2019 Financial Reserves Review Process

May 13, 2019, Follow-Up to Remaining Questions & Responses from March 11, 2019, Reserves Workshop

The responses provided below address the remaining questions received from customers from the March 11, 2019, workshop. If additional information or documentation is found, BPA may revise or supplement the responses in this document. The responses below represent staff leanings and understandings at this time, and are not intended to reflect final BPA decisions.

48. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency (Question 7) - Please explain BPA's approach to determining the different interest calculation options.

BPA Response:

The interest computations are described on slide 9 of the March 11 Workshop package, available at: http://www.bpa.gov/goto/ReservesReview

49. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency (Question 7.a) - Please provide any documentation or communications explaining the change from the interest offset credit to market based specials described in the March 11 Workshop. Is BPA able to determine which interest rate the annual allocations actually earned? If so, please provide that information. If not, please explain.

BPA Response:

The document that describes the change from the IOC to Market-Based Specials (MBS) is the Investment Memorandum of Understanding. It is available at: http://www.bpa.gov/goto/ReservesReview

The effective interest rates that BPA earned on the funds in the BPA Fund are provided in response to Question 58 below.

50. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency (Question 7.b) - **Please also explain why Transmission Service and Power Service have had different forecasted interest rates since 2004, provide each of those annual forecasts, and indicate which rates BPA proposes to use from each of the various applicable rate cases.**

BPA Response:

Transmission and Power had different forecasted interest rates for calculating interest income because they had rate cases on different cycles. Transmission had rate cases every two years starting in 2000. Power set rates in 2002 for five years and then in 2007 for three years. Beginning in 2010, Transmission and Power rates were set at the same time which allowed the data inputs to be synchronized. Staff's initial leanings proposed to use the interest rate forecasts from Power's rate cases.

	WP-02					WP-07		WP-07 Supp	BP-10	
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Power Interest Income Rates	6.67%	6.66%	6.65%	6.64%	6.63%	4.88%	4.88%	5.50%	4.70%	4.70%
	TR-02		TR-04		TR-06		TR-08		BP-10	
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Transmission Interest Income Rates	6.67%	6.66%	5.87%	5.87%	4.75%	4.75%	5.08%	5.08%	4.70%	4.70%

The annual interest rate for Power and Transmission (as forecasted in the rate cases) is provided in the response to Question 55 below.

51. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency (Question 7.c) - **Please explain why BPA's "initial leaning" is that Power Service's interest rates should be used rather than what the agency actually earned or what Transmission Service's interest rate would have been. Is it BPA's intent to credit Power Services for the amount they should have earned? If so, why should Power Services earn anything other than the interest actually received by the agency?**

BPA Response:

Staff initially proposed to use the forecast interest rate used in Power Services' rate cases because this rate reflected the interest credit that Power customers did not receive as a result of the BU Cash Split model error. Using Transmission's rate case forecast for interest or the effective actual interest on the BPA Fund are also other possible methods for calculating interest. At the time Staff proposed its initial leanings, Staff had not calculated actual interest earnings on the funds in the BPA Fund due to the complexity of calculating interest from funds held at the Treasury in the "market based specials." As noted in Question 54 below, Staff has since developed a methodology for calculating an effective interest rate on the funds held in the BPA Fund.

52. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency (Question 7.d) - Please explain the extent to which BPA took into account deferred borrowing. Please also explain why BPA determined it may be "outside of the bound"?

BPA Response:

The BU Split process allocates cash and investments in the BPA Fund to individual business lines. Deferred borrowing is reported separately based on the capital spending for each of the capital programs and is not subject to the BU Split process.

53. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. (Question 8) – [1] BPA has stated that financial reserves are held at the agency level and therefore both business lines have beneficial access to the reserves (e.g., for risk mitigation, deferred borrowing, etc.). Why should interest be charged to transmission on amounts of financial reserves BPA now determines were erroneously allocated to transmission when those amounts were available for use by power without the assessment of interest? Please explain. [2] Is BPA's initial leaning to apply interest on amounts of financial reserves BPA determines were misallocated in prior years in addition to reallocating between business lines interest actually earned by BPA based on reallocated financial reserve levels of the business lines? If so, please explain why.

