



Public Workshop Financial Reserves Review

BPA's Initial Proposal on Misallocated Reserves Amounts

July 30, 2019

1:00pm-3:00pm

Rates Hearing Room

Bridge: 1-415-527-5035

Join WebEx: <https://doe.webex.com/doe/j.php?MTID=mec98c69a1e744e8dd8f0afc727f3df89>

Meeting number (access code): 905 840 525

Meeting password: 9RmFdrBk



Agenda

- Initial Proposal for Correction of Misallocated Reserve Amounts
- Internal Audit & Baker Tilly Reports
- Action Plan Update
- Responses to Questions from July 16, 2019 Workshop

Initial Proposal: BPA's Proposed Resolution

Today's workshop will outline BPA's proposed resolution to correct the misattribution of reserves between the Power and Transmission business lines. The final decision will be made in a Record of Decision to be issued in October, 2019.

What is being proposed with regard to the allocation of financial reserves to the business lines?

- In instances where the BU Cash Split process was not consistent with the treatment of transactions in the financial system, determine whether and to what extent an adjustment should be made to the current attribution of cash between the business lines to correct for past misattributions.

Assumptions

- The financial system, which is used in setting rates, is the standard that determines the proper allocation of costs between the business lines.
- Beginning in FY 2019, the BU Cash Split process will attribute transactions consistent with the financial system.

Initial Proposal: Summary

Reallocate \$182.3 million of financial reserves from Transmission Services to Power Services.

- \$158.7 million for misallocated principal amounts
- \$23.7 million for interest on the misallocated principal

This reallocation includes:

- Correcting all validated errors from FY03 – FY18
- Applying interest to the net principal amount of these errors by fiscal year
 - Using the effective interest rate earned on the BPA Fund
 - Using a simple interest method

Power Perspective: Summary of Net Errors with Interest

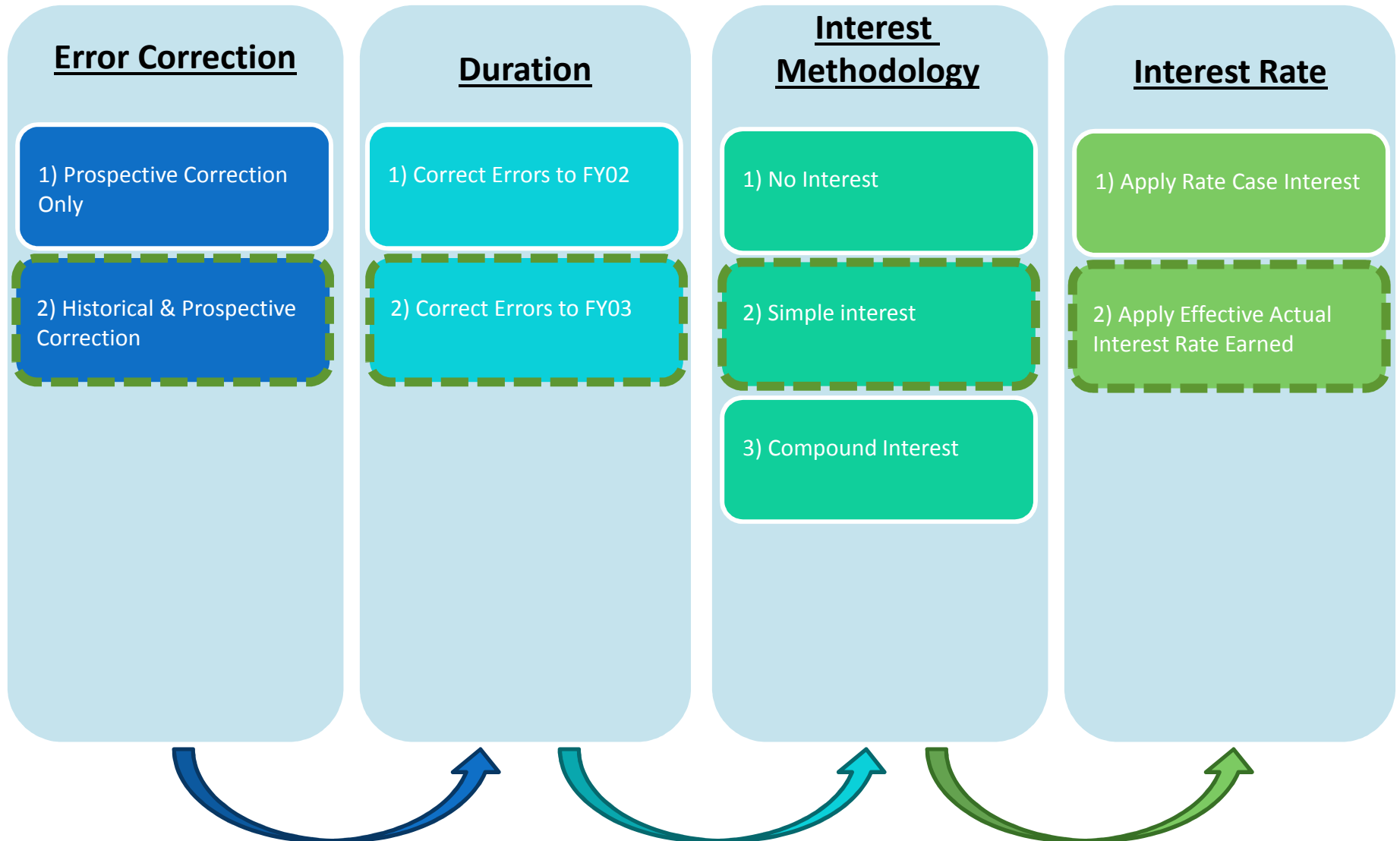
\$ in Millions

		FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY03 - FY18
1	Pay-Related	(\$11.2)	(\$10.4)	(\$15.5)	(\$16.0)	(\$19.9)	(\$20.1)	(\$20.6)	(\$20.6)	(\$18.5)	(\$19.0)	(\$18.6)	(\$17.7)	(\$21.7)	\$0.0	\$0.0	\$0.0	(\$229.8)
2	Corp AP	\$10.4	\$7.6	\$7.0	\$8.6	\$8.2	\$9.4	\$10.1	\$10.7	\$15.3	\$0.6	\$2.4	(\$0.3)	\$0.0	\$0.0	\$0.0	\$0.0	\$89.9
3	IPAC	\$14.5	\$15.0	\$14.9	\$14.3	\$16.8	\$16.0	\$18.1	\$18.8	\$21.4	\$19.2	\$21.0	\$21.6	\$20.0	\$19.9	\$20.1	\$19.5	\$291.1
4	Other	\$0.2	(\$8.8)	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$6.1	\$2.6	\$0.2	\$5.2	\$7.5
5	Total Cash Impact	\$13.9	\$3.5	\$6.5	\$7.0	\$5.3	\$5.5	\$7.8	\$9.1	\$18.4	\$0.9	\$5.0	\$3.9	\$4.4	\$22.5	\$20.3	\$24.7	\$158.7
6	Interest	\$0.4	\$0.8	\$1.0	\$1.3	\$1.8	\$2.1	\$2.3	\$2.3	\$2.1	\$1.8	\$1.7	\$1.3	\$0.9	\$1.0	\$0.8	\$2.2	\$23.7
7	Total (Row 5+6)	\$14.3	\$4.2	\$7.5	\$8.3	\$7.0	\$7.6	\$10.1	\$11.3	\$20.5	\$2.7	\$6.7	\$5.2	\$5.3	\$23.5	\$21.1	\$26.9	\$182.3

Initial Proposal: Decision Criteria

- **Aligns with Financial System Used in Rates** – The decision should align with cost allocations in Bonneville’s financial systems that are used in setting rates.
- **Auditable and Traceable** – To validate the decision to correct, documentation should evidence that misattributions were initially recorded to the business lines and that they were not later corrected.
- **Business Lines are Made Whole** – The decision should make the business lines whole while also not unduly disadvantaging one business line over the other.

Initial Proposal: Alternatives Considered



Initial Proposal – Evaluation of Criteria

Error Correction: Correct all validated historical misattributions

- Internal business processes should follow rate allocations and how transactions flow through the financial system. Correcting errors realigns the cash split between business lines to follow how costs/revenues were allocated between power and transmission rates.
- Future rate calculations would be based on credible, complete determination of between-business line allocations.
- If historical misattributions are not corrected, they would be carried into future rate calculations.

Duration: Correct back to FY 2003

- Consistency with “Auditable and Traceable” decision criteria.
- Documentation could be found to validate misattributions and support correction through FY 2003.
- There was incomplete and insufficient documentation to validate misattributions in FY 2002.

Initial Proposal – Evaluation of Criteria

Interest Methodology: Simple

- Interest is appropriate to account for the passage of time. Maintains the value of the misattributed cash to the business line that did not get the benefit of the cash.
- Compound interest presumes that interest accumulated in BPA Fund and built up over time. That did not happen, as BPA paid out interest through interest credits.

Interest Rate: Effective Interest Rate

- Effective interest rate accounts for the actual interest earned in the BPA Fund and assigned to the cash split balances.
- Rate case interest rate was based on forecasts of the interest rates. Does not reflect actual interest income rates for the BPA Fund.

Baker Tilly & Internal Audit – Summary of Findings

- Summary of findings/conclusion
 - Baker Tilly and Internal Audit findings were consistent with Finance.
 - All validated findings from Baker Tilly, Internal Audit, and Finance are represented on the *Summary of Errors* table (slide 4).
 - Baker Tilly and Internal Audit did not review alternatives or give a recommendation on which alternatives to consider.
- Both reports have been made available to the public prior to today's workshop.

Action Plan - Update

- Remediation of the issues identified in the review of the cash split model will follow BPA's standard governance process.
- An action plan to address the recommendations is due within 30 days of report issuance. In this case, the action plan is due mid August.
- The focus areas of the action plan include:
 - **Controls.** Specific controls have been developed for each module to be applied periodically (annual at SOY or EOY, semi-annually, quarterly or monthly). These controls are largely data validation in nature, and require validating the cash split amounts from each module to PS Financials.
 - **Documentation.** Documenting at a more detailed level, the methodology and assumptions employed in each module of the cash split model. This will be reviewed by senior management in Finance and formally approved.
 - **Policy & Oversight.** A review process will be established to ensure manual entries made in the cash split model are logged, tracked and reviewed. Policy/procedures will be established to formalize variance thresholds that trigger additional review, analysis and signoff.
 - **Records Management.** Development of a plan and process to better define naming conventions for files and storage of files to ensure final copies are clearly marked and centrally stored and managed.

Responses to Questions

- BPA has responded to questions submitted after the July 16th workshop in a separate document.
- Please see July 16th Workshop Responses posted on our website.

Next Steps

- July 30, 2019 – BPA Stakeholder meeting
 - Responses to questions from July 16 Reserves Review Update presentation
 - BPA’s Initial Proposal
 - Comment period on BPA’s Initial Proposal begins.
 - Comments should be submitted to BPA’s Public Comments webpage.
- August 21, 2019 – Comments due
- October 2019 – Record of Decision issued

Financial Disclosures

This information has been made publicly available by BPA on July 29, 2019 and does not contain Agency-approved Financial Information.