Northwest Resource Accountability Project
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RE: **BPA's Financial Picture, Congressman Simpson's Proposal**

Dear Directors and Managers:

Public utility district and electrical cooperative directors and managers are accountable to their customers and members to provide electricity based on the best combination of cost, reliability, and efficiency. Your duty to your customers requires you to examine options other than the standard long-term contract with the Bonneville Power Administration (BPA).

Due diligence in selecting a future firm power provider may require delaying or foregoing altogether the immediate option of a long-term contract with the BPA. In the most recent rate-case procedure, the BPA's legal department identified "a stampede to the exits" if rate increases within the region continue, and prices from other sources begin to look like a reasonable option. If a quick exit to the open market happens, as many have predicted, a shrinking customer base will have to bear the burden of dramatically higher rates to meet BPA's costs of production. Your consumer-owned utility could be left to bear the cost of these inflated rates.

As you are likely aware, on February 6th, Idaho Congressman Mike Simpson proposed a $33 billion "Columbia Basin Fund" that would remove four dams on the lower Snake River in eastern Washington, and compensate stakeholders in the Federal Columbia River Power System for the reduced power production and barging potential. Of concern to consumer-owned utilities in the region in this grand proposition is the extension of the BPA's federal line of credit with the U.S. Treasury. Approximately 25% of the rate investor-owned utilities pay is due to the agency's massive debt load. The BPA cannot afford to take on more debt and remain, as its spokespersons have often said, "the power provider of choice" in the region.

By contrast, divesting from generating assets that contribute to BPA's debt burden makes sense. NWRAP estimates that the Snake River dams lose a minimum of $40 million a year. Meanwhile, ratepayers have underwritten the most expensive ecological recovery effort in U.S. history to restore salmon—a cost of $17 billion and counting. Despite this massive expenditure, no salmon species have been recovered. Consumer-owned utilities will bear the cost of continued failures. The looming potential for extinction creates a multi-billion-dollar liability, exacerbated by BPA's mismanaged fish and wildlife program. Under Simpson's proposal, dam removal would greatly reduce, or eliminate altogether, the burden of salmon extinction liability.

Beyond the buzz that Simpson's proposal has created, in the interest of your customers, we hope you will insist that BPA meaningfully address significant cost issues that are driving these rate increases.

Rising costs and dropping prices are driving BPA's financial position downward. BPA is over $15 billion in debt and has burned through $900 million in cash reserves since 2009. According to its 2018 Financial Plan, BPA's debt-to-asset ratio remains high at 82%. Meanwhile, the prospect of raising capital from non-Treasury sources is problematic. Both Fitch Ratings Inc. and Moody's Investor Services have expressed concern over BPA's liquidity and ominous debt obligation, with Moody's issuing a downgrade of BPA's

bond-rating earlier this year. In mid-2020, Moody's noted that BPA's 2018-2023 Strategic Plan "does not reverse the trend of BPA's weakening financial strength that has occurred since 2015."

BPA's market position also has deteriorated over the past decade. While 2020 looks fiscally like a better year for the BPA, fundamental weaknesses in its business model need to be addressed. A major area of concern has been a dramatic decrease in revenue from "surplus" sales. California's first renewable energy policy bill was passed in 2002, with increasingly ambitious amendments passed by the California legislature in ensuing sessions. The incentivization of renewables has yielded the construction of 748 solar projects in California capable of generating more than 12,000 megawatts of electricity. Solar has emerged with a significant cost advantage, selling in the $20-$25 per megawatt hour range, undercutting the price that BPA can match and meet its costs, as required by law.

BPA, by law, must charge its customers the full cost of production, about $36/MWh for Tier 1 customers. Since 2009 BPA has been selling "surplus" power for less than $25/MWh. The most recent five-year average for BPA surplus power was only $19/MWh. Every dollar that BPA loses selling power below cost to out of region customers is a dollar that must be made up by BPA Tier 1 contract customers. In the meantime, rapid development of renewables continues to supplant the region's historic reliance on federal hydropower.

Western energy markets have recognized the opportunities, particularly with solar, even within BPA's service territory. As of October 2020, more than 21,000 megawatts of non-hydro energy projects are listed in BPA's interconnection queue, including 5,400 megawatts of storage capacity.

At the same time demand for hydropower within the region has declined. According to BPA's most recent White Book: "Under critical [low]water conditions; the PNW region is projected to have annual energy surpluses as large as 4,058 aMW in OY 2020, slowly decreasing to 403 aMW by OY 2029." … "Under average water conditions; the PNW region would see even larger energy surpluses over the study horizon." The Northwest Power and Conservation Council's updated power plan similarly predicts FCRPS surpluses through 2028.

NorthWest Resource Accountability Project (NWRAP) is comprised of natural resource professionals with decades of experience in science, policy economics and law. We welcome any opportunity to discuss recent market developments with you (contact information below).

Best Regards,
On behalf of *NorthWest Resource Accountability Project*
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