policy (Power FRP) Surcharge

#### 1. Suspension of Power FRP Surcharge

The Power FRP Surcharge is suspended as of the effective date of the confirmation and approval of this rate schedule by the Federal Energy Regulatory Commission (Commission); *provided, however*, if the effective date given by the Commission is on any day other than the first day of the month, then this rate schedule shall go into effect the first day of the following month. *See* Administrator’s Record of Decision, BP-20E-A-01.

#### 2. Adjustments to Load Shaping Charge True-up Rate and PF Melded Equivalent Scalar for Fiscal Year 2020

Prior to suspension, the Power FRP Surcharge triggered and was billed to customers during FY 2020 on a monthly basis. To recognize this FY 2020 charge for the months prior to suspension, the Load Shaping Charge True-up Rate and PF Melded Equivalent Energy Scalar shall be adjusted as follows:

$$\text{Annual Power FRP Surcharge rate} = \frac{\$30,000,000 \times \frac{\text{Applicable months}}{10}}{44,625,581 \text{ MWh}}$$

Where:

“Applicable months” is the number of months in Fiscal Year 2020 that the Power FRP Surcharge was applied prior to suspension as described in Section Q.1.

The Annual Power FRP Surcharge rate will be:

- (1) Subtracted from the Load Shaping Charge True-up Rate (GRSP II.E, Section 1)
- (2) Subtracted from the PF Melded Equivalent Energy Scalar Rate (GRSP II.R, Section 1(c)).

## **II. 2020 Transmission Rate Schedules and General Rate Schedule Provisions**

The BP-20 Transmission Financial Reserves Policy (Transmission FRP) Surcharge, GRSP Section II.I, shall be deleted in its entirety and replaced with the following language.

### **I. Transmission Financial Reserves Policy (Transmission FRP) Surcharge**

The Transmission FRP Surcharge is suspended as of the effective date of the confirmation and approval of this rate schedule by the Federal Energy Regulatory Commission (Commission); *provided, however*, if the effective date given by the Commission is on any day other than the first day of the month, then this rate schedule shall go into effect the first day of the following month. *See Administrator's Record of Decision, BP-20E-A-01.*



## Attachment 2

### Fiscal Year 2020 and 2021 Reserves and Transmission RDC

The following is a projection of Reserves for Risk (RFR) attributed to Power, Transmission, and BPA over the two years of the BP-20 rate period. These projections are made under two scenarios: with the FRP Surcharge remaining in effect and with the FRP Surcharge suspended for the remainder of BP-20 rate period, in order to provide information about the potential effect of FRP Surcharge suspension on RFR and probabilities of triggering the Transmission Reserves Distribution Clause (RDC).

These projections are based on the following data sources and assumptions:

- Start of Fiscal Year (FY) 2020 RFR levels are based on end-of-year actuals, reported at the November 19, 2019 QBR.<sup>1</sup>
- The FY 2020 RFR projection is based on BPA's Base Q2 forecast, reported at the May 12, 2020 QBR.<sup>2</sup> This forecast does not incorporate the financial effects of the COVID-19 pandemic, but was selected for this analysis because it is BPA's most recent complete forecast for FY 2020, including risk distributions.
- The FY 2021 RFR projection is based on the BP-20 Revenue and RFR risk distributions.<sup>3</sup>
- FY 2021 Surcharge and RDC amounts are calculated based on the end of FY 2020 RFR distribution and the RFR-based Surcharge and RDC thresholds described in the BP-20 Power and Transmission Risk Study.<sup>4</sup>
- *Potential* FY 2022 RDC amounts are calculated and presented based on end of FY 2021 RFR levels. These RDC amounts are calculated using the BP-20 RDC parameters. RDC parameters applying to FY 2022 will be determined in the BP-22 rate case.
- Under the "Surcharge Suspended" scenario, FRP surcharge suspension begins for bills starting July 1, resulting in a \$9 million reduction to Power revenue in FY 2020 and no FRP Surcharges applying to FY 2021.

