

ADMINISTRATOR'S RECORD OF DECISION

Financial Reserves and Business Unit Cash Split Review

October 2019



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FINANCIAL RESERVES AND BUSINESS UNIT CASH SPLIT REVIEW

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COMMONLY USED ACRONYMS AND SHORT FORMS

AAC	Anticipated Accumulation of Cash
AWEC	Alliance of Western Energy Consumers
BPA	Bonneville Power Administration
CRAC	Cost Recovery Adjustment Clause
CWIP	Construction Work in Progress
EE	Energy Efficiency
EN	Energy Northwest
EWEB	Eugene Water & Electric Board
F&W	Fish and Wildlife
FADS	Funds Available for Debt Service
FCRPS	Federal Columbia River Power System
FERC	Federal Energy Regulatory Commission
FRP	Financial Reserves Policy
FY	Fiscal Year (October through September)
GRSPs	General Rate Schedule Provisions
IPR	Integrated Program Review
IRPL	Incremental Rate Pressure Limiter
MSR	MSR Public Power Agency
NIPPC	Northwest and Intermountain Power Producers Coalition
NRU	Northwest Requirements Utilities
NWPA	Pacific Northwest Electric Power Planning and Conservation Act
PGE	Portland General Electric Company
PNRR	Planned Net Revenues for Risk
PPC	Public Power Council
PSE	Puget Sound Energy, Inc.
PUD	public or people's utility district
RCD	Regional Cooperation Debt
RDC	Reserves Distribution Clause
ROD	Record of Decision
TPP	Treasury Payment Probability
WPAG	Western Public Agencies Group

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FINANCIAL RESERVES AND BUSINESS UNIT CASH SPLIT REVIEW

ADMINISTRATOR'S RECORD OF DECISION

1. INTRODUCTION

The Bonneville Power Administration (Bonneville) is a federal power marketing administration that sells power and transmission services to regional and other customers. The revenue from these sales is held in a single fund, the Bonneville Fund, at the United States Treasury (Treasury). For ratemaking and regulatory purposes, the cash in the Bonneville Fund is split between Bonneville's two primary business units: Power Services (Power) and Transmission Services (Transmission). Bonneville does not maintain separate cash accounts within the Bonneville Fund for its business units. Instead, Bonneville tracks the split of cash between its business units through an internal process called the Business Unit (BU) Cash Split process.

In January 2019, Bonneville discovered that the BU Cash Split process contained a significant assumption error. This error caused cash transactions to be misapplied between the business units. While the total amount of cash in the Bonneville Fund was unaffected, the error resulted in the misallocation of cash between Power and Transmission. This misallocation dated back to FY 2003 and, on a net basis, understated Power's share of the cash in the Bonneville Fund and overstated the cash attributed to Transmission.

Following discovery of this error, Bonneville engaged in a seven-month internal investigation of the BU Cash Split process and its underlying assumptions. This investigation led to the discovery of additional errors in the BU Cash Split process. These results were further evaluated by Bonneville's internal audit group and an external third-party. Bonneville presented its findings and proposed solutions to the errors to stakeholders at a public workshop on July 30, 2019. Comments on Bonneville's proposal were due August 22, 2019.

The purpose of this Record of Decision (ROD) is threefold: (1) to summarize Bonneville's findings regarding the internal investigation into the errors; (2) to describe Bonneville's final decision to reallocate cash between the business units in order to correct past misallocation caused by the errors; and (3) to respond to stakeholder comments.

As described herein, Bonneville finds that the errors in the BU Cash Split process resulted in misallocations of \$182.3 million, and that this misallocation should be corrected. Accordingly, Bonneville will allocate \$182.3 million of cash to Power's cash balance and will reduce cash attributed to Transmission by an equal amount. The total amount of cash in the Bonneville Fund will be unaffected by this reallocation.

2. BACKGROUND

2.1 Overview of the BU Cash Split Model and Process

The BU Cash Split Model is an internal model that administratively attributes cash held in the Bonneville Fund to either the Power or Transmission business units. The model uses inputs from Bonneville's financial system (primarily PeopleSoft) to create a monthly calculation of the cash position for each business unit. The BU Cash Split Model consists of ten "modules," each of which reflects different types of transaction data that affect cash. For example, pay-related transactions from PeopleSoft are picked up in the Payroll (HR) module in the BU Cash Split Model. The BU Cash Split Model produces a monthly beginning, ending, and average cash balance by business unit.

The BU Cash Split Model was originally a manual process known as the BU Cash Split process. The history of the BU Cash Split process, its origins and evolution, are provided in the following sections. This context is useful in understanding why the assumptions in the BU Cash Split Model are errors, how the errors in the BU Cash Split Model occurred, and why these errors went undetected for many years.

2.2 The Separate Accounting Analysis, Interest Income, and the Purpose of Calculating Business Unit Cash

2.2.1 Rates and the Separate Accounting Analysis

Although referenced under different terminology over the years, the internal practices that would come to be known as the BU Cash Split process began almost twenty years ago. The BU Cash Split process was developed to provide a method of attributing cash held in the Bonneville Fund between its business units.

