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United States Government **Department of Energy**

# memorandum

**Bonneville Power Administration**

# DRAFT

DATE: 12/31/04

REPLY TO ATTN OF: KFRO-2

SUBJECT: Interest Income Credit for Business Units

TO: Finance Managers, Business Unit Managers

This memorandum addresses the 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 U.S. 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 income is credited towards bond interest payments twice a year, in March and September. This interest income credit had been applied as a 50-50 split between the Power Business Unit and Transmission Business Unit for fiscal years 2002 and 2003. Prior to that 100% of the interest income was credited to the Power Business Unit.

During fiscal year 2003 the Transmission Business Line made a request for a fair allocation of the interest income credit between the Business Units (Power, Transmission and Corporate) based on actual cash receipts and disbursements in PeopleSoft by General Ledger Business Unit. The cash analysis would provide separate monthly cash balances for each Business Unit as set forth by FERC for separate accounting. The cash analysis by Business Unit would be used to support rate-making and allocation of the interest income credit. Effective in fiscal year 2004 and forward, the rate based on the cash analysis for the monthly accrual would change the interest income allocation percentages to the Business Units in March and September of each year.

Corporate Accounting Operations developed procedures for the cash analysis in determining the allocation percentage rates. The procedures for determining each Business Unit's monthly cash balance start with the actual cash receipts and disbursements in PeopleSoft by General Ledger Business Unit and the cash flows are adjusted for the following items:

**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.

**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 from July 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 are allocated on a 50-50 split between the Power and Transmission Business Units.

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

Corporate Accounting Operations will perform the cash analysis calculations and post the results on the Accounting Operations website

If you have any questions, please contact [redacted].

Sincerely,

[redacted]
Manager, Accounting Operations

[redacted]