

March 15, 2019

Questions Arising in Connection with BPA Financial Reserves

The BPA March 11, 2019 Financial Reserves Workshop presentation (“Presentation”)¹ stated at page 13 that questions could be submitted by March 15 to communications@bpa.gov. The questions set forth below, which include some preliminary comments, are submitted in accordance with that statement and are on behalf of Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. (“Commenting Parties”). Commenting Parties appreciate BPA’s commitment to post responses to questions received, which should promote transparency with regard to this important topic; however, as discussed below, the schedule for review of the financial reserves split allocation is too compressed and should be extended.

The BPA public comment web page² includes the following:

BPA has been conducting a review of its financial reserves after errors in the reserve forecasting process were discovered in fiscal year 2018. During the first phase of the review, BPA uncovered an error that affects how it allocates financial reserves to Power Services and Transmission Services for certain intergovernmental payments and collections transactions. The comment period for the financial reserves allocation split error will close April 9. Please submit comments related to the following: (1) How far back in time we should go to correct the error, 2002 or 2004, or (2) If and how interest should be applied to the error correction. In the meantime, if you have questions you would like answered BEFORE the close of comment, send those questions to Communications@bpa.gov; BPA intends to post responses to the questions on Financial Reserves Review webpage no later than Friday, March 29.

1. 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?
2. The issues raised by the business unit cash split are very complex and at present poorly understood by a number of BPA stakeholders. More time is needed to understand the issues and

¹ Available at <https://www.bpa.gov/Finance/FinancialPublicProcesses/Reserves-Review/Documents/March%2011%20Financial%20Reserves%20Workshop%20Presentation.pdf>.

² Available at <https://publiccomments.bpa.gov/OpenCommentListing.aspx>.

submit comments on them. BPA should extend the schedule. (For example, March 15 is too early to permit full development of these questions.)

- a. 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.
- b. 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.
- c. When does BPA plan to complete review of all modules?
- d. 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?
- e. What if any errors has BPA found that might have been made in modules other than IPAC?
- f. 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?
- g. Please describe the review (including scope of review) and reconciliation process to be used by BPA for future financial reserves allocations.

BPA should allow additional time and adequate opportunity for review and analysis of issues, responses, and BPA findings before a final determination is made.

3. Transparency and visibility regarding the financial reserves split allocation, BPA's review of it, and BPA's application of it going forward are essential, particularly in light of the substantial amounts of money potentially involved.

- a. Please provide a complete explanation of each module in the business unit cash split model.
- b. Please identify and explain the allocator or other method of allocation used in each of the modules.
- c. 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?³ 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.

- d. 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:⁴ (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?

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)?⁵ 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.

- e. Please explain whether and to what extent separate subaccounts (or coding) for power and transmission are used in making allocations. To the extent subaccounts (or coding) would be practicable in making allocations but are not used, please explain. Is BPA going to review all of the allocations made by each of the modules? If not, please explain why not and describe the allocations that BPA will not be reviewing and why they will not be reviewed. Please explain any controls used in making allocations.

4. Is BPA going to review all allocations made by each of the modules? If not, please explain why not and describe the allocations that BPA will not be reviewing and why they will not be reviewed. Is BPA’s objective for the financial reserves review to adjust financial reserves for power and for transmission to the levels they would have been in the absence of errors in allocation of costs and revenues over a period for which adequate data is available? Is this what BPA means by “making Power whole”?⁶ Would not achievement of such objective require review of all allocations made by each of the modules? If BPA’s contemplated schedule will not allow for such review--with stakeholder involvement--the schedule for review of the financial reserves split allocation is too compressed and should be extended.

³ See Presentation at page 5.

⁴ See Presentation at page 8, column B.

⁵ See Presentation at Appendix A.

⁶ See Presentation at page 10.

5. Did BPA's historical financial reserves allocations reflect BPA policy decisions or assumptions (for example, tradeoffs) or were BPA's historical financial reserves allocations relied upon in entering into settlements? Please explain.
6. 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.
7. Even assuming it were appropriate to adjust BPA's historical financial reserves allocations, there should not be any adjustments for a period for which the adjustments are not auditable and verifiable, based on detailed financial information.
8. BPA has stated that financial reserves are held at the agency level and therefore both business lines have beneficial access to the reserves (e.g., for risk mitigation, deferred borrowing, etc.). Why should interest be charged to transmission on amounts of financial reserves BPA now determines were erroneously allocated to transmission when those amounts were available for use by power without the assessment of interest? Please explain. Is BPA's initial leaning to apply interest on amounts of financial reserves BPA determines were misallocated in prior years in addition to reallocating between business lines interest actually earned by BPA based on reallocated financial reserve levels of the business lines? If so, please explain why.
9. 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.
10. Please explain how the interest calculations shown in the Presentation were performed. Please include the spreadsheets used in such calculations.
11. Please provide the amounts of interest earned by BPA in the applicable years on its deposits in the Bonneville Fund? Please provide such amounts of interest actually earned each year in question, and the allocation of that interest that was made between the business lines. Please also provide the amounts by year of financial reserves held in the Bonneville Fund and the amounts by year of other amounts held in the Bonneville Fund.
12. If interest is to be applied on amounts of financial reserves BPA determines were misallocated in prior years, please explain any rationale for why it would be more appropriate to use rate case forecasts of interest rates rather than actual rates of interest earned (calculated based

the amounts of interest earned divided by the amounts of reserves on deposit in the Bonneville Fund)? Please provide rate case interest rate forecasts for applicable years and include a description of the data source for each such interest rate forecast.

13. When did BPA begin using deferred borrowing?

14. 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.

15. The Feb. 14, 2019 BPA Tech Forum notice “Additional Information: Financial Reserves Conference Call” to be held on Feb. 9, 2019 included the following: “BPA’s attribution of financial reserves levels between the business units is not a rate case issue, but reserves are a factual input to rates.” Please explain the basis for that statement. (This request is not directed to the BP-20 rate case.)

16. 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.

17. It appears that BPA’s business unit financial reserves model is an (incomplete) set of books that is not tied to BPA’s accrual (PeopleSoft) books, which are used as a primary source of ratemaking documentation. For each business line, the financial reserves model should develop year-end balances that should be tied to rate case statements of cash flows year end balances--provided that any historical allocation errors in accrual book allocations between power and transmission (such as any erroneous allocation of all Worker’s Compensation costs to transmission) should be corrected and the correction reflected in making the tie. It would be arbitrary and capricious to review and revise some allocations and not others. BPA should perform and show the results of such a reconciliation (by year for the period assessed for financial reserves error) and tie the financial reserves allocation to the corrected PeopleSoft or accrual financial statements that prove the accuracy of the error correction calculations.

18. Going forward, how will BPA ensure appropriate, accurate and transparent financial reserves allocations? For example--will BPA (i) reconcile the allocation of financial reserves with its accrual books of account, (ii) hold workshops to address financial reserves allocations and controls, and (iii) integrate develop separate balance sheets and income statements?

19. 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?