2019 Financial Reserves Review Process

Questions & Responses resulting from March 11, 2019, Reserves Workshop

The responses provided below address a portion of the questions received from customers. Responses to the remaining questions will be posted once completed. These responses are based on information known at this time and a reasonable search of BPA's records in the time allowed. If additional information or documentation is found, BPA may revise or supplement the responses in this document. The responses below represent staff leanings and understandings at this time, and are not intended to reflect final BPA decisions.

Table of Contents

Detail and Data Questions Regarding Error

1. **Northwest Requirements Utilities -_Please provide the number of transactions that were reviewed and identified as having been misallocated to Power instead of to Transmission.**

   BPA Response:

   Roughly 89,000 IPAC transactions* were included in the review. Of that, roughly 62,000 transactions that were purely Transmission-related costs, and roughly 7,000 transactions that were Corporate-related (that is Power and Transmission split costs), were erroneously allocated entirely to Power in the BU Cash Split Model.

   The Transmission transaction volume is high because this counts each time low dollar GSA Fleet amounts were costed to Transmission.

   * This count of "transactions" refers to how items were ultimately defined/costed in the PeopleSoft Financial system as either Corporate (i.e., split costs)-, Power- or Transmission-related costs.

2. **Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. - What if any errors has BPA found that might have been made in modules other than IPAC?**

   BPA Response:

   One additional error has been identified; see question 5 for additional details. BPA will report any additional errors discovered upon completion of the review process by BPA and Baker Tilly.

3. **Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc.-_ Please provide a complete explanation of each module in the business unit cash split model.**

   BPA Response:

   The "modules" in the BU Cash Split Model are based on transaction types, as shown in the table below. Allocation of these transactions was intended to follow the flow of transactions recorded in the PeopleSoft Financial system to Power, Corporate (CORPT), and Transmission.

Transaction Type	Transaction Description	Transaction Short Description
AP	Account Payable	AP
AR	Account Receivable Non-Customers	AR Non-Customer
ARC	Account Receivable Customers	AR Customer
DM	Deal Management Debts	DM Debts
DMI	Deal Management Investments	DM Investments
HR	HR Payroll	Payroll
HRJE	Journal Entry for Payroll	Payroll JE
IPAC	Journal Entry for IPAC	IPAC JE
JE	Manual Journal Entry - Other	Other Manual JE
ADJ	Adjustments	Adjustments

1. AP – Accounts Payable cash amounts are allocated to each business unit (CORPT, POWER, TRANS) based on the cost distributions of the paid vouchers.
2. AR - Accounts receivable receipts with no Customer ID defined, such as direct journal entries, are allocated to each business unit (CORPT, POWER, TRANS) based on the accounting entries for each deposit.
3. ARC - Accounts receivable receipts with Customer ID defined are allocated to each business unit (CORPT, POWER, TRANS) based on the accounting entries for each item.
4. DM - Deal management Federal debt service cash amounts are allocated to the POWER and TRANS business units based on the deal portfolios defined on each deal.
5. DMI - Deal management investments cash amounts (interest income only) are allocated all to the CORPT business unit initially, then allocated to the POWER and TRANS business units; allocation is calculated by averaging the monthly beginning and ending balances for each business unit POWER and TRANS.
6. HR - Payroll cash amounts are allocated to each business unit (CORPT, POWER, TRANS) based on the payroll accounting entries for each period.
7. HRJE - Payroll related manual journal entries containing cash amounts are allocated all to CORPT business unit initially, then allocated to POWER and TRANS based on the CORPT allocation rates from the HR module.
8. IPAC manual journal entries containing cash amounts are allocated all to CORPT business unit initially, then are allocated all to the POWER business unit.
9. JE - Other manual journal entries containing cash amounts are allocated all to CORPT business unit initially, then the allocation to the appropriate business unit is completed manually. Main transactions handled: Interest Offset Credit, Year-end Treasury payment, Radio Spectrum, and miscellaneous cash disbursements/collections.
10. ADJ – Adjustment transactions for the following transaction types: Beginning balance for the report, between business line adjustments, Interest Offset Credit adjustments, Energy Northwest adjustments.

In all modules, all CORPT amounts have to be further allocated to POWER and TRANS. Where possible, the model follows the standard G&A allocations process to allocate these CORPT amounts. There are small amounts of CORPT cash transactions which are not associated with the G&A allocations process. In these cases, the model employs a logic that generally mimics the overall allocation rates of the specific module picking up the cash source.

4. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc - Please identify and explain the allocator or other method of allocation used in each of the modules.

BPA Response:

All transactions in the PeopleSoft Financial system are eventually coded as Corporate, Power, or Transmission. Corporate amounts are then run through the G&A allocations process to be further distributed to Power and Transmission.

In general, the business unit cash split model was designed with the intention of following the above allocation process. In certain areas there are difficulties with aligning with the above process, and therefore the model employs a different approach.

1) Cash is deducted first, with costing later. This is the situation with IPAC transactions. Cash is deducted from the BPA Fund first, and then subsequently, after reviewing the details of each transaction, each is attributed to Power, Corporate or Transmission in PeopleSoft Financials. In the cash split process, the model did not attempt to estimate how the cash would eventually be costed, but instead attributed the entire cash transaction to Power. This is being corrected.
2) Corporate cash use which does not flow through the standard G&A allocations. Small amounts of cash attributed as "Corporate" do not flow through the standard G&A allocations process because transactions are not associated with a work order. In these cases, the model employs a logic that generally mimics the overall allocation rates of the specific module picking up the cash use.
3) Corporate cash source. Small amounts of cash are attributed as Corporate. In these cases, the model employs a logic that generally mimics the overall allocation rates of the specific module picking up the cash source.

5. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. - To the extent not fully described in the Presentation or in responses to the preceding questions, please describe any issues or errors discovered by BPA in its calculation of or accounting for business unit financial reserves (actual or forecasted) and how and when such issues or errors were detected.

BPA Response:

To date, the only other error discovered as part of the reserves review process is a $5 million Federal borrowing attribution error. This was not an error in the BU Cash Split Model; it was an error in PeopleSoft Financials. The review uncovered the error. Specifically, a $5 million bond was issued in August FY18 and was input into the PeopleSoft Financial system incorrectly as a Transmission Federal bond, rather than a Power bond. The BU Cash Split Model picked up how it was recorded in PeopleSoft Financials. The result was twofold:

1) Power's income statement under-accrued for one month of interest expense associated with the $5 million bond, and Transmission's income statement over-accrued by the same amount. There was no impact to the Agency income statement.

2) Power's reserve balance was understated by $5 million at the end of FY18 and Transmission's reserve balance was overstated by the same amount. The bond has been now been correctly assigned in PeopleSoft Financials and FY18 ending reserve balances will be adjusted.

6. **PNGC Power – Can BPA produce two more columns for the table 1 on page 8?**
Column H: BPA reserves for risk for transmission services if the amounts erroneously deducted from power services had not happened.
Column I: BPA reserves for risk for power services if the amounts erroneously deducted from power services had not happened.

BPA Response:

See Table 2, page 10 of the March 11 presentation.

7. **Powerex - Are there other categories that are part of the IPAC module that are exclusively allocated to Transmission or Power? If so, what are they? (Slide 8, Table 1.)**

BPA Response:

As discussed in Question 3 above, all transactions in the IPAC module of the BU Cash Split model were assigned to Power, when in fact there were transactions for Power, Corporate, and Transmission.

8. **Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency –**

   Please provide any documentation or communications concerning the agency's decision to automate the processes associated with the business split model in or around 2015— including but not limited to guidelines or instruction manuals, auditing and/or validation.

BPA Response:

See response to question 14.

9. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency- Was the IPAC module modified or configured for BPA's use? Did BPA have the option to require any information before the release of funds was allowed? For example, could BPA have required a business-line code (P, T, C) be entered by other governmental agencies requesting payment, or the approval of any such code before allowing payment?

BPA Response:

The question references two different processes involving IPACs: (1) the "IPAC system"; and (2) the "IPAC Module".

1) The "IPAC system" is an internet-based software program developed by the U.S. Treasury for processing transactions between Federal agencies; Federal agencies are required to use this system for processing transactions with other Federal agencies. BPA cannot dictate the setup or configuration of the IPAC system; i.e. require BPA business line specific coding. If BPA disagrees with any amount taken by another Federal agency through the IPAC system, we can reverse the transaction.

2) The "IPAC module" is one of ten modules that make up the BU Cash Split Model. The BU Cash Split Model is an internal BPA model that separates cash within BPA's cash account between Power and Transmission. The IPAC module is supposed to take the transactions generated by the IPAC system and separate them between Power and Transmission, following the cost allocation of the underlying transaction.

For example, assume BPA makes a payment through the IPAC system of $5 million for vegetation management services provided by the Department of Interior. Assume also that 100 percent of these services benefit Transmission and will appear in Transmission's Income Statement. The transaction is completed through the IPAC system, and $5 million leaves the BPA Fund. Internal to BPA, the IPAC module should now assign a $5 million reduction to Transmission's cash. As noted in the March 11 presentation, the IPAC module did not do this, but assigned the transaction as a reduction to Power's cash resulting in an error.

10. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency - Was BPA's manual attribution process done in Excel format? If so, please describe the development of that process, who was involved, how long the process took to develop, who approved the process, etc. Please provide any documentation or communications concerning the same.

BPA Response:

Yes, BPA's manual attribution process within the BU Cash Split Model was performed in Excel. The process was developed by several staff in Finance. As of 3/29/19 BPA has not identified any evidence regarding the duration of development or approval of the process. BPA identified two informal desk procedures associated with the process; see the following documents posted on the Finance Reserves Review website.

1) Q10 - Cash Balances by Business Unit Procedures
2) Q10 - Cash Balances by Business Unit Procedures (V2)

11. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency – Please provide any documentation or communication concerning the $16.2 million manual allocation to Transmission Services in FY2010.

Who determined a manual allocation was necessary and/or appropriate?

BPA Response:

As noted at the March 11 public meeting, the transaction was for one land purchase made by Transmission in December 2009. The review found no documentation regarding why this transaction was allocated to Transmission in the BU Cash Split model. BPA's accounting system, PeopleSoft Financials, contains limited details about the transaction. The PeopleSoft entry states that it was a "Land Purchase" for $16,184,317.82, costed to Transmission for the purchase of land from the Department of Interior, Bureau of Indian Affairs.

Regarding who determined a manual allocation was necessary or appropriate, at this time, Staff has not found documentation regarding who made this decision.

12. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency -Please provide any documentation or communication concerning the $16.2 million manual allocation to Transmission Services in FY2010.

What was the underlying transaction or cost item?

BPA Response:

The underlying transaction was a land transaction. Transmission purchased land from the US Department of Interior, Bureau of Indian Affairs.

13. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency - Please provide any documentation or communication concerning the $16.2 million manual allocation to Transmission Services in FY2010.

Was there any approval needed for the manual transaction?

BPA Response:

As noted in response to question 12 above, at this time Staff has not found any documentation or communication as to why this one transaction was manually allocated to Transmission

14. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency -Please provide any documentation or communication concerning the $16.2 million manual allocation to Transmission Services in FY2010.

Was there any discussion about addressing the way attributions were generally handled at that time, i.e., in or around 2009 or 2010 or otherwise?

BPA Response:

The review has not uncovered any documentation or communication that discusses why IPAC transactions were allocated 100% to Power, nor any documentation or communication regarding the one time allocation to Transmission.

Workers' Compensation Questions

15. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. -

a. For example, with regard to Worker's Compensation, please explain the allocation method and when and why was it adopted. Please explain the payments made by BPA for Worker's Compensation: (i) to what organization were the payments made, and (ii) on what bases (e.g., number of employees, etc.) are the amounts to be paid calculated?

b. Why would it be appropriate to allocate all Worker's Compensation costs to Transmission, when it seems apparent that BPA must incur some Worker's Compensation costs with respect to employees of the power business unit (and with respect to general employees that perform tasks with respect to both business units)? Is BPA in effect assuming there are zero Worker's Compensation costs for Power and Corporate? Please explain. For example, please explain how transmission customers would be "made whole" by allocating to transmission Worker's Compensation costs properly allocable to power.

BPA Response:

Please refer to responses for questions 16, 17 and 18.

16. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency - Please also provide a thorough description of the workers' comp IPAC payments, including the number of payments made annually and where the premiums are booked.

BPA Response:

The Federal Employees' Compensation Act (FECA) provides compensation benefits to civilian employees of the United States for disability due to personal injury sustained while in the performance of duty. The act also provides for compensation for employment-related disease. Benefits available to injured employees include rehabilitation, medical, surgical and necessary expenses. FECA provides compensation to dependents if the injury or disease causes the employee's death. FECA is administered by the Office of Workers'

Compensation programs (OWCP, U.S. Department of Labor (DOL)), located in 12 district offices throughout the United States.

Federal agencies do not pay premiums for FECA coverage. Instead, agencies reimburse the Employees' Compensation Fund for the actual amounts paid to its employees in workers' compensation benefits through a "chargeback" method employed by the Office of Workers' Compensation Programs (OWCP). Chargeback is the mechanism by which the compensation costs for work-related injuries and deaths are billed annually to Federal agencies. The Federal Employees' Compensation Act program is financed by the Employees' Compensation Fund, which consists of monies paid into it by Federal agencies receiving appropriations from Congress.

Section 8147(b) of Title 5 of the United States Code requires that an agency or instrumentality not dependent on annual appropriations reimburse the Employees' Compensation Fund for the costs expended on its behalf during the first 15 days of October.

BPA books expenses associated with the reimbursement under Transmission Operations, Marketing and Business Support and FCRPS books expenditures within the Associated Projects (ASPRJ) business unit for the Corps and the Bureau of Reclamation.

17. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency - In the March 11 Workshop, it was explained that all workers' comp payments are allocated to (or directly assigned to) transmission rather than split between business units. Please describe if these expenses include premiums and/or payments for claims. Please explain in detail why the payments are allocated in this manner.

BPA Response:

From 1999 – 2005, BPA allocated, via the Corporate allocation model, the OWCP expenses on the following basis: 99.6% to Transmission and 0.4% to a Corporate shared services project, the latter would then be subsequently allocated back to both business units according to the shared service model. This distribution was calculated in August of 1999 by the BPA human resources department responsible for the administration of the OWCP program using an average of the prior two years of the business unit of the employee receiving the benefits.

The shared services model was disbanded beginning with FY 2006 and at that time the program office recalculated the appropriate allocation of costs based on the business unit of the benefit recipients. The program office averaged the dollar amount of benefits received by employees based on their business unit over the time period from 7/1/2002 through 3/31/2005 and calculated the following: Transmission = 99.4%, Corporate = 0.5% and Power = 0.1%. BPA began allocating 100% of the OWCP expenses to Transmission beginning with Fiscal Year 2006 for the following reasons: (1) general business efficiency, (2) benefit recipient data shows that Power and Corporate function employees comprise a very small proportion of the overall costs and expenses associated with OWCP expenses; indeed, the cost of Corporate employees receiving benefits would ultimately have to be reallocated back to the business units and Transmission would likely receive the majority of such allocation under a rational driver model (i.e., head count, programmatic direction of effort analysis), and (3) BPA does not have a system or process to directly link the benefit recipient to the financial accounting result as the costs are incurred. BPA has maintained this practice since 2006.

18. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency - Are there other workers' comp payments that are made outside of IPAC? Please explain how those payments are treated.

BPA Response:

There are no other OWCP payments made outside of IPAC. However, there are additional payments made by BPA for OWCP that are accomplished through IPAC to the Bureau of Reclamation (Reclamation) for the reimbursement of direct funded expenditures. Such payments are outside the scope of the reserves error because they are properly attributable to the Power function.

Reclamation includes in its financials reported to BPA, as part of its funded operating and maintenance (O&M) expense or construction work in progress (CWIP) for each project, the amounts paid by the Department of Labor (DOL) for benefit claims for Reclamation employees under FECA. Reclamation reimburses the DOL for the amount of claims paid to their employees. The portion of these claims allocated to Power is included, two years in arrears, as part of O&M or CWIP costs directly funded by BPA. When the bill is received, these costs are posted directly against specific projects to O&M or to CWIP depending on whether these projects are expense or capital, respectively. Prior to direct funding, BPA reimbursed the Reclamation fund at the end of each fiscal year for costs allocated to Power. BPA includes the funded expenditures in the ASPRJ business unit within the FCRPS consolidated financial statements.

The Corps of Engineers (Corps) funds OWCP claims centrally for the entire Corps. No OWCP claims costs are included as part of any Corps FCRPS project financial statements. OWCP claims are not funded by appropriations at FCRPS projects or by Direct Funding from BPA.

Staff Proposal Questions

19. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc.- The Presentation indicates at page 6 that the "business unit [cash] split model includes eight modules, one of which is the intergovernmental payments and collection system (IPAC). It appears that BPA refers to review of the IPAC allocations as phase one of the review process--is this correct?

BPA Response:

We have referred to the review of the BU Cash Split Model as the first phase of the financial reserves review. The IPAC module is one part of the BU Cash Split Model.

20. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. - Please describe the internal and third party process (including scope of review) for reviews of results of financial reserves allocations. Please confirm that BPA will make the results of such reviews available to stakeholders. Who has conducted/will conduct such internal and third party reviews? Will BPA make the persons who conduct such internal and third party reviews available for questions from stakeholders?

BPA Response:

BPA has engaged its Internal Audit group and hired an external third party, Baker Tilly, to review the work prepared by Finance to confirm the completeness and reasonableness of the review of the BU Cash Split model. A decision has not yet been made whether Baker Tilly will be made available for questions from external stakeholders.

21. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. - Would BPA attempt to justify use of an inappropriate or erroneous method of allocation in its review of financial reserves allocations on the grounds that it was a "mimic" of the allocation used in accrual accounting? If so, please explain why would it be appropriate to use an inappropriate or erroneous method of allocation for financial reserves allocations and why such a method would be seen by BPA to "make whole" power customers.

BPA Response:

The scope of the BU Cash Split Model review is limited to the allocation of cash transactions as compared to accounting allocations used in PeopleSoft Financials. The validity of the accounting allocations used in PeopleSoft Financials is not within the scope of this review.

22. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. – [a] Did BPA's historical financial reserves allocations reflect BPA policy decisions or assumptions (for example, tradeoffs) or [b] were BPA's historical financial reserves allocations relied upon in entering into settlements? Please explain.

BPA Response:

[a] See Response to Question 23 below.

[b] Staff interprets this question as asking whether BPA actually used some portion of the stated amount of Transmission Services' financial reserves to reach a transmission rate settlement in past rate cases. Transmission has settled rates from TR-02 to TR-10 and BP-12. In all the settlements there was an assumption of use of Transmission financial reserves to minimize and stabilize Transmission rates over time. Depending on the rate period, there were varying assumptions about the use of reserves.

23. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc.- The apparent persistence of BPA's allocation methodologies over a very long period of time that apparently included various manual and automated methodologies would appear to be consistent with a policy choice rather than an error; has BPA determined that the allocations were an error rather than the result of (potentially long-ago) BPA policy decisions or assumptions (for example, tradeoffs) or as a result of settlement considerations? If so, please explain and describe how any such determination was made. Assuming adjustment of financial reserves were appropriate, any such adjustment should be accompanied by an adjustment of any counterbalancing consideration (e.g., BPA policy decisions or assumptions or settlement considerations) provided by transmission, which must be identified and reversed.

BPA Response:

Staff has not identified any policy documentation that would support a finding that BPA intended to adopt the IPAC treatment in the BU Cash Split Model as a part of an agency policy decision or as a "tradeoff" to reach a settlement.

Staff believes this issue is an error because BPA would not have created an inconsistency between the collection of IPAC-related costs in rates (and PeopleSoft financials) and the use of financial reserves to pay IPAC costs between the business lines. That is, Staff does not believe BPA would have proposed to set Power and Transmission rates so that they collected their respective shares of IPAC costs, but then internally decide to assess all such costs to Power's financial reserves.

24. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc.- Please explain why BPA determined that the attribution to Power Services was an error rather than an intentional decision to, for example, minimize a tedious and/or manual process.

BPA Response:

See response to question 25.

25. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency] Please provide any documentation or communications concerning the agency's decision to create the business unit split model in or around 2002—including but not limited to guidelines or instruction manuals, auditing and/or validation of the data produced by the model.

BPA Response:

Staff has not found any documentation regarding the agency's decisions to create the BU Cash split model in or around 2002.

Two informal desk procedures have been identified; see question 10.

26. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. - Why should interest be charged to transmission on amounts of financial reserves BPA now determines were erroneously allocated to transmission when the Treasury Facility has been set aside in ratemaking for Power with no compensation to Transmission for this? Please explain.

BPA Response:

Whether BPA applies interest to correct for a past misallocation of financial reserves is a separate issue from whether and how BPA applies the Treasury Facility between the business lines for ratemaking purposes. BPA's decision on how to model the use of the Treasury Facility for ratemaking purposes should not influence whether interest should be applied to correct for a past error in financial reserves attribution.

27. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc.- Going forward, where and how will BPA address appropriate changes to various policies or approaches (such as phase-in of the financial reserves policy or assumed use of the treasury facility) as a result of changes in financial reserves allocation?

BPA Response:

Staff does not believe that additional review or process is needed on other financial policies, such as the Financial Reserves Policy or Financial Reserves Policy Phase-In Implementation decision, as a result of this error. The Financial Reserves Policy and its progeny are designed as stand-alone policies that provide needed structure and guidance on the level of financial reserves the agency and each business line should hold to maintain the agency's financial health. The fact that the business line's share of agency reserves may change because of this error does not change the need for, or policy justification of, these financial policies. The assumption of how BPA uses the Treasury Facility is also not affected by this error. Whether and how BPA chooses to allocate the Treasury Facility for ratemaking purposes is addressed in the rate case.

28. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency- Please explain how BPA has validated the attribution of the different transaction types in IPAC, and whether there are any other attribution changes that BPA is considering at this time. For example, please explain why 80% of GSA fleet costs are attributed to transmission and 100% of workers' comp costs are attributed to transmission?

BPA Response:

Staff interprets this request as asking two distinct questions.

(1) How was the review/validation of the misallocated amounts performed?

Staff first looked for and reviewed procedures for evidence as to how the IPAC allocation was set up in the BU Cash Split model. We found unofficial desk procedures (see Question 10) noting that 100% of IPAC transactions would be attributed to Power for cash split purposes. Next we reviewed all cash split reports by month that summarized the cash split to Power and Transmission in broad categories, such as receipts, disbursements, payroll, IPAC, etc. In these reports, we noticed that all IPAC disbursements were attributed to Power, with the exception of FY10. We then reviewed the other modules and entries in the cash split model to determine whether there were possibly any offsetting entries. We found none. Finally, we queried the PeopleSoft Financial system for all IPAC transactions to determine how each transaction was actually costed, to Power or Transmission, in order to determine the magnitude of the misallocated cash.

(2) Why are the costs for GSA Fleet and Workers' Comp mainly allocated to Transmission?

This question conflates two different aspects of BPA's financial activities. Whether a cash payment should be allocated to a business unit (and the amount of that payment) is a function of cost allocation. The allocation of a cash transaction to a business unit should be made by referencing the underlying transaction and the G&A Allocation Methodology for distributing corporate costs, which ultimately flow through to the financial statements with expenses recognized in the Income Statement of each business unit. If the expense is in the Income Statement of a business unit, it reflects a determination by BPA that such expense (in that amount) should be recovered in the rates of that business unit. BPA is not proposing to decide, as part of this process, whether to change a cost allocation decision reflected in the Income Statement of a business unit.

The BU Cash Split Model does not determine which business unit should recover a certain cost. That is, it does not determine cost allocation between the business units. Instead, it is supposed to attribute cash generated from rates between the business units in a manner that reflects the cost allocation rules and parameters, which are reflected in the Income and Financial Statements. Stated simply, the BU Cash Split Model should be dividing cash between the business units in a manner that follows the already-established cost accounting practices used in the Financial Statements.

The reference to the GSA Fleet costs and Workers' Compensation are good examples of how these two functions work. As a matter of cost allocation, BPA has determined that Transmission should bear 80 percent of the costs for the GSA Fleet costs. This determination, which is not at issue in this process, is reflected in Transmission's Income Statement. Transmission rates have been set to recover 80 percent of the costs of the GSA Fleet. The BU Cash Split Model, then, *should* be deducting from Transmission's cash reserves 80 percent of the GSA Fleet costs (when those costs were paid from the BPA Fund). It did not do that. Instead, it assigned all GSA Fleet costs to Power. That is the error.

A similar analysis applies to Workers' Compensation. One hundred percent of Workers' Compensation is allocated to Transmission through its Income Statement and recovered in Transmission rates. The BU Cash Split model should have followed the Income Statement allocation. It did not. Instead, it assigned 100 percent of Workers' Compensation to Power, which is patently inconsistent with the way costs were allocated through the Income Statement and assumed in rates.

The question as to whether these percentages are appropriate allocations in the Income Statements of the business units is beyond the scope of the BU Cash Split Model review. For context, though, the allocations were derived based on usage. Transmission bears 80 percent of GSA Fleet costs because the assignment of the cost follows the usage, *i.e.*, costs are distributed based on the department using the vehicle. By the nature of Transmission's work and geographic diversity, it is the primary user of the GSA Fleet vehicles. Transmission bears 100 percent of Workers' Compensation costs because the underlying claims data is virtually all Transmission-employee related.

29. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency - Were any of the TC-20 or BP-20 settlement team aware of the attribution issue while working on the TC-20 or BP-20 settlement package? Please explain.

BPA Response:

No. The TC-20 and BP-20 settlement was developed between September and November 2018. The negotiation team was not aware of any issues related to the attribution of financial reserves while working on the TC-20 and BP-20 settlement package. The TC-20 and BP-20 settlement was negotiated in good faith based on information known at the time.

30. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency - Were any of the TC-20 or BP-20 settlement team aware of the attribution issue while working on supplemental testimony? Please explain.

BPA Response:

The supplemental testimony was developed in late January and early February 2019. During that time period, the BP-20 settlement team members that worked on the testimony were aware that BPA Finance was exploring issues with the agency's financial reserves and were informed that there were preliminary concerns about the BU Cash Split model.

31. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency - Because the IPAC issue has been going on for nearly two decades, has BPA considered any options that would allow it to fully understand the extent of the attribution problems before moving forward with a solution? For example, using the unadjusted numbers until the third-party review has been completed and/or vetted by stakeholders. Please explain.

BPA Response:

Please see the "BPA financial reserves review process update" Tech Forum email distributed on March 26, 2019.

32. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency - Given that BPA's own internal audit changed the attribution amount from approximately $200 to $300 million in recent weeks, would BPA consider allowing a more thorough third-party audit, rather than limiting the third party to a review before moving forward with a solution? Please explain.

BPA Response:

BPA is committed to transparency and to a thorough review of this issue. As such, and as noted in the March 26, 2019, Tech forum & BPA Finance notice, BPA will be delaying a decision on this issue until both the internal review, and the external review by Baker Tilly has been completed.

33. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency - Please confirm and/or explain whether BPA intends to provide the report from the third- party review to stakeholders.

BPA Response:

A decision has not yet been made whether Baker Tilly's report will be made available for external review.

34. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency - Please confirm and/or explain whether BPA intends to invite the third-party reviewer to the May meeting with the stakeholders.

BPA Response:

A decision has not yet been made whether Baker Tilly will be made available for the external stakeholder meeting.

35. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency - Please confirm and/or explain whether BPA intends to allow stakeholders to comment on the third-party review after it has been concluded.

BPA Response:

A decision has not yet been made whether BPA will hold a comment period on the Baker Tilly report.

36. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency -. Please explain BPA's position that it is seeking a third-party review as opposed to an audit. Would BPA consider allowing stakeholders input into the scope of the third-party review? Please explain.

BPA Response:

BPA wants to gain an external, independent review of the work it did on this process by an external third party firm. BPA has a contract in place with Baker Tilly and has identified the scope of its work that includes all relevant content for this issue. BPA does not intend to allow stakeholders to provide input on the scope of the review.

Reallocation Duration Questions

37. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency - Please provide any documentation or communications that identify exactly when BPA first realized the IPAC module was being attributed to only one business line—either in 2010, 2018 or otherwise.

BPA Response:

The Workers' Compensation allocation issue was raised around the beginning of fiscal year 2019, among various BPA Finance staff. At that same time, a financial reserves review team was assembled to address the financial reserves forecasting issues that arose in FY18. Their assignment was to focus on process improvement. The scope expanded to include review of the BU Cash Split Model. Once that review began, the Workers' Compensation allocation came up as part of a risk assessment process, which sought to understand and review the major allocations, manual entries, complex transactions, and areas of concern. Subject Matter Experts noted that Workers' Compensation transactions were being entirely assigned against Power's cash (incorrectly) and that there might be other transactions that were similarly improperly assigned. Upon further review, we discovered that Workers' Compensation was a payment made in the IPAC system, and that the IPAC module of the BU Cash Split Model allocated all IPAC system transactions to Power. From there, efforts focused on validating the extent of the issue.

Reallocation Interest Rate Questions

38. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. - Please explain how the interest calculations shown in the Presentation were performed. Please include the spreadsheets used in such calculations.

BPA Response:

Please see the BU Split_Interest Adjustment file.

For compounding scenarios, the annual amount for each year was spread over 12 months evenly and monthly interest was calculated using Power rate case rates. For the simple interest calculation, the annual amounts were multiplied by the rate case interest rate for each respective year.

39. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. - When BPA uses deferred borrowing, is interest earned only on accumulated cash, or is it applied to the amounts that have been used to fund construction during the year? Please explain.

BPA Response:

The Interest Offset Credits and investment income are only earned on accumulated cash. Deferred borrowing does not earn any interest. However, deferred borrowing represents the capital investment amounts that already have been spent out of the BPA Fund and could be borrowed against. Thus, it has an avoided interest expense associated with it.

40. Powerex - Can BPA provide a detailed breakdown of how it calculated the interest amounts for the various options under consideration (i.e. principal amounts, interest rates and totals (principal plus interest))? (Slides 9 -10, Interest Rate.)

BPA Response:

Please see the BU Split_Interest Adjustment file.

Power and Transmission Rate Questions

41. Northwest Requirements Utilities - Please state the annual amount of transmission's financial reserves that were used as part of the TC-20 settlement.

BPA Response:

The TC-20 proceeding settlement was a part of a settlement package that included the proposed partial settlement of transmission rates in the BP-20 rate proceeding. For the proposed partial settlement of BP-20 transmission rates, BPA assumed the use of approximately $30 million of Transmission financial reserves per year, or $60 million total, for the BP-20 rate period.

42. PNGC Power - Do the transmission reserves for risk, located on table 2 on page 10 cell B7, include any reserves planned to be used for the BP-20 settlement for transmission rates? If so, how much has been deducted and how is that accounted for (reserves not for risk or?). If not, how much reserves for risk will be used due to the BP-20 settlement for transmission rates?

BPA Response:

Table 2 in the March 11 presentation only shows ending financial reserves for FY 2019. The balance on table 2 does not include the amount of financial reserves that BPA assumed would be used for the proposed partial settlement of BP-20 transmission rates. As noted above, the amount that BPA assumed for the BP-20 Partial Rates Settlement was approximately $30 million annually. The financial reserves used for the BP-20 Partial Rates Settlement are categorized as "reserves for risk."

Reserves Correction Process Questions

43. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc.- It appears that BPA contemplates a final decision on phase one prior to a second meeting in May. Is it necessary to reach a final decision on phase one by this time? Please explain.

BPA Response:

As noted in the March 26, 2019, Tech Forum notice, BPA is revising its process on this issue.

Financial Reserves Review Process	
Date	**Item**
March 29, 2019	BPA posts available responses to questions received on March 15. Additional responses will be posted once completed.
April 30, 2019	BPA hosts second quarter Quarterly Business Review.
May/June, 2019	BPA provides financial reserves review status updates as needed.
June 2019	BPA holds a meeting to share proposal for resolving financial reserves error. Comment period begins.
Late July, 2019	Public comments due.
September 2019	BPA issues decision on resolution of financial reserves errors.

44. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. - Is it necessary to reach a final decision on part of the financial reserves split allocation review (e.g., IPAC) before the review of all modules is complete? Please explain.

BPA Response:

See response to question 43.

45. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. - When does BPA plan to complete review of all modules?

BPA Response:

See response to question 43.

46. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. - Does BPA plan on taking stakeholder comments into account in reviewing other modules? When would those stakeholder comments be submitted, and does BPA's schedule allow time for this?

BPA Response:

See response to question 43.

47. Powerex - Finally, in terms of process, BPA noted that it would produce a decision document. Will the BPA Administrator issue the decision on how BPA will proceed?

BPA Response:

See response to question 43.