BPA Response:

[1] Financial reserves are held at the agency level and are available to meet all of BPA's cash obligations for either business line's needs. However, the comment appears to assume that "beneficial access" means either business line may use the funds in the BPA Fund for any purpose, without repayment, and without interest. That is incorrect. While financial reserves are held in a single account at the U.S. Treasury, BPA separately tracks the attribution of the financial reserves between its business lines through the BU Cash Model to measure the share of financial reserves derived from the respective business line's operations. If one business line did not have sufficient financial reserves to meet its cash operating needs, amounts available in the BPA Fund could still be used to satisfy obligations of that business line. In that instance, the business line that utilized financial reserves beyond its allocated share would be required to replenish the financial reserves with interest.

In this case, Transmission's financial reserves balance was overstated by amounts that were part of Power's share, while Power's share of the financial reserves balance was understated. Because BPA incorrectly attributed Power reserves as paying for Transmission-related costs, it is appropriate to provide interest to Power on the misallocated amounts.

[2] This question appears to be asking whether the amount Staff intends to reallocate to Power Services from Transmission already includes accrued interest. Staff assumes the question is asking the following: Assume Transmission's financial reserves increased by $10 million one year because of the attribution error, resulting in an extra $10 million in its financial reserves. If Transmission received 5% of interest on its reserves, the additional $10 million would have earned $500,000 in interest, for a total of $10.5 million. The commenter appears to be asking whether Staff is proposing to allocate not only the $10.5 million to Power, but also additional interest on top of the $10.5 million.

Staff proposes to include interest on the principal of the misallocated amounts (*e.g.,* interest on the $10 million in the example). This is because BPA sets its rates to prevent the accumulation of interest on financial reserves. Returning to the example above, BPA would have provided Transmission customers a rate credit of $500,000 for the extra $10 million of financial reserves accumulated in Transmission's financial reserves. This rate credit prevents financial reserves from compounding and growing over time. Because the principal amount does not include accumulated interest, it is appropriate to apply interest to the total misallocated amounts.

54. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. (Question 11) - Please provide the amounts of interest earned by BPA in the applicable years on its deposits in the Bonneville Fund? Please provide such amounts of interest actually earned each year in question, and the allocation of that interest that was made between the business lines. Please also provide the amounts by year of financial reserves held in the Bonneville Fund and the amounts by year of other amounts held in the Bonneville Fund.

BPA Response:

From 2002 through 2008, BPA received interest on the BPA Fund through the Interest Offset Credit (IOC) which earned a long term rate based on BPA's weighted average rate of outstanding Federal bonds. In October 2008, the U.S. Treasury began to transition BPA away from receiving interest in the BPA Fund through the IOC rate to Market Based Specials. Market Based Specials are special-issue, non-marketable U.S. Treasury securities that are direct obligations of the United States and are offered exclusively in book-entry form for Federal agencies. BPA was required to phase-out of the IOC rate and into Market Based Specials starting on October 1, 2008, and was fully invested in Market Based Specials by October of 2016. BPA continued to earn the IOC rate during the phase out period but was required to remove $100 million per year from the IOC interest earning method and invest the like amount in Market Based Specials for ten years or until all cash was invested, which occurred in October of 2016. Since October 2016, all investments earn interest at the Market Based Specials' rates.

To calculate the interest rate for funds held in the Market Based Specials, Staff pulled the weighted average yield to maturity on the outstanding investment portfolio at the end of each month and used that effective rate along with the IOC rate as the basis to calculate BPA's actual interest earnings.

The annual interest earned by business line and investment type is provided in the "IOC Earning, MBS Earnings and Financial Reserves" spreadsheet available at: http://www.bpa.gov/goto/ReservesReview

The effective interest rates BPA earned on its invested funds are provided in the response to Question 58, in the "Rate Case and Actual Interest Rates" spreadsheet available at: http://www.bpa.gov/goto/ReservesReview

55. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. (Question 12) - If interest is to be applied on amounts of financial reserves BPA determines were misallocated in prior years, please explain any rationale for why it would be more appropriate to use rate case forecasts of interest rates rather than actual rates of interest earned (calculated based the amounts of interest earned divided by the amounts of reserves on deposit in the Bonneville Fund)? Please provide rate case interest rate forecasts for applicable years and include a description of the data source for each such interest rate forecast.

BPA Response:

See response to Question 51 above. Power and Transmission rate case interest rates are provided in the "Rate Case Interest Rates" spreadsheet, available at: http://www.bpa.gov/goto/ReservesReview

56. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. (Question 13) - When did BPA begin using deferred borrowing?

BPA Response:

Deferred borrowing became possible with the passage of the Federal Columbia River Transmission System Act of 1974, which authorized BPA to sell bonds to the U.S. Treasury and created the BPA Fund. This allowed BPA to manage its funds, spending them as needed for capital investments, and replenish the BPA Fund with cash from borrowings from the U.S. Treasury. Staff has found records of small deferred borrowing balances back as far as fiscal year 2000; however, the balances were on average less than $50 million per year. As noted in the response to Question 54, prior to 2008, BPA earned interest through the IOC rate, which was the weighted average interest rate of BPA's outstanding Federal bonds, which is a long-term rate and historically fairly high. There was limited incentive to maintain a large deferred borrowing balance because the interest income on cash would have been about as large, perhaps even larger, than the interest expense foregone by deferring borrowing. Therefore, BPA did not start carrying large deferred borrowing balances year-over-year until 2017 and beyond.

57. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. (Question 18) - Going forward, how will BPA ensure appropriate, accurate and transparent financial reserves allocations? For example--will BPA (i) reconcile the allocation of financial reserves with its accrual books of account, (ii) hold workshops to address financial reserves allocations and controls, and (iii) integrate develop separate balance sheets and income statements?

BPA Response:

BPA is committed to transparency and implementing controls to avoid misallocation of financial reserves in the future. BPA's near-term objective is to make the proper corrections to its financial reserves and ensure that the new processes and controls are properly assigning cash between the business lines. BPA is still evaluating longer-term steps and changes (such as separate balance sheets) that could be taken to prevent misallocations between the business lines.

58. Northwest Requirements Utilities (Question 2) - For 2002-2018, please provide (1) the annual interest rates for each business line that were applied in the rate cases and (2) the annual actual effective rate earned on the Bonneville fund.

BPA Response:

See the "Rate Case and Actual Interest Rates" spreadsheet, available at: http://www.bpa.gov/goto/ReservesReview

59. Northwest Requirements Utilities (Question 3) - Please provide the Excel version of Table 3 that shows the annual amounts.

BPA Response:

See "Table 3 from March 11 Workshop Slides" spreadsheet, available at: http://www.bpa.gov/goto/ReservesReview

If the commenter is requesting the information from Table 1, which shows annual amounts of misallocated funds, please see the "BU Split IPAC Allocated Revenue Summary" spreadsheet available at: http://www.bpa.gov/goto/ReservesReview

60. Northwest Requirements Utilities (Question 6) - The first bullet on slide 12 says that "interest income to both power and transmission rates has been affected by the error." For each year 2002-2018, please provide, by business line, (1) the amount of interest income that was allocated in the rate case and (2) what the correct amount should have been.

BPA Response:

(1) Please see the "Interest Income by Rate Case" spreadsheet available at: http://www.bpa.gov/goto/ReservesReview

(2) If the error had not occurred, and the principal amounts had been properly allocated, Power Services would likely have received additional interest income. Assuming all else equal, this can be calculated by multiplying the principal amounts identified in Table 1, Column F, of the March 11, 2019 workshop materials by Power's interest rate forecasts provided in response to Question 55.

61. PNGC Power (Question 5) - What method actually occurred during this time period (2002-2018) when BPA earned interest income on reserves?

BPA Response:

See response to Question 54 above.

62. Public Power Council (Question 1) - PPC is initially interested in obtaining the following additional documentation: Detailed, monthly workpapers supporting the calculations in Table 2 and Table 3 in Microsoft Excel Format with all formulae intact

BPA Response:

The data supporting Tables 2 and 3 is provided in the spreadsheet titled "Tables 2 and 3 from March 11, 2019 Workshop Slides," available at: http://www.bpa.gov/goto/ReservesReview

The financial reserves estimates are largely outdated, as BPA has since provided updated forecasts. The new forecast is available in the "May 3 Finance Workshop Presentation" available at: https://www.bpa.gov/Finance/FinancialPublicProcesses/QuarterlyBusinessReview/qbrdocs/May%203%20Finance%20Workshop%20Presentation.pdf

63. Public Power Council (Question 2) - Historical rate case and also historical actual effective interest rates earned (or interest costs avoided on deferred borrowing) by month for 2002 to 2018 in Microsoft Excel format.

BPA Response:

See response to Question 55 above for historical rate case and effective interest rates.

Monthly interest rates can be found in the "Monthly Rate Case Actual and Borrowing Interest Rates" spreadsheet, available at: http://www.bpa.gov/goto/ReservesReview

64. Northwest Requirements Utilities (Question 5) - Were financial reserves allocated between the two business lines prior to 2002? If so, please provide details on the allocation and its accuracy.

BPA Response:

In rate cases prior to 2004, reserves were forecast on an agency basis rather than by business unit. The forecast of agency reserves typically came from the risk modeling done in ToolKit. This was then the basis for calculating interest income for the agency. Interest income was functionalized between Power and Transmission using the results of the Separate Accounting Analysis (SAA). This analysis was developed in the mid-1980's to demonstrate to FERC that Power and Transmission costs and revenues were being attributed correctly. The SAA is relatively simple – revenues less cash outlays and debt repayment. The result, called the "net position," can be viewed as an approximation of the reserves that could be attributed to the business units. However, the SAA does not account for all factors that can affect reserves such as timing differences related to accounts payable and receivable. A business unit's "net position" was calculated for each year as was a cumulative balance from the beginning of the analysis. Interest income was allocated to the business units based on each business unit's share of the total agency net position. For example, if Power's cumulative net position was 68% of the agency net position, Power received 68% of the interest income calculated in the rate case.

Besides the "net position" calculation, Staff is not certain how actual financial reserves were calculated prior to 2002. BPA tracked reserves at an agency level, but it is not apparent that BPA tracked reserves by business unit during the operating year. Staff has been unable to find any records on this subject. However, given the rate case methodology described above, it is unlikely that BPA tracked business unit reserves prior to 2002, which is when the business unit split modeling effort began.

65. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency (Question 3) - Please provide the monthly reports BPA has relied upon to calculate the business line splits.

BPA Response:

The "monthly reports" are monthly calculations of business unit cash made on a number of spreadsheets that date back to 2004. These reports show a summary of adjustments to reach a beginning, ending, average cash balance by business line, and various adjustments. An example of a monthly "report" is as follows:

FY 2016	Business Units Cash Balances Analysis			(in millions)	Cash			Reserves	
		Power	Trans	Cash Bal	% Calc Power	% Calc Trans		Power	Trans
OCT 15	Beg Adj Bal	620.1	418.2	1,038.3					
	Oct Receipts	199.2	71.9						
	Oct Cash Advances/Draws	0.0	62.3						
	Oct Disb	(113.7)	(64.1)						
	Oct Payroll	(7.8)	(38.6)						
	Oct IPAC (COE, BOR, FWL)	(51.5)	0.0						
	Oct Int Exp/Bonds/IOC	38.7	61.2						
	Investment Interest Activity (net)	0.05	0.03						
	Radio Spectrum Adj	0.00	0.01						
	Oct End Bal	685.0	511.0	1,196.1					
	ENW Adj	18.3	(18.3)						
	BBL Adj	0.6	(0.6)					(4.0)	(2.8)
	Interest Offset Credit Adj	0.0	0.0						
	Adj Oct Bal	704.0	492.1	1,196.1				701.3	554.0
	Avg Monthly Bal	662.0	455.1	1,117.2	59%	41%	Oct		
								1.4	64.7

BPA has similar reports dating back to 2004. In each report, the line item "IPAC" is allocated in its entirety to Power.

66. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency (Question 3.a) - Please provide the documentation regarding the 2002 and 2003 attributions that BPA has described as summary reporting.

BPA Response:

At the time of the March 11, 2019 workshop, BPA's internal investigation had not uncovered any documentation clearly stating that IPAC transactions were being attributed only to Power Services. Staff had data that showed a "rolled up" summary by year of the business line cash split.

Since the March 11, 2019 workshop, Staff has found internal spreadsheets indicating that IPAC transactions were allocated to Power Services in FY 2002 and FY 2003. This documentation, which appears to have been created in November 2003, shows all of the IPAC transactions allocated to Power Services.

67. **Northwest Requirements Utilities (Question 7) - For Table 1, for each category listed and for each year, please provide the total amount of cash reserves and the correctly allocated cash amounts for each Power and Transmission.**

BPA Response:

See the "BU Split IPAC Allocated Revenue Summary" spreadsheet, available at: http://www.bpa.gov/goto/ReservesReview

68. **PNGC Power (Question 1) - Is BPA confident that any issues stemming from this cash module do not go back further than FY2002?**

BPA Response:

At this time, BPA has not found any documentation indicating this issue arose before FY 2002.

69. **Powerex (Questions 1.a & 1.b) - Can BPA provided an updated Table 1, which includes: a) Additional columns providing the amounts of BPA Cash allocated to Power for each category (Corporate Allocated Amounts, Workers Comp Payments, IPAC Payments, GSA Fleet Costs, Any Adjustments for Power); and b) An additional column providing the total annual IPAC Module expenditures[?]**

BPA Response:

See response to Question 67 above.

70. **Powerex (Question 2) - Can BPA provide the allocation factors for Transmission and Power used each year for the respective categories?**

BPA Response:

See response to Question 67 above.

71. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency (Question 1.c) - To the extent that BPA cannot find any information supporting the questions above, please explain why it was BPA's initial position to make Power Services whole rather than investigate why the system appears to have repeatedly, perhaps intentionally, been set up this way.

BPA Response:

See response to Question 23, from the March 29, 2019 BPA Responses to Questions document available at: http://www.bpa.gov/goto/ReservesReview

Staff's initial leanings were informed by the preliminary findings on the treatment of the IPAC cash module in the BU Cash Split Model. Because of the magnitude of this issue, and the timing of other processes (such as the BP-20 rate case), Staff believed it was important to inform regional stakeholders of this potential issue and Staff's initial leanings. The question incorrectly states that BPA's "initial position" was to "make Power Services whole" without investigating this issue. To the contrary, Staff did investigate the issue before noting its leaning to reallocate financial reserves between the business units. As noted in the Tech Forum Notice, issued March 26, 2019, that investigation is ongoing as Staff completes its review of all the BU Cash Split modules.

72. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency (Question 2) - Please provide more information explaining who developed the IPAC module as opposed to who developed BPA's internal attribution process and/or application(s).

BPA Response:

See response to Question 9 in the March 29, 2019 BPA Responses to Questions document available at: http://www.bpa.gov/goto/ReservesReview

See also the "BU Split Data Mart Procedures_1" document, available at http://www.bpa.gov/goto/ReservesReview, which is the latest version of a staff-level created document describing the background and mechanical operation of the BU Cash Split process.

73. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency (Question 2.b) - Is BPA aware of any other governmental agencies that use the IPAC module in the way BPA described at the March 11 Workshop, namely that money is taken without required coding, etc.? Please provide any documentation or communications concerning the same.

BPA Response:

The "IPAC system" and the "IPAC module" in the BU Cash Split model are not the same systems. *See* Question 9 from the March 29, 2019 BPA Responses to Questions. The IPAC system is used by most Federal agencies to receive or pay funds to other Federal agencies. BPA is unaware of any special "coding" available in the IPAC system.

The IPAC module is a BPA-created system that is a component of the BU Cash Split Model, which is used to split BPA's cash between the business units. No other Federal agency uses BPA's BU Cash Split Model.

74. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency(Question 5.b) - Please provide any documentation or communications that identify exactly when BPA first determined the IPAC module attributions should be corrected.

BPA Response:

See response to Question 37 in the March 29, 2019, BPA Responses to Questions document available at: http://www.bpa.gov/goto/ReservesReview

75. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency(Question 5.c) - At any time did BPA decide not to address the attribution issue, i.e. to delay until more was known about the issue or otherwise? Please explain.

BPA Response:

Staff found no documentation to indicate that BPA adopted a policy decision to develop the IPAC module so that the BU Cash Split process would attribute payments of Transmission-related costs to Power's cash. However, BPA Staff has found documentation from a FY 2014 project that ultimately resulted in the BU Cash Split Model used today that shows Staff considered adopting Cash Flow statement by business line and, as part of that discussion, noted the complexity of separating IPAC transactions, and a number of other transaction sets, between business lines within PeopleSoft Financials. In addition, it is possible that over the last 18 years, one or more Staff working on the BU Cash Split process may have known of this issue at the Staff level. In late January 2019, BPA's reserves forecast review revealed a potential allocation error. Thereafter, BPA notified regional stakeholders on February 19, 2019, of the issue. On March 26, 2019, BPA stated it would delay making a final decision on the error resolution until the review of all BU Cash Split Model modules was complete.

76. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency(Question 6) - Please explain with more detail why BPA decided to resolve the IPAC attribution issue before fully completing the attribution review.

BPA Response:

See response to Question 43 in the March 29, 2019 BPA Responses to Questions document available at: http://www.bpa.gov/goto/ReservesReview

See also response to Question 71 above.

77. Avangrid Renewables, LLC, PacifiCorp, Idaho Power Company and M-S-R Public Power Agency(Question 6.c) - Given statements made that the "real" error was not validating the manual and/or automatic processes, has BPA considered any other, perhaps more equitable remedies for making Power Services whole while holding Transmission Services harmless? Please explain.

BPA Response:

The error occurred because BPA erroneously attributed all payments made through the IPAC system to Power in the IPAC module of the BU Cash Split Model. BPA will determine a remedy once the review of all the modules in the BU Cash Split model is complete. Staff's proposal for such remedy will be provided in late June, with comments on that proposal due at the end of July.

78. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. (Question 2.g) - Please describe the review (including scope of review) and reconciliation process to be used by BPA for future financial reserves allocations.

BPA Response:

The process is still under development but additional controls and procedural documentation will be implemented.

79. **Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. (Question 3.e) – Please explain whether and to what extent separate subaccounts (or coding) for power and transmission are used in making allocations. To the extent subaccounts (or coding) would be practicable in making allocations but are not used, please explain. Is BPA going to review all of the allocations made by each of the modules? If not, please explain why not and describe the allocations that BPA will not be reviewing and why they will not be reviewed. Please explain any controls used in making allocations.**

BPA Response:

Staff assumes the comment is referring to the BU Cash Split Model. The BU Cash Split was a manual process until 2015, at which point it was automated. The BU Cash Split Model was designed with the intent to mimic how cash-related costs and receipts are assigned to Power and Transmission in BPA's financial accounting system, PeopleSoft, and therefore in BPA's financial statements. Each module in the BU Cash Split Model pulls in transactions from PeopleSoft Financials and is supposed to allocate those transactions between Power and Transmission, consistent with PeopleSoft Financials. For example, a cash transaction defined as a Power-related transaction in PeopleSoft Financials should be picked up in the BU Cash Split Model as a Power-related cash item; the same would be true for Transmission and Corporate cash transactions. Corporate transactions would then be further allocated between Power and Transmission following the Corporate General & Administrative (G&A) allocation factors used in PeopleSoft financials.

In the case of IPAC costs, the BU Cash Split Model followed the erroneous manual process, and incorrectly allocated all IPAC costs to Power, which was inconsistent with how the transactions were accounted for in PeopleSoft Financials.

As part of the Reserves Review project, Staff reviewed (and is continuing to review) the BU Cash Split Model to check whether any other modules in the BU Cash Split Model allocated costs in a manner inconsistent with BPA's financial accounting system. For scoping purposes, Staff used a risk-based approach. Staff reviewed each module to gain an understanding of the types of transactions allocated/attributed within the module, the allocation method (or methods) used, and the dollar volume of transactions flowing through each allocation/attribution method. For each module of the BU Cash Split Model, generally any allocation or attribution of cash totaling more than $5 million over a four year period (FY 2015 – FY 2018) was within scope for further validation. Allocations or attributions under this threshold were not flagged for further review.

For the allocations and attributions within scope for further validation, Staff compared the fiscal year totals of the transaction set being validated from the BU Cash Split Model against amounts recorded in PeopleSoft financials (and/or other source documentation that supported cash assignment/allocation) for FY 2015 through FY 2018. Staff validated that the cash transactions defined as Power or Transmission in PeopleSoft were also defined that way in the BU Cash Split Model's modules. Additionally, Corporate amounts were tested to validate whether Corporate G&A allocations were correctly being applied across the various modules. Furthermore, there are Corporate-related cash transactions for which Corporate G&A allocations do not apply (debt payments, for example). In these cases, the primary mode of testing was to compare amounts recorded to Power and Transmission in the BU Cash Split modules to supporting documentation for those amounts (*e.g.*, detailed bond repayment/issuance records for Power and Transmission).