Bonneville has a single fund at the U.S. Treasury, known as the Bonneville Fund. This fund is designated by statute to hold all proceeds from Bonneville's sale of power and transmission services. Bonneville recovers the costs of providing power and transmission services through its rates. To set these rates, Bonneville assigns its costs between its power and transmission services on a forecast basis over a rate period. The process of assigning costs between Power and Transmission is generally referred to as functionalization. Costs functionalized to Power are recovered in power rates and costs functionalized to Transmission are recovered in transmission rates. Whether a cost is functionalized to Power, Transmission, or both (based on a percentage), depends on a number of factors, including the type of cost and its purpose. Each business unit accounts for its own functionalized costs in its respective financial statements, primarily the income statements, which are used to develop the revenue requirements for both business units. The revenue requirements are then used to develop rates.

In the early 1980s, the Federal Energy Regulatory Commission (FERC) directed Bonneville to provide a separate accounting for the costs and revenues of its transmission and power

rates to ensure no cross-subsidization between the business units.¹ In response, Bonneville provided FERC with a separate accounting analysis that made this demonstration. Each business unit's revenues, less its respective costs, resulted in a "net position" by business unit. These net positions were reported in Bonneville's rate filings to FERC to demonstrate that Power and Transmission rates were recovering their respective costs. A positive net position meant a business unit's revenues were greater than its costs while a negative net position meant that a business unit's revenues were less than its costs. Adding up the net positions of each business unit over time results in an "accumulated net position" by business unit. Although not a calculation of business unit-level cash, each business unit's share of the accumulated net position provided a rough picture of each business unit's contribution to, or withdrawals from, the Bonneville Fund.

As cash grows or shrinks in the Bonneville Fund, a separate accounting issue arises. All cash Bonneville receives from its power and transmission rates is comingled and deposited in the Bonneville Fund. That cash, in turn, earns interest. In accordance with FERC's separate accounting requirement, interest income in the Bonneville Fund must be allocated between Power and Transmission. However, cash deposited in the Bonneville Fund is not tracked by business unit. Bonneville, therefore, needed to develop a methodology for divvying up the interest income in the Bonneville Fund between its business units. To do that, Bonneville turned to the accumulated net position from the separate accounting analysis. Bonneville used each business unit's relative share of the accumulated net position as a rough proxy for the percentage of cash held in the Bonneville Fund. Thus, for instance, if Power's accumulated net position was \$400 million and Transmission's accumulated net position was \$100 million, Power would receive 80 percent of the interest income from the Bonneville Fund and Transmission would receive 20 percent.² The resulting interest income was then included in the business units' revenue requirements as a rate credit (Interest Earned Rate Credit).

2.2.2 Tracking Cash Held in the Bonneville Fund Between the Business Units

Throughout the 1980s and 1990s, Bonneville used the accumulated net position analysis to allocate the Interest Earned Rate Credit between the business units. In the early 2000s, internal concerns were raised over a growing disconnect between the allocation of interest income under the accumulated net position method and the actual allocation of interest income accruing from the financial reserves held in the Bonneville Fund. These concerns

¹ See e.g., *U.S. Dept. of Energy – Bonneville Power Admin.*, 20 FERC ¶ 61,142, at 61,315 (Aug. 3, 1982); See *U.S. Dept. of Energy – Bonneville Power Admin.*, 39 FERC ¶ 61078, at P 61,212 (April 29, 1987) ("Bonneville should explain precisely how costs and revenues have been assigned between the Federal [*i.e.*, Power] and non-Federal [*i.e.*, Transmission] users of the transmission system based on repayment accounting if Bonneville continues to employ this type of accounting.")

² To be clear, the total accumulated net position of the business units did not necessarily reflect the actual cash balance in the Bonneville Fund. For instance, actual cash in the Bonneville Fund could have been \$800 million in this example. The interest income from this cash balance would be split between the business units based on the business unit's relative share of its accumulated net position (*i.e.*, 80 percent to Power and 20 percent to Transmission).

led Bonneville to consider other ways to determine the cash split in order to assign interest income between the business units.

2.3 Interest Earned Credit Methodology

In April 2003, Bonneville staff proposed tying actual cash transactions from Bonneville's financial system to a running cash balance by business unit. This method would allow Bonneville to develop a real-time calculation of cash that reflected actual cash transactions as they cleared Bonneville's financial system. Calculating a business unit's cash balance from monthly cash transactions from Bonneville's financial system provided a more precise way of assigning interest income from the Bonneville Fund as compared to the accumulated net position method.

Bonneville staff memorialized the procedures for this new methodology in an internal memorandum developed in December 2003 (Interest Earned Credit Methodology). The Interest Earned Credit Methodology generally followed the functionalization of costs and revenues between Power and Transmission as used in Bonneville's rates and financial system. However, the methodology and subsequent implementation documentation diverged from the functionalization decisions used in Bonneville's rates and financial system in three respects.

First, the Interest Earned Credit Methodology deemed that all payments made through one module, the Intergovernmental Payment and Collection system (IPAC), would be assigned to Power's cash balance (IPAC Adjustment). IPAC is a web-based payment platform that allows federal agencies to pay each other. Payments to or from Bonneville and other federal agencies are processed through the IPAC system. A significant portion of IPAC transactions are payments to the Corps of Engineers (Corps) and the Bureau of Reclamation (Reclamation), which are Power-related transactions. However, not all IPAC transactions are Power-related. Bonneville's 2019 investigation would reveal that Transmission-related transactions, such as payments to the General Services Administration for fleet vehicles used by Transmission employees, were also processed through the IPAC system. These costs, per the IPAC Adjustment, were nonetheless assigned to Power's cash balance.

