

Cost Verification Process (CVP) Final Adjustment

June 17, 2016

By letter dated January 5th, 2016, the Slice Customer Group submitted a detailed list of issues and proposed Agreed-Upon Procedures (AUPs) for BPA's review under section 2.7.5.1 of the Tiered Rates Methodology and Attachment A procedures. Under Attachment A, section 1 of BP-12-A-03, AUPs are defined as services that fall under the category of miscellaneous financial services provided to BPA by an external auditor that are covered contractually between BPA and an external auditor.

Agreed-Upon Procedures (AUPs) engagements are governed by AT Section 201 of the American Institute of Certified Public Accountants attestation standards. In an AUP engagement, the external auditor issues a report of findings based on specific procedures performed on a subject matter. Unlike an audit, the auditor does not perform an examination or review of selected entries and does not provide any opinion or negative assurance. Under the professional standards, customers who wish to obtain the results of the AUP engagement from the external auditor are required to take responsibility for the sufficiency of the AUPs by signing a representation letter to that effect.

On March 31st, 2016, BPA's external auditor (PricewaterhouseCoopers) completed the final AUP report. Customers interested in viewing this report were asked to contact their Account Executives. Thus far, 13 customers have executed a representation letter and obtained the report from PwC. Only those customers who sign a representation letter are able to view the AUP report results. The AUP report will not be shared on BPA's public website due to the above mentioned PwC requirement. If a customer wishes to obtain a copy of the report they should contact PwC directly.

As a result of this 2016 CVP, BPA identified a calculation error. Due to this error, BPA has decreased the Unused RHWL credit by \$915,574. This revision resulted in an aggregated charge back of \$255,638 to the Slice/Block customers, which will be effective as of the Slice customers' June bills issued in July 2016. This re-computation and revision to the Unused RHWL credit was discussed in the May 3rd, 2016 Quarterly Business Review, and is documented in the Addendum to this letter. Energy Efficiency revenues and expenses accounting policies are to be discussed at the August 2nd Quarterly Business Review.

BPA will not hold a public meeting on this adjustment under the CVP because those customers who were interested in the AUP results from PwC have received them and been informed of the error, and BPA is informing other customers of the minor correction. Given its small magnitude, this adjustment is not a significant change to the True-Up amounts for any of the Slice customers.

Addendum: Cost Verification Unused RHW Error

Issue. An error was discovered in the calculation of the Unused RHW Credit that was used to calculate the fiscal year 2015 Slice True-up. The error resulted in an Unused RHW Credit that was \$915,574 too large. Correction of this error will result in a charge back (money returned to BPA) to Slice/Block customers of \$255,638.

Background. The purpose of the Unused RHW Credit is to share the full value of Unused Rate Period High Water Mark (RHW) with all PF public customers. It is established in section 2.4 of the Tiered Rates Methodology, where it states: “in the event of unused RHW, the Tier 1 Secondary Energy Credit associated with the unused RHW will be included in the Composite Cost Pool rather than the Non-Slice Cost Pool.”

The Unused RHW Credit is a rate design adjustment made between Tier 1 cost pools, where it credits the Composite Cost Pool and debits the Non-Slice Cost Pool as described in BP-14-FS-BPA-01 section 3.1.3.2.

The existence of Unused RHW can:

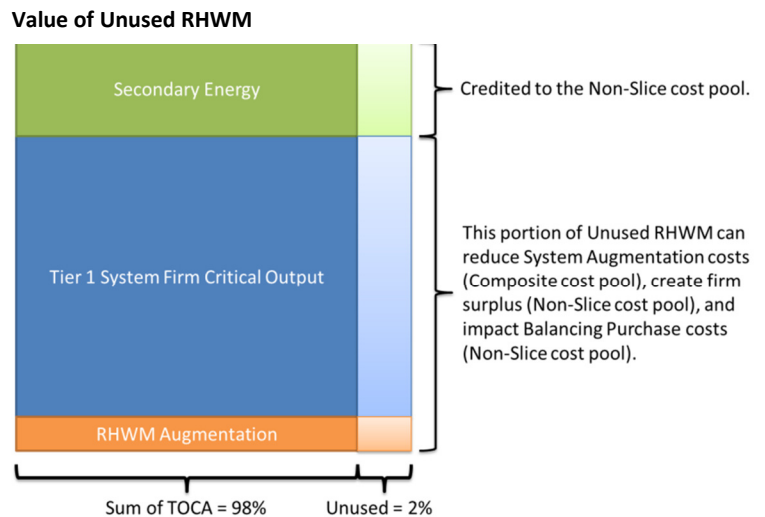
1. **Reduce System Augmentation.**

System Augmentation costs are allocated to the Composite cost pool and thereby is shared with Slice and Non-Slice power sales.

2. **Change Balancing Purchase costs and BPA’s share of Secondary revenue**

because the shape of System Augmentation is not the same as the shape of Unused RHW. Balancing Purchase costs and BPA’s share of Secondary revenue are allocated to the Non-Slice cost pool and thereby only impacts Non-Slice power sales.

3. **Create firm surplus.** BPA’s share of surplus revenue, Secondary and firm, is credited to the Non-Slice cost pool and thereby only impacts Non-Slice power sales.



All three impacts of Unused RHW are taken into account when calculating the value of Unused RHW Credit.

Accounting for actuals. The Unused RHWM Credit line item in the Composite Cost Pool is subject to the Slice True-up. Actual Unused RHWM can be different than forecast due to:

1. A change in a customer’s Tier One Cost Allocator (TOCA).
 - ❖ TOCAs for Slice/Block and Block customers can change in the Annual Net Requirement process.
 - ❖ TOCAs for Load Following customers can change if there is reason to believe that the customer’s actual load will differ substantially from its forecast load.
 - ❖ In FY 2014 and FY 2015, TOCAs changed due to removal of provisional RHWM Amounts.

2. A change in actual load of a Load Following customer as captured through the Load Shaping Charge True-Up.
 - ❖ The Load Shaping Charge True-Up is used to avoid charging or crediting the market-based Load Shaping Rates for energy within the customer’s RHWM. Application of the Load Shaping Charge True-Up has the same financial impact as changing the customer’s TOCA at the end of the fiscal year.

The error. The error found was a simple one. Instead of using the FY 2015 forecast Unused RHWM Credit amount as calculated in the rate case, the FY 2014 amount was used. The difference between the forecast FY 2014 and FY 2015 Unused RHWM Credit amounts is the basis for the error. All other components of the calculation were done correctly.

Recommendation. This error was found through the Cost Verification Process. As part of that process, customers had asked for information regarding the calculation of the Unused RHWM Credit. The error was discovered during the process of answering the customers’ questions. BPA is including the description of this error in this Cost Verification Process close-out letter. An aggregated charge back amount of \$255,638 will be issued on the June bill, effectively adjusting the FY 2015 Slice True-up amount.

Math:

1	Erroneous Unused RHWM Amount	\$ 1,071,229	
2	Error Corrected Unused RHWM Amount	\$ 155,655	
3	Delta	\$ 915,574	Row 1 - Row 2
4	Sum of TOCAs	0.9536709	
5	Amount Subject to Slice True-up	\$ 960,052	Row 3 / Row 4
6	Slice %	0.2662752	
7	Charge Back Amount	\$ 255,638	Row 5 * Row 6