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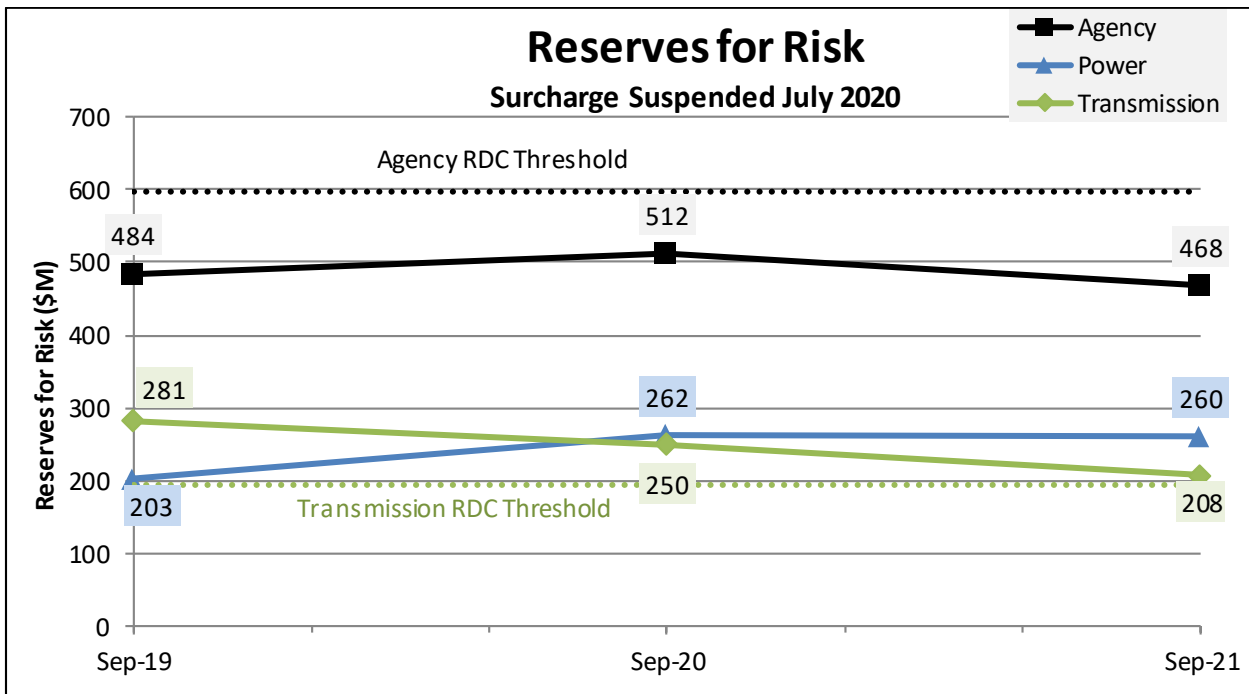
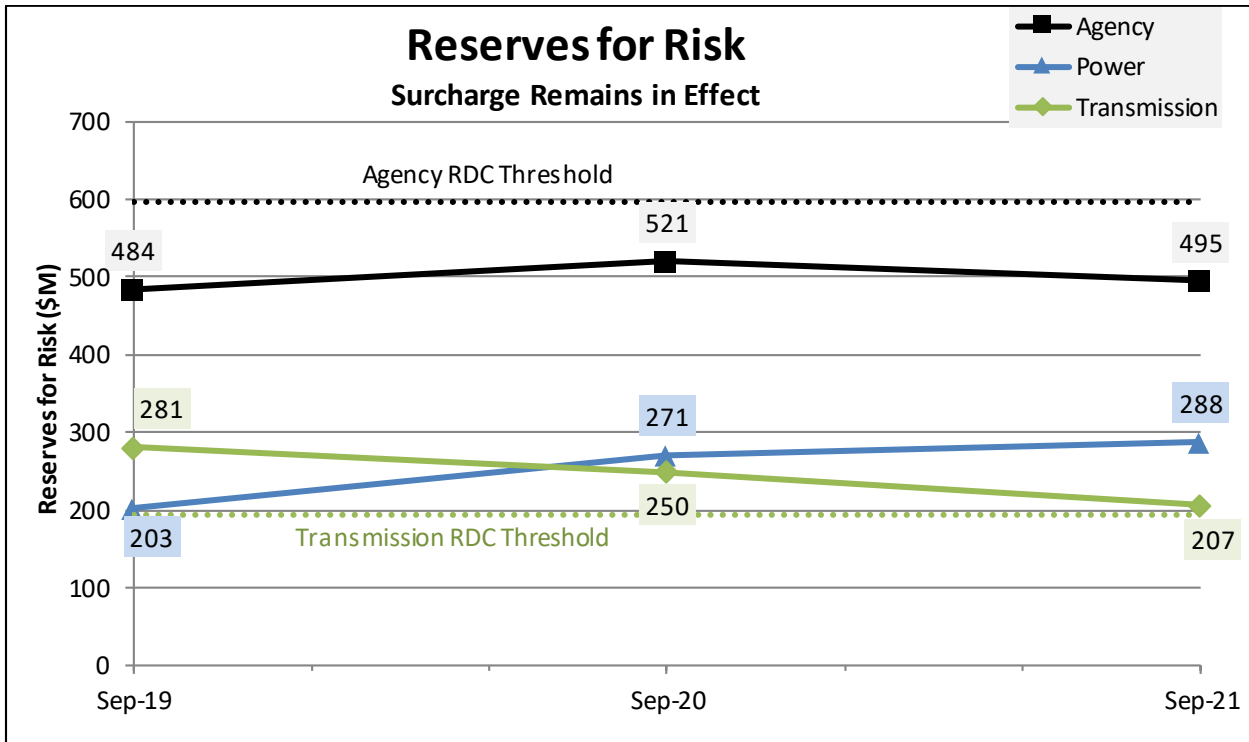
<sup>1</sup> <https://www.bpa.gov/Finance/FinancialPublicProcesses/QuarterlyBusinessReview/qbrdocs/20191115-QBR-Presentation.pdf>

<sup>2</sup> <https://www.bpa.gov/Finance/FinancialPublicProcesses/QuarterlyBusinessReview/qbrdocs/20200512-QBR-Presentation.pdf>

<sup>3</sup> [https://www.bpa.gov/Finance/RateCases/BP-20/Models/Final%20Proposal/TK\\_Inputs\\_BP20FS.zip](https://www.bpa.gov/Finance/RateCases/BP-20/Models/Final%20Proposal/TK_Inputs_BP20FS.zip)

<sup>4</sup> <https://www.bpa.gov/Finance/RateCases/BP-20/BP18/BP-20/Final-Proposal/BP-20-FS-BPA-05%20Power%20and%20Transmission%20Risk%20Study.pdf>

RFR results shown are expected values of 3200 iterations of cash flow.



Agency refers to BPA.

