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(08-89)

United States Government **Department of Energy**

Bonneville Power Administration

memorandum

DRAFT

DATE: 12/31/03

REPLY TO
ATTN OF: KFRO-2

SUBJECT: Interest Earned Credit for Business Units

TO: Finance Managers, Business Unit Managers

This memorandum addresses the interest earned (interest income) credit allocated to the Business Units on a monthly basis. BPA earns interest on its cash held with Treasury in the Bonneville Fund. The monthly interest earned is calculated on the daily cash balances in the Bonneville Fund, using the weighted average interest rate of all outstanding Treasury bonds. The daily cash balance is multiplied by the interest rate factor (based on the average bond rate and divided by the number of days in the year). The accumulated interest earned is credited towards bond interest payments twice a year, in March and September. This interest earned credit had been applied as a 50-50 split between the Power Business Unit and Transmission Business Unit for the past two fiscal years.

Effective in fiscal year 2004 and forward, the interest earned referred to above will be allocated between the Business Units (Power, Transmission and Corporate) using the following procedure:

On the second working day of the monthly closing process an accrual will be made to allocate the interest earned credit to the Business Units (see Attachment A, step 1). The allocation rate for the accrual will use the calculated percentages from the prior month's allocation of interest earned between the Business Units.

After closing is final, the current month's percentages to allocate the interest earned credit to each Business Unit will be calculated. This will be determined from the actual cash receipts and disbursements in PeopleSoft by General Ledger Business Unit (see Attachment A, step 2).

In order to allocate the cash held in the Bonneville Fund between the three Business Units the following adjustments are made to the cash flows identified by Business Unit (see Attachment A, step 3):

> **Net Billing:** It is an obligation of Power rates to recover the costs associated with net billing, but Transmission revenues are part of bills paid to Energy Northwest. These Transmission revenues have been credited during the net billing period so that Transmission cash flows are unaffected by Power's obligation. This data is found in the bills issued by Transmission.
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> **Inter-Business Unit Revenue/Expenses:** Although these transactions have no bearing on the agency cash position, the expenses are collected through the Business Unit rates and both revenues and expenses have been recognized as if they were cash transactions. This data is found in the income statements for the Business Units.

Debt Service Reassignment: It is an obligation of Power rates to recover Energy Northwest debt service. When proceeds from debt restructuring are used to repay Transmission's Federal debt, the "avoided" Energy Northwest principal payment is assigned as a cash obligation to Power at the time the Energy Northwest bonds would otherwise have been paid. Corporate holds the gain until the end of September when Corporate provides an inter-business unit loan to Transmission. This transaction has no impact on cash in the Bonneville Fund.

Corporate Receipts/Disbursements: All Corporate receipts and disbursements will be allocated on a 50-50 split between the Power and Transmission Business Units.

Payroll Disbursements: These disbursements will be distributed to Power and Transmission based on the current month's salary allocation percentage from Corporate to the two Business Units.

After the adjustments to the Business Units' cash flows are made, an average cash flow for each Business Unit will be calculated by adding the month's adjusted beginning and ending cash flows and dividing by two. The calculated average cash flows for each Business Unit will be used to determine the percentage for allocating the interest earned credit to the three Business Units (see Attachment A, step 4).

Corporate Accounting Operations will perform the above calculation and will post the results on the Accounting Operations website. The accrual will be reversed after closing and the calculated percentage rate based on the current average month's cash flows and adjustments will be used for the interest earned credit allocation to the Business Units (see Attachment A, step 5).

Per discussion, these agreed upon procedures will be published on the Accounting Operations website by 12/31/03 at http://webip1/Corporate/DFR/dfro/accounting.htm. If you have any questions, please contact [redacted], [redacted].

Sincerely,

[redacted]
Manager, Financial Operations

[redacted]