

July 26, 2021

Open Letter to the Northwest Legislative Delegation

BPA Bailout! - Where are the sirens? Where are the alarms?

About a week ago, in the immediate wake of a heat wave that set high temperature records and killed dozens of people in the northwest, Senator Cantwell of Washington submitted a bill titled: POWER MARKETING ADMINISTRATION TRANSMISSION BORROWING AUTHORITY.

A better name for this bill would be: **The Bonneville Power Administration Bailout Bill.**

Bonneville Power Administration (BPA) is, of course, the agency that produces about half the electricity produced in the Pacific NW. When confronted by record setting weather events, it is essential that any and all energy providers are able to operate at peak levels of production, efficiency, and reliability. In that context it is alarming, very alarming, that Cantwell feels the need to bail out BPA, to roughly double BPA's debt load.

The need is real and Cantwell is not alone.

Financial storm clouds have hovered over BPA for several years. Back in 2018, BPA Administrator Elliot Mainzer said, "We've taken huge hits in the secondary revenues market just like every other hydro provider up here, with cheap gas, low load growth, and the oversupply conditions. It's been a bloodbath for folks in the wholesale market. I'm not in a panic mode, but I am in a very, very significant sense of urgency mode."¹

A couple months later the Fitch and Moody's rating agencies downgraded BPA's credit rating, citing the same degradation of energy production competitiveness.

Congressman Mike Simpson (R-Idaho) also included BPA's need for rescue in his recent proposal to breach the four lower Snake River dams (LSRD) in eastern Washington.

As briefly as possible BPA financial troubles are a result of several interrelated problems that all come back to too much debt. A 1937 business model lost in the 2020s is a major concern but failure to pay down debt as required in their charter is the real problem. (There is no excuse for this. BPA's newest project is 44 years old. Its oldest is 115. Its biggest, lowest cost producer, Grand Coulee, is 79 years old. There can be no sympathy for an agency that can't retire loans over such protracted time periods.)

¹ - <https://www.nwcouncil.org/news/new-era-new-challenges>.

Another factor is BPA's failure to admit, for a decade, that the world changed. Prior to 2009 BPA sold surplus power, mostly to California, for large profits and used those profits to buy-down NW power rates. Those profits went away when industrial scale solar took off in California. BPA should have seen the writing on the wall and started integrating lower cost wind and solar into its system, but it did not and could not because, among other reasons, its borrowing limits were maxed out.

BPA may have failed to pay down its debt on the false assumption that nothing would ever challenge hydro as the low cost generation method of choice. A decade after the solar revolution, BPA is still in denial.

Ultimately, the question is not whether BPA is in financial trouble and needs a bail out but rather, the form bailout should take.

The private sector has lots of examples of successful bailouts but none of them involve blindly throwing more money at the failing company. Private sector bailouts invariably involve some form of restructuring and modernization in return for additional cash or enhanced leverage.

For the immediate future the NW still needs BPA in some form. The BPA transmission grid is essential. That part of the agency must stay. But, the Power Business must be separated from the Transmission Business. The tendency for BPA to use its monopoly transmission business to rescue the Power Business while preventing its customers from accessing alternative power suppliers must end.

Some of the agency's better, more efficient dams are probably essential as well. This means the 6 dams on the main stem of the Columbia. These six dams produce nearly 80 percent of BPA's power and are its lowest cost energy producers. The other 25 dams need to be examined, individually, on a fully allocated cost basis. Any project that is not competitive with newer alternative renewable power systems needs to be shuttered.

Third, simply throwing money at BPA is counterproductive. Interest on debt already accounts for about \$9 of BPA's \$36/MWh rate.² Doubling BPA's debt could increase that number to \$18, making the interest portion of a BPA power rate higher than the full delivered cost of current state of the art solar farms!

The better solution is debt forgiveness, but there has to be a quid pro quo for the reduction in debt. Aging, expensive, projects that produce power when no one needs it and fail to produce power during seasonal peaks must be eliminated. The LSRD, for example, are paying interest on about \$1.2 billion in debt and are directly responsible for an outsized portion of BPA's environmental spending. A full half of their annual power production comes during a three-month spring runoff when no one wants or needs it. They produce

² 2017-2030 HYDRO ASSET STRATEGY, (IPR), JUNE 2016

very little power during BPA's winter and summer load peaks. Breaching the LSRD in return for \$1 billion debt forgiveness and putting an end to major environmental costs has the potential to cut BPA rates by up to \$2/MWh almost immediately with no loss of ability to service existing load.

That is the sort of bailout BPA needs, and it can be done quickly and painlessly. That is the sort of leadership the NW deserves from the good senator.

Regards,

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