February 9, 2022

NIPPC Comments – Financial Policy Refresh

NIPPC appreciates the opportunity to submit these additional comments in the Financial Policy Refresh stakeholder process. NIPPC also appreciates BPA's openness in providing NIPPC with the forum to present the analysis and report prepared by Bart Oosterveld at the January 26 public workshop.

In his report, Mr. Oosterveld, a recognized subject matter expert in this field, provides ample and compelling evidence that there is no credit-supportive reason for BPA to set its long-term target for its debt-to-asset ratio much lower than 80%. In light of NIPPC's efforts to provide robust analysis for an appropriate target debt-to-asset ratio for an entity like BPA, NIPPC does not support BPA's proposal to set its long-term target debt-to-asset ratio at 60%.

In its 2018 Financial Plan (the 2018 Plan), BPA proposed a long-term target of 60-70% for its debt-to-asset ratio. This target was based on a view that the "industry average" debt-to-asset ratio was 54%. The 2018 Plan (and subsequent public workshops) does not provide a detailed explanation or analysis of how BPA calculated this "industry average" nor, as importantly, whether this average applies appropriately to BPA given the unique characteristics of BPA's debt, statutory construct, and sovereign support from the U.S. government. In the presentation on January 26, BPA also did not explain why it is now seeking to implement a glidepath to the lower end (60%) of the target set out in the 2018 Plan rather than the upper end of that target (70%). NIPPC is concerned that there is no underlying analysis that compares BPA to other debt issuers, nor that differentiates between various potential leverage (i.e., debt-to-asset ratio) targets.

In light of Mr. Oosterveld's report and the underlying and extensive research to identify financial metrics associated with other borrowers who are truly similar to BPA, NIPPC urges BPA to revisit its prior assumptions. Specifically, NIPPC requests that BPA revisit the analysis underlying its 2018 Financial Plan and the Plan's conclusion that a 60-70% debt-to-asset ratio is an appropriate target for BPA. NIPPC requests that BPA provide the documentation that explains how BPA determined that the industry average debt-to-asset ratio is 54% and why the debt issuers who make up that average are comparable to BPA as a borrower. NIPPC also asks BPA to provide customers with a comparison of the rate implications to customers (through 2040) if BPA were to set a long-term debt-to-asset target of 60%, 70%, 75%, or 80%. Ideally, this comparison would show both anticipated revenue financing in dollars and in percentage rate increases for each rate period through 2040. Finally, NIPPC acknowledges that credit ratings and other capital market perspectives on the agency's financial health are important but not sole inputs into the Administrator's decision about the agency's financial policies. Therefore, NIPPC requests that BPA provide a more detailed financial or legal rationale for why, if a 60% debt-to-asset ratio (or any ratio much lower than 80%) will not materially improve the agency's creditworthiness, such a low leverage target is necessary to set “the lowest possible rates to consumers consistent with sound business principles.”

On a separate but related topic, NIPPC appreciates BPA’s responses to NIPPC’s prior questions regarding the calculation of Transmission’s debt forecast. BPA forecasts its capital requirements 11 to 20 years out by adding an inflation modifier to year 10 and in subsequent years. Given the “lumpiness” of transmission investment requirements, NIPPC is concerned with the forecast methodology for years 11-20. An unusually high need for debt in forecast year 10 could lead to significantly inflated forecasts of capital requirements for years 11-20. If BPA intends to use a forecast of debt to justify increased levels of revenue financing in rates, then NIPPC believes BPA should develop a methodology to forecast capital requirements for years 11-20 more accurately – or at least one that is less susceptible to dramatic fluctuations.

In summary, NIPPC requests the following from BPA prior to the next discussion of policies related to BPA’s debt-to-asset ratio:

1. Explanation of the basis of the 54% “industry standard” identified in the Plan;
2. Analysis of why a 60% or 70% target debt-to-asset ratio is appropriate, given the research and analysis supplied by NIPPC at the January 26 workshop;
3. Analysis comparing rate impacts (by percentage rate increase and dollar amounts) of setting the long-term debt-to-asset ratio target at 60%, 70%, 75%, and 80%;
4. A more detailed financial or legal rationale for why setting a 60% debt-to-asset ratio is necessary to meet the agency’s statutory requirements; and
5. Development of a more precise and potentially less volatile methodology to forecast capital requirements in years 11-20 rather than an inflation modifier applied to year 10.