PUBLIC POWER COUNCIL
Bringing public power together

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April 12, 2019

Elliot Mainzer
Administrator, Bonneville Power Administration
Portland, OR 97232
Submitted via email

Re: Financial Reserves and Transparency

Dear Elliot:

As you are aware, the financial reserves accounting issues facing BPA are of crucial importance. Although the error is frustrating for customers, we appreciate the ownership expressed by you and your staff and commitment to reach resolution. PPC's letter of February 28 expressed the need for BPA to work transparently with customers during the process of review and correction. Information shared at the March 11 workshop along with the initial follow up information received to date are a good start, although there is much more work to do.

PPC has noted the extension of the official process timeline, including BPA's request for customer comments. PPC supports a comprehensive review before final decisions are made. However, given the information available and the importance of the issues at hand, we have initial considerations that are appropriate to share at this juncture.

First, the overriding principle for correction of this error must be to make power customers whole. Unfortunately, PPC does not believe the initial "leanings" presented at the March 11 workshop accomplish this goal. Absent further compelling information, correction should be made back to 2002. Although the same granularity of data may not be available, we are not aware at this time of any plausible reason to assume the errors did not persist during that timeframe. Interest must be applied to these amounts using historical effective rates and compounded on a monthly basis. This treatment reflects the actual disposition of the funds through time.

Although it is not in question that power rates were adversely affected by this error, on balance it appears that retrospective rate correction would not be productive. Rather, reallocation should be a mechanical accounting process. This supports both the full timeframe and use of actual interest rates as accrued on the funds. PPC also notes that this approach does not harm the rates paid by transmission customers

PPC further recommends that BPA suspend surcharges and credits under the Financial Reserves Policy for the upcoming rate period. The issues at hand represent a material change in circumstances since the adoption of the policy. It is reasonable that neither business line should be surcharged or credited in the upcoming rate period for credit support while BPA revamps its internal processes and controls. Further, transmission customers negotiated the proposed settlement of BP-20 rates with an expectation of a certain level of financial reserves. Although power customers must be made whole as described above, it would be an unfortunate outcome for transmission rates to be surcharged in BP-20. Implementing a "pause" on Financial Reserves Policy adjustment mechanisms would allow both objectives to be achieved. PPC is not recommending a change to mechanisms needed strictly for support of Treasury Payment Probability.

Looking forward, BPA must make process and control improvements to ensure this type of error can never happen again. Commitment must be made to ongoing and visible improvements. Ultimately a high degree of transparency will be necessary to rebuild customer confidence. PPC is encouraged by the initial steps BPA has taken audit these processes internally at multiple levels and to engage third-party expertise. We look forward to working closely with BPA to implement long-term solutions.

Thank you for your engagement and consideration on these difficult issues. As always, the success of BPA and public power in the Northwest are closely intertwined.

Sincerely,

Scott Corwin

Scott Corwin
Executive Director

Cc: BPA Executive Team