COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP ON FINANCIAL RESERVE ALLOCATION ERROR

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The utilities that comprise the Western Public Agencies Group ("WPAG") submit these preliminary comments regarding the Bonneville Power Administration's ("BPA") initial leanings on how to fix the intergovernmental payments and collections ("IPAC") allocation error. WPAG reserves the right to respond to BPA's formal proposal for correcting the error once it is released.

There can be no dispute that the IPAC error is a blow for the agency. How BPA attributes financial reserves underpins much of its financial relationship with its customers. It dictates how BPA develops the risk mitigation tools it adopts each rate case, and how and when those tools are then implemented during the following rate period. It is also a key component of BPA's Strategic Plan and Financial Reserve Policy ("FRP"). That BPA can have an error of this size and duration in an area so central to its financial affairs has created a deficit of confidence that the agency must now work diligently to restore.

That being said, and in no way diminishing our concerns, we also value the courage it took for BPA and BPA staff to admit this mistake in the way that they have. It appears that BPA provided notice of the error fairly soon after it was discovered, and even before BPA itself fully understood the scope of the problem. That BPA had the confidence and resolve to disclose the error so close to its discovery speaks well of its culture and people. BPA's continued commitment to transparency will be essential for rebuilding customer confidence.

Moving forward, the overriding principle must be to make power customers whole before the end of the current fiscal year. To this end, we recommend the following:

- **Correct the error back to FY 2002**. BPA has stated that its initial leaning is to correct the IPAC error back to FY 2004 rather than FY 2002 because it lacks granular transactional level data for FY 2002 and FY 2003. To accept this leaning, one must presume that BPA correctly performed the allocation in FY 2002 and FY 2003 and then, for whatever reason, started performing the allocation incorrectly beginning in FY 2004. This seems highly unlikely. BPA has presented no evidence that the IPAC module was correctly allocated in FY 2002 or FY 2003. Rather, all of the information presented to date strongly indicates that, save for one transaction in 2010, the IPAC module has always been done incorrectly. Accordingly, BPA should use such information as it does have to calculate the IPAC outlays attributable to transmission services in FY 2002 and FY 2003 and incorporate that calculation into the corrected financial reserve levels for the two business lines.

- **Apply compound interest.** In correcting the error, BPA should apply interest compounded monthly on both interest and principal using historical effective interest rates. This will more accurately represent the actual impact interest would have had on the two business lines through time if reserves had been correctly allocated in the first instance.

- **Suspend the FRP surcharge for the BP-20 time period.** Correcting this error will put both business lines in fundamentally different reserve positions than they were in when the FRP was adopted. From the perspective of power customers, an FRP surcharge resulting from either a delay in making the correction and/or failure to correct the error in a manner that makes power customers whole would perpetuate the harm of the error into the BP-20 rate period. For their part, transmission customers executed the BP-20 Partial Rate Settlement and the TC-20 Settlement before discovery of the error and when the prospect of a FRP surcharge seemed infinitesimal. Timely correcting the error in full (as BPA must), coupled with the cost of the BP-20 Partial Rate Settlement, will substantially increase the risk that an FRP surcharge for transmission services could trigger in the second half of the rate period. If nothing else, this seems contrary to both the spirit of the BP-20 Partial Rate Settlement and the expectations of the parties when they entered into it. Under such circumstances, it would be reasonable for BPA to suspend application of the FRP surcharge, for both business lines, during the BP-20 time period.

Prospectively, BPA must develop controls aimed at ensuring that this type of error never happens again. It is essential that BPA's customers have visibility as to both the adoption and implementation of such controls. As discussed above, high transparency will be critical to rebuild customer confidence. We look forward to discussing how BPA will improve its controls and processes upon BPA's completion of its full review of its financial reserves.

Thank you for the opportunity to comment.