There are a variety of controls in place currently; however, additional controls will be added to validate Corporate G&A allocations performed in the BU Cash Split Model to PeopleSoft Financials, and to validate other Corporate amounts that are split to Power and Transmission. Additionally, one or more controls will be added to test for reasonableness, i.e. crosswalk from the BU Cash Split Model report to the income statement for Power and for Transmission.

80. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. (Question 4) - Is BPA going to review all allocations made by each of the modules? If not, please explain why not and describe the allocations that BPA will not be reviewing and why they will not be reviewed. Is BPA's objective for the financial reserves review to adjust financial reserves for power and for transmission to the levels they would have been in the absence of errors in allocation of costs and revenues over a period for which adequate data is available? Is this what BPA means by "making Power whole"? Would not achievement of such objective require review of all allocations made by each of the modules? If BPA's contemplated schedule will not allow for such review--with stakeholder involvement--the schedule for review of the financial reserves split allocation is too compressed and should be extended.

BPA Response:

See response to Question 79 above.

See also the response to Question 43 in the March 29, 2019, BPA Responses to Questions document available at: http://www.bpa.gov/goto/ReservesReview

81. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. (Question 7) - Even assuming it were appropriate to adjust BPA's historical financial reserves allocations, there should not be any adjustments for a period for which the adjustments are not auditable and verifiable, based on detailed financial information.

BPA Response:

Thank you for your comment. As this question states a position, please resubmit it during the comment period in July.

82. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. (Question 15) - The Feb. 14, 2019 BPA Tech Forum notice "Additional Information: Financial Reserves Conference Call" to be held on Feb. 9. 2019 included the following: "BPA's attribution of financial reserves levels between the business units is not a rate case issue, but reserves are a factual input to rates." Please explain the basis for that statement. (This request is not directed to the BP-20 rate case.)

BPA Response:

Financial reserves, like costs, are inputs to rates that inform BPA's rate levels. BPA does not determine in its rate cases whether to pay for certain costs or to take on certain construction projects. These issues, though they affect rates, are not decided in the rate case. Similarly, BPA does not determine in a rate case what portion of the agency financial reserves are Power's or what portion are Transmission's. Those determinations – which are factual in nature - are made as part of BPA's financial systems and processes. Like costs, financial reserves are an input to rates.

83. Avista Corporation, Idaho Power Company, M-S-R Public Power Agency, PacifiCorp, and Puget Sound Energy, Inc. (Question 17) - It appears that BPA's business unit financial reserves model is an (incomplete) set of books that is not tied to BPA's accrual (PeopleSoft) books, which are used as a primary source of ratemaking documentation. For each business line, the financial reserves model should develop year-end balances that should be tied to rate case statements of cash flows year end balances-- provided that any historical allocation errors in accrual book allocations between power and transmission (such as any erroneous allocation of all Worker's Compensation costs to transmission) should be corrected and the correction reflected in making the tie. It would be arbitrary and capricious to review and revise some allocations and not others. BPA should perform and show the results of such a reconciliation (by year for the period assessed for financial reserves error) and tie the financial reserves allocation to the corrected PeopleSoft or accrual financial statements that prove the accuracy of the error correction calculations.

BPA Response:

BPA erroneously attributed all payments made through the IPAC system to Power in the IPAC module of the BU Cash Split model. That problem will be addressed in this review process. In addition, Staff is evaluating all of the modules as described in the response to Question 79 above. That review is ongoing. Staff is not proposing to revisit allocations of costs coded in People Soft or as forecast in rates. The problem with the IPAC module of the BU Cash Split model was the allocations did not align with the allocations in BPA's rates and PeopleSoft financials.

84. PNGC Power (Question 4) - Do the transmission reserves for risk, located on table 2 on page 10 cell B7, include any reserves planned to be used for the BP-20 settlement for transmission rates? If so, how much has been deducted and how is that accounted for (reserves not for risk or?). If not, how much reserves for risk will be used due to the BP-20 settlement for transmission rates?

BPA Response:

Please see the responses to Questions 41 and 42 in the March 29, 2019 BPA Responses to Questions document available at:
http://www.bpa.gov/goto/ReservesReview