Second, the Interest Earned Credit Methodology assumed that Corporate general costs would be split between Power and Transmission 50-50 (Corporate Adjustment). The actual allocation of Corporate costs between the business units used in Bonneville's rates and financial system data fluctuated by year but averaged 40 percent to Power and 60 percent to Transmission.

Third, the Interest Earned Credit Methodology assumed that total payroll and pay-related costs would be split consistent with the direct allocation of Power and Transmission payroll costs. Thus, for example, Power employees typically accounted for around 20-21 percent of direct timesheet charges and Transmission was around 79-80 percent. The Interest Earned Credit Methodology used these assumptions (20 percent to Power / 80 percent to Transmission) to allocate total payroll costs between the business units,

including Corporate payroll and Agency level pay-related charges such as leave and benefits. The actual allocation of payroll costs in Bonneville's rates and financial system, however, was closer to 25 percent to Power and 75 percent to transmission.

There is no indication from any internal documentation that Bonneville intentionally designed the Interest Earned Credit Methodology to diverge from the assumptions in Bonneville's rates and financial system. Based on Bonneville's internal investigation, the divergence was likely due to an oversight. The narrow purpose of the Interest Earned Credit Methodology also likely contributed to a lack of internal review. The Interest Earned Credit Methodology was expected to be used for the limited purpose of assigning actual interest accrued in the Bonneville Fund between the business units which, at the time, was a relatively small amount.

2.4 Expanding Use of the Interest Earned Credit Methodology: Calculate Financial Reserves and the Business Unit Cash Split Process

In 2004, Bonneville decided to expand the use of the Interest Earned Credit Methodology to include calculating the business units' end-of-year financial reserves. Financial reserves are generally calculated as a business unit's cash balance plus deferred borrowing. The Interest Earned Credit Methodology, with its direct connection to Bonneville's financial system, was thought to provide a more accurate way to calculate the cash balance portion of the business units' financial reserves. Bonneville started using the Interest Earned Credit Methodology to calculate business unit financial reserves in FY 2004. The beginning business unit balances were drawn from the ending cash balances produced by the Interest Earned Credit Methodology for FY 2003. At this point, the process became known as the Business Unit (BU) Cash Split process.

Business unit financial reserves are a key factor in a variety of ratemaking assumptions, and affect whether rates should be increased for cost recovery purposes. As such, the decision to use the Interest Earned Credit Methodology in the calculation of the business units' financial reserves significantly expanded the effects of the methodology. Unfortunately, the assumptions underlying the Interest Earned Credit Methodology were not revisited with the decision to expand its use in FY 2004. The IPAC Adjustment, Corporate Adjustment, and the Payroll Adjustment – all of which diverged from the cost assignment assumptions used in rates and in Bonneville's financial system – were adopted in the BU Cash Split process without additional discussion or review.

2.5 Changes Made to Assumptions in BU Cash Split Process

For the next several years, Bonneville used the assumptions in the BU Cash Split process to calculate cash at the business unit level. No controls were in place to check whether the BU Cash Split process was accurately portraying each business unit's cash. As such, a growing deviation began to accumulate between how costs were accounted for in rates, which flowed into Bonneville's financial system and how those same costs were allocated to the business units' cash in the BU Cash Split process. The deviation varied by year but in general ranged from \$1 million to \$25 million to the benefit of Transmission's cash balance and to the detriment of Power's cash balance.

Potential opportunities to identify and correct the problem arose but were not pursued. In 2009, Bonneville purchased land from the Bureau of Indian Affairs for \$16 million for its Transmission business unit. This transaction was processed through the IPAC system. Bonneville staff identified this transaction as applying to Transmission, and manually assigned it to Transmission's cash in the BU Cash Split process. This was the one, and only, IPAC transaction specifically earmarked in the BU Cash Split process for assessment to Transmission. Bonneville made no other manual changes to the IPAC Adjustment. Later, in 2013, staff revised the 50-50 Corporate Adjustment to 35 percent to Power and 65 percent to Transmission. This adjustment, while closer to the actual values, still did not follow the functionalization decisions Bonneville used in its rates and financial system. Finally, in 2015, Bonneville revised the BU Cash Split process from a manual process to an automated model (the BU Cash Split Model). This change tied the BU Cash Split process directly to Bonneville's financial system, which corrected the errors associated with the Payroll Adjustment and the Corporate Adjustment. However, the IPAC Adjustment was not corrected and the BU Cash Split Model continued to assign all IPAC transactions to Power.

2.6 BU Cash Split Process Errors Discovered

2.6.1 Initial Discovery of IPAC Adjustment Error

In July 2018, Bonneville discovered a \$70 million error in its year-end forecast of financial reserves for the third quarter of FY 2018.³ In September 2018, Bonneville discovered another error of \$36 million in the financial reserves forecast in preparation for a workshop on the implementation of the Reserves Distribution Clause.⁴ These errors prompted Bonneville to conduct a multi-phased review of its financial reserves. In November 2018, the financial reserves review team identified the BU Cash Split Model as a critical element of the financial reserves tracking process and began comparing the BU Cash Split Model allocations with their actual cost assignments in Bonneville's financial system. In late January 2019, Bonneville confirmed that certain costs assigned to Transmission in Bonneville's financial system and rates were being assigned to Power through the IPAC Adjustment. Further review revealed other Transmission-related costs paid through the IPAC system were being allocated to Power through the BU Cash Split process.⁵ On February 19, 2019, Bonneville notified regional stakeholders that a potential error exceeding \$200 million may have been discovered in the allocation of cash between the two business units.⁶ The error did not affect the total amount of cash in the Bonneville Fund, only the allocation of the funds between Power and Transmission. Following this notice, Bonneville held a workshop on March 11, 2019, to present its preliminary findings and proposed corrections to the error.

³ See Financial Reserves Workshop at 4 (March 11, 2019), available at <https://www.bpa.gov/Finance/FinancialPublicProcesses/Reserves-Review/Documents/March%2011%20Financial%20Reserves%20Workshop%20Presentation.pdf>.

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

2.6.2 The March 2019 Workshop

In the March 11, 2019, workshop, staff explained the background of the cash allocation error, including how the BU Cash Split process was designed to mimic how transactions were split between the Power and Transmission income statements and financial systems.⁷ Other modules within the BU Cash Split Model did just that – they attributed Power costs and revenues to Power’s cash and Transmission costs and revenues to Transmission’s cash. With the exception of one transaction (which staff manually entered), the IPAC module incorrectly attributed all IPAC transactions to Power as far back as documentation could be found, which at that time was FY 2004. Not all IPAC transactions are Power-related, so the BU Cash Split Model was incorrectly calculating Power’s and Transmission’s cash. Comparing the BU Cash Split Model results to the output from Bonneville’s financial system, staff initially identified between \$14 million and \$21 million in misattributed IPAC transactions per year.⁸ In total, Bonneville estimated that it had understated Power’s cash (and Power’s resulting financial reserves) by over \$276 million from FY 2004 through FY 2018.⁹

Staff’s initial leaning was to correct for the understatement by allocating \$276 million of Transmission-attributed cash to Power. In addition, staff proposed to include simple interest on the misattributed funds. Staff proposed to use the interest rate forecasts used in the rate case for the year in which the misallocation occurred. This methodology increased the total reallocation to \$330 million.¹⁰ Staff proposed to not correct any potential misallocated funds for FY 2002 or FY 2003 because, at that time, reliable data could not be found for those years.¹¹

2.6.3 Bonneville Responds to March 2019 Questions and Delays Process

Questions on staff’s proposal and findings were due March 15, 2019, with comments on staff’s proposal due by April 9, 2019. Stakeholders submitted over 90 requests for additional information. In light of the volume of requests and suggestions by stakeholders to delay a decision until additional review of the BU Cash Split process was completed, Bonneville extended the timeline for resolving the cash and financial reserves errors to later in the summer.¹² The expanded timeframe would enable Bonneville to complete the review of all modules within the BU Cash Split Model and allow a third-party firm, Baker Tilly, to review Bonneville’s work.

⁷ *Id.* at 5.

⁸ *Id.* at 8.

⁹ *Id.* at 8.

¹⁰ *Id.* at 10.

¹¹ *Id.* at 5, 8-9.

¹² See Tech Forum Notice, “BPA Financial Reserves Review Process Update,” (March 26, 2019).

Later, staff responded to the stakeholders questions, issuing responses on March 29, 2019,¹³ and May 13, 2019.¹⁴

2.6.4 Additional Errors Discovered in April and May, 2019

2.6.4.1 FY 2002-2003 Data on IPAC Adjustment.

Throughout March and April 2019, staff continued to review the BU Cash Split process. In April, 2019, staff found additional spreadsheets that showed IPAC transactions being deducted from Power's cash in FY 2003. A spreadsheet was also found covering FY 2002. Later investigation, however, revealed that the assumptions in the FY 2002 spreadsheet were not used in formulating the balances in the BU Cash Split process.

2.6.4.2 Payroll Adjustment Found

In May 2019, Baker Tilly, the third-party firm hired by Bonneville to review the BU Cash Split Model, noted that the allocation of payroll between Power and Transmission for FY 2015 was not tying out to Bonneville's financial system. Staff investigated the issue and preliminarily found that for years prior to the automation of the BU Cash Split Model (*i.e.*, before FY 2016), the allocation of payroll between the business units was not following either the actuals as recorded in Bonneville's financial system or the methodology outlined in the early BU Cash Split process documentation. Had the financial system allocations been used, Power would have paid more for payroll, while Transmission would have paid less.¹⁵ As a result, Power was undercharged, and its cash balance higher, while Transmission was overcharged and its cash balance was lower than would have been the case without the payroll errors.

2.6.4.3 Corporate Adjustment Found

Additionally, while reviewing the historical payroll allocation issues, staff discovered issues with the Corporate allocation between Power and Transmission. As noted above, since the inception of the BU Cash Split process, Corporate receipts and disbursement were allocated 50-50 between Power and Transmission. In FY 2013, staff changed this allocation to 35-65, Power and Transmission. In reality, the overall allocation fluctuated from year to year, and on average was around 40-60 to Power and Transmission respectively.¹⁶ As a result of this

¹³ See 2019 Financial Reserve Review Process, Questions and Responses from March 11 Workshop (March 29, 2019), available at <https://www.bpa.gov/Finance/FinancialInformation/Documents/2019%20Financial%20Reserves%20Review%20Process%20Follow%20Ups%20Final.pdf>.

¹⁴ See 2019 Financial Reserve Review Process, Follow-Up to Remaining Questions & Responses (May 13, 2019), available at <https://www.bpa.gov/Finance/FinancialPublicProcesses/Reserves-Review/Documents/May%202013%20Responses/Outstanding%202019%20Financial%20Reserves%20Review%20Process%20Questions.pdf>.

¹⁵ Reserves Review Update, July 16, 2019, at 13 (July 16 Presentation), available at <https://www.bpa.gov/Finance/FinancialPublicProcesses/Reserves-Review/Documents/Reserves%20Public%20Workshop%20July%202016.pdf>.

¹⁶ *Id.* at 10.

error, Transmission was generally undercharged for its Corporate allocations, while Power was overcharged.

2.6.5 Bonneville Shares its Findings

By early July 2019, Bonneville's Internal Audit group and Baker Tilly had completed their respective reviews of the BU Cash Split process. Bonneville shared the results of the internal review at a July 16, 2019, public workshop.¹⁷ At that meeting, Bonneville described the history of the BU Cash Split process, the additional errors discovered through the internal reviews, and a summary of the potential corrections to the business unit cash balances to address the errors. Bonneville also continued to answer questions from stakeholders.

Concurrent with the workshop, Bonneville posted on its external website a series of internal documents that described the BU Cash Split process, its origins, and the various assumptions and corrections made throughout the prior 18 years.¹⁸

2.6.6 Bonneville's Summary of Findings and Proposed Corrections

On July 30, 2019, Bonneville presented its proposed solution to the errors caused by the assumptions in the BU Cash Split process.¹⁹ Bonneville considered four issues regarding the errors in the BU Cash Split process:

- Should the errors in the BU Cash Split process be corrected prospectively only or should they also be corrected for historical periods?
- If the errors are corrected for historical periods, should Bonneville correct the errors to FY 2002 or to FY 2003?
- Should interest be applied to the misattributed funds, and if so, using what method (simple or compound)?
- If interest is applied, should the interest rate be the rate case interest rate or the effective actual interest rate earned on the cash held in the Bonneville Fund?²⁰

¹⁷ See generally *Id.*

¹⁸ 2019 Financial Reserve Review Process, Supplemental Responses to Questions and Responses from March 11 Workshop, July 16, 2019 (July 16 Presentation) available at <https://www.bpa.gov/Finance/FinancialPublicProcesses/Reserves-Review/Documents/July%2016%20Responses/Supplemental%20Responses%20to%202019%20Financial%20Reserves%20Review%20Process%20Questions.pdf>.

¹⁹ Financial Reserves Review, BPA's Initial Proposal on Misallocated Reserves Amounts, July 30, 2019 (July 30 Presentation), available at <https://www.bpa.gov/Finance/FinancialPublicProcesses/Reserves-Review/Documents/July%2030%20Public%20Workshop.pdf>

²⁰ *Id.* at 6.

Guiding Bonneville's decision were three 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 units 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 unit over the other.²¹

Bonneville proposed to correct the errors in the BU Cash Split process for historical as well as prospective periods. Bonneville proposed to correct the errors back to FY 2003 because this was as far back as Bonneville could confirm the errors occurred. Bonneville proposed to provide simple interest on the misattributed funds at the actual effective interest rate.²² The total net change to the business units' financial reserves, with corrections for past errors and interest, was a proposed transfer of \$182.3 million from Transmission's cash balance to Power's cash balance.²³

Concurrent with the publication of Bonneville's proposal, Bonneville posted a report issued by its Internal Audit group that validated the numbers in Bonneville's proposal.²⁴ Bonneville also posted the results from Baker Tilly, the independent, third-party firm hired to review Bonneville's internal investigation.²⁵ Baker Tilly's report also confirmed the values in Bonneville's proposal.

Comments on Bonneville's proposal were due August 21, 2019. Bonneville received thirteen public comments.

²¹ *Id.* at 5.

²² July 30 Presentation at 7-8.

²³ *Id.* at 4.

²⁴ Internal Audit Report, Review of Bonneville's BU Cash Split Allocation Validation (July 9, 2019), available at https://www.bpa.gov/Finance/FinancialPublicProcesses/Reserves-Review/Documents/2019-07-09%20-%20Review%20of%20BPA%20Business%20Unit%20Cash%20Split%20Allocation%20Validation_redacted.pdf.

²⁵ Baker Tilly Business Unit Split Allocation Model Review (July 30, 2019), available at <https://www.bpa.gov/Finance/FinancialPublicProcesses/Documents/Baker%20Tilly%20Report%20BU%20Split%207.29.19.pdf>

3. FINAL BU CASH SPLIT PROCESS CORRECTIONS

For the reasons described in this ROD, Bonneville adopts the proposed corrections to the BU Cash Split process as described in the July 30, 2019, workshop materials. Those corrections are summarized below.

Correction

Bonneville will correct for errors in the BU Cash Split process for historical periods and prospectively. The BU Cash Split process should have functionalized Bonneville’s costs and revenues in a manner consistent with its rates and financial system. Correcting for prior periods ensures that future rate calculations are based on correct determinations of cash attributions between the business units.

Duration

Bonneville will correct for errors dating back to FY 2003, which is as far back as Bonneville can confirm that the errors affected the cash balances used in the BU Cash Split process. Bonneville has been unable to confirm that the errors affected the FY 2002 beginning cash balances.

Interest Methodology

Bonneville will include simple interest when reallocating cash between the business units. Interest is an appropriate mechanism to account for the passage of time and to recover lost interest income to Power. Applying simple interest is the best approximation of the time-value-of-money effect of the errors given Bonneville’s revenue requirement methodology.

Interest Rate

Bonneville will assess interest at the actual effective interest rate earned by the Bonneville Fund. The effective interest rate accounts for the actual interest earned in the Bonneville Fund and is assigned accordingly to the cash split balances.

Summary

This correction will result in a transfer of \$182.3 million from Transmission’s cash balance to Power’s cash balance.

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

4. RESPONSE TO COMMENTS

4.1 Supportive Comments

Almost all commenters supported the open and transparent process Bonneville used to engage with stakeholders over the BU Cash Split process errors.²⁶ While many commenters express concern that such an error could occur and go undetected for so long, they appreciate how Bonneville has handled the matter and encourage Bonneville to use this experience to improve its internal controls with a robust action plan.²⁷

Many commenters also support all aspects of Bonneville's July 30, 2019 proposal to correct the errors in the BU Cash Split process.²⁸ These commenters agree that Bonneville's proposal to correct the errors for past periods is appropriate and that simple interest should be applied. Supportive commenters generally agree that Bonneville has met its criteria for reviewing this issue and support the decision to transfer \$182.3 million from Transmission's cash to Power's cash. Alliance of Western Energy Consumers (AWEC), for example, agrees that Bonneville's proposal "adequately meets the primary decisional principles" and supports Bonneville's proposal.²⁹ The Public Power Council (PPC) reaches a similar conclusion, noting that the combination of Bonneville's and Baker Tilly's reviews provide "a strong degree of confidence of assurance of the first two criteria."³⁰ PPC further agrees that correcting the error will make the business units whole without unduly harming either business unit.³¹

Two commenters support Bonneville's proposal to correct the errors back to FY 2003, but request Bonneville to apply compound interest instead of simple interest.³² Western Public Agencies Group (WPAG) supports Bonneville's proposal, contending that Bonneville must make these corrections to comport with FERC's separate accounting analysis.³³

²⁶ Northwest & Intermountain Power Producers Coalition (NIPPC) Comments at 1 (August 18, 2019); Cowlitz Public Utility Dist. No. 1 Comments at 1 (August 21, 2019); Modesto Irrigation District, City of Santa Clara, and City of Redding (MSR) Comments at 1, 6 (August 21, 2019); Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. (Commenting Parties) Comments at 1 (August 21, 2019); Northwest Requirements Utilities (NRU) Comments at 1-2 (August 21, 2019); PNGC Power Comments at 1 (August 21, 2019); Powerex Comments at 1 (August 21, 2019); Public Power Council (PPC) Comments at 1 (August 21, 2019); Snohomish County Public Utility District No. 1 Comments at 1 (August 21, 2019); Western Montana Electric Generating & Transmission Cooperative, Inc. Comments at 1 (August 21, 2019); Western Public Agencies Group (WPAG) Comments at 1 (August 21, 2019).

²⁷ NIPPC Comments at 1; NRU Comments at 1-3, PPC Comments at 1; WPAG Comments at 1.

²⁸ See NIPPC Comments at 1; Alliance of Western Energy Consumers (AWEC) Comments at 2 (August 21, 2019); Cowlitz Public Utility Dist. No. 1 Comments at 1 (August 21, 2019); NRU Comments at 3; PPC Comments at 1; Western Montana G&T Comments at 1.

²⁹ AWEC Comments at 2.

³⁰ PPC Comments at 1.

³¹ *Id.*

³² See WPAG Comments at 1; Cowlitz Comments at 1.

³³ WPAG Comments at 3-4.

WPAG notes that Bonneville’s proposal is “no less than what the law requires and what the WPAG utilities expect.”³⁴ Like AWEC and PPC, WPAG also finds that Bonneville’s proposal (excepting compound interest), meets Bonneville’s criteria.³⁵

As discussed more fully below, PNGC Power (PNGC) also supports Bonneville’s proposal, but requests that FY 2002 be included in the final correction.³⁶

4.2 Objections and Concerns

Bonneville also received comments suggesting changes or opposing various aspects of Bonneville’s proposal. These comments generally fall into four categories:

- Comments suggesting changes to Bonneville’s criteria.
- Comments contending that the IPAC Adjustment, Payroll Adjustment, and Corporate Adjustment were not errors, and therefore, should not be corrected for any historical periods.³⁷
- Objections to Bonneville’s duration proposal. One comment suggests Bonneville include FY 2002,³⁸ while another comment suggests Bonneville go no further back than six years.³⁹
- Objections to Bonneville’s interest proposal. Two commenters suggest Bonneville use compound interest instead of simple,⁴⁰ and two commenters suggest no interest be applied.⁴¹

The following discussion addresses these objections and concerns.

³⁴ *Id.* at 4.

³⁵ *Id.* at 4.

³⁶ PNGC Power Comments at 1 (August 21, 2019).

³⁷ Commenting Parties at 1-2; Charles Pace Comments at 1 (August 21, 2019) (Pace Comments).

³⁸ PNGC Comments at 1.

³⁹ MSR Comments at 2-3.

⁴⁰ WPAG Comments at 4-5; Cowlitz Comments at 1.

⁴¹ MSR Comments at 4; Pace Comments at 1.

4.2.1 Decision Criteria

Issue 4.2.1.1

Whether Bonneville should amend its decision-making criteria.

Parties' Positions

NRU generally agrees that Bonneville's decision criteria are appropriate.⁴² However, NRU proposes Bonneville modify the "Auditable and Traceable" criterion to be "Documentable and Traceable."⁴³

WPAG proposes Bonneville delete "while also not unduly disadvantaging one business unit over the other" from the third criterion.⁴⁴ With that change, WPAG agrees with the decision-making criteria, and "see[s] the proposed decision-making criteria as being consistent with BPA's obligations under the law as well as principles such as fundamental fairness and good faith."⁴⁵

Evaluation

Bonneville proposed three decision-making criteria for its decision regarding reallocating financial reserves:

- **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 units 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.⁴⁶

NRU and WPAG generally support these criteria, but propose specific modifications.⁴⁷

NRU proposes Bonneville modify the second criterion to be "Documentable and Traceable," rather than "Auditable and Traceable." Although NRU agrees with the criterion's description, NRU finds the term "auditable" confusing because "the allocation of cash reserves between business units is not part of the annual, external audit of the agency."⁴⁸

⁴² NRU Comments at 2.

⁴³ NRU Comments at 2.

⁴⁴ WPAG Comments at 2.

⁴⁵ WPAG Comments at 3.

⁴⁶ July 30 Presentation at 5.

⁴⁷ NRU Comments at 2; WPAG Comments at 2-3.

⁴⁸ NRU Comments at 2.

Bonneville agrees with NRU that the allocation of financial reserves is not part of Bonneville’s annual, external audit. But Bonneville disagrees that the existing criterion is confusing, and therefore does not believe it needs to be changed. The criterion of “auditable”—not “audited”—speaks to the caliber of documentation Bonneville is requiring for its decision. Whereas “auditable” provides a context for determining the type of documentation required, “documentable” would be comparatively vague. Bonneville will retain its criterion.

WPAG proposes Bonneville delete “while also not unduly disadvantaging one business unit over the other” from the third criterion.⁴⁹ WPAG asserts, “we are unaware of any legal or other principle that holds that a party unjustly enriched by a mistake or error may retain the benefits of such unjust enrichment if repayment would unduly disadvantage them.”⁵⁰ WPAG further argues that “power services would be unduly disadvantaged if BPA does not correct the financial reserves error in full,” and that “correcting the error . . . will not unduly disadvantage transmission services.”⁵¹

Bonneville agrees that, in isolation, having to give up unjust enrichment is not an undue disadvantage. Bonneville included “undue disadvantage” in its criteria to recognize that correcting misallocated financial reserves should not be entirely reduced to a mathematical formula. This clause allowed Bonneville the flexibility to balance the equities, for example, in considering how to determine the interest for the reallocation. The clause also informs what Bonneville considers to be “made whole” under these circumstances; the reallocation is not to be punitive or to speculate as to how correctly allocated reserves would have been used. Bonneville will retain its criterion.

WPAG also notes that, whether Bonneville intends it or not, these criteria may be used in the future to provide a rational and principled framework that will help Bonneville stakeholders better understand the context and reasoning for why and how Bonneville corrected its mistakes.⁵²

As WPAG notes, Bonneville is not deciding as part of this ROD on a set of criteria that will apply to any and all future errors Bonneville may discover. The particular facts and circumstances of these errors heavily influenced the criteria Bonneville adopted. Whether those criteria would be useful in another set of circumstances is, as WPAG contends, outside of the scope of this proceeding and dependent on the facts and circumstances presented at the time.

Decision

Bonneville will retain its decision-making criteria.

⁴⁹ WPAG Comments at 2.

⁵⁰ WPAG Comments at 2.

⁵¹ WPAG Comments at 2.

⁵² *Id.* at 3.

4.2.2 Error

Issue 4.2.2.1

Whether the IPAC Adjustment, Payroll Adjustment, and Corporate Adjustment were errors and should be corrected.

Parties' Positions

The Commenting Parties⁵³ contend they are “concerned” with Bonneville’s proposed corrections, particularly in light of the numerous transmission rate settlements during the period of Bonneville’s proposed reserve reallocation.⁵⁴ Commenting Parties question whether it would be fair, equitable, and consistent with the spirit of those settlements for Bonneville to reallocate financial reserves.

Commenting Parties also note that, even assuming the IPAC Adjustment and other adjustments did not result from agency rule or policy-making decisions, Bonneville’s own documentation and presentations reveal that many of the processes were likely intentional.⁵⁵ Commenting Parties request Bonneville “fully explain the origins of the BU Cash Split process” and justify its proposal to deviate from those assumptions.⁵⁶

Charles Pace, a private citizen, supports making the changes prospectively, but disagrees with Bonneville’s proposal to make corrections for past periods.⁵⁷

Evaluation

Bonneville views the IPAC Adjustment, Payroll Adjustment, and Corporate Adjustment as errors that should be corrected. The BU Cash Split process was an internal model that was intended to provide an accurate portrayal of each business unit’s respective cash in the Bonneville Fund. The BU Cash Split process, then, should have followed the results flowing from Bonneville’s financial system and rates. Bonneville believes the original designers of the model thought that they had done so, and Bonneville has found no documentation indicating a deliberate decision to design the BU Cash Split process to produce results that were contrary to Bonneville’s financial system and rates. Correcting the BU Cash Split process assumptions is consistent with Bonneville’s original intent for the model as well as Bonneville’s practice of functionalizing costs between its business units as evidenced in its rates and financial system.

The Commenting Parties contend that correcting these errors for prior periods may be inequitable in light of past transmission rate settlements. Commenting Parties do not

⁵³ This group consists of Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc., all customers of Bonneville. This group is collectively referred to as the Commenting Parties throughout this document.

⁵⁴ Commenting Parties at 1.

⁵⁵ Commenting Parties at 2.

⁵⁶ *Id.*

⁵⁷ Pace Comments at 1.

elaborate in what way the settling parties' expectations would have been harmed had these errors been known and corrected. In any event, Bonneville considers the inequity of not correcting these errors to outweigh any potential harm to the expectation of settling parties from past transmission settlements. If Bonneville does nothing, then cash attributed to Transmission would be artificially high because Transmission's cash was not used to pay for all of Transmission's costs. Power's cash, conversely, would be artificially low, as Power's cash was used to pay not only for its own costs, but also for Transmission-related costs under the BU Cash Split process.

An example will illustrate the issue Bonneville is resolving. One of the areas in which transactions were misapplied due to the IPAC Adjustment was the allocation of the General Administrative Services vehicle fleet costs (GSA Fleet Costs). These costs were functionalized, in general, between the business units, with 80 percent assigned to Transmission and 20 percent assigned to Power. This functionalization reflected the business units' usage of the fleet from prior years. Assume for this illustration that the GSA Fleet Costs in a given year was, in total, \$1 million. Transmission rates were set to recover \$800,000 of the GSA Fleet Cost and power rates were set to recover the remaining \$200,000. When actual invoices for GSA Fleet Costs came in, they were paid through the IPAC system. Following the IPAC Adjustment, the BU Cash Split process allocated all of the GSA Fleet Costs to Power's cash. As such, through the BU Cash Split process, Power's cash not only paid for its share of the GSA Fleet Cost (\$200,000), but also all of Transmission's (\$800,000). The Power rate was only designed to recover \$200,000 of the GSA Fleet Cost, so the additional \$800,000 payment resulted in a net decline in Power's cash of \$800,000. Power's cash was harmed by the error.

Transmission's cash, in turn, grew because of this error. Transmission's rates were set to recover \$800,000 from transmission customers. However, because the BU Cash Split process assigned this cost (an IPAC transaction) to Power's cash, the \$800,000 collected in transmission rates simply accumulated in Transmission's cash balance.

The equitable way to remedy this error, then, is to return the misallocated amounts from Transmission's cash to Power's cash (\$800,000), with appropriate interest. This remedy does not harm either business unit because it simply places the business units in roughly the same place they would have been in had Bonneville not made the error. Power's cash is replenished by the excess cash from Transmission's cash (plus interest). That is what Bonneville's proposal does.

Commenting Parties also suggest that the IPAC Adjustment, Corporate Adjustment, and Payroll Adjustment may not be errors. Commenting Parties note that the numerous documents and presentations provided by Bonneville reveal that many of the processes were likely intentional. Bonneville does not disagree that the documentation indicates that the IPAC Adjustment, Payroll Adjustment, and Corporate Adjustment were intentional. The record is clear that these adjustments came from documentation that was presented to management and accepted. Bonneville disagrees, however, that Bonneville knew or intended to create differences between rates and Bonneville's financial system and the BU Cash Split process. Bonneville's internal investigation found that staff and management at the time believed they had created a way of tracking business unit cash using data from

Bonneville's financial system with these adjustments. That is, Bonneville made the adjustments because it erroneously believed that these adjustments were needed to tie the BU Cash Split process to Bonneville's rates and financial system. At no point did Bonneville intentionally decide to make the BU Cash Split process inconsistent with its rates and financial system. The corrections adopted in this ROD, then, achieve Bonneville's original intent for the BU Cash Split process: an accurate picture of business unit cash based on data from Bonneville's financial system and rates.

The Commenting Parties request Bonneville to provide a complete history of the origins and development of the BU Cash Split process. Bonneville has done that in the background section of this document and in the materials cited herein.

Charles Pace, a private citizen, supports making the changes to the BU Cash Split process prospectively, but opposes Bonneville's decision to make changes to past periods. Mr. Pace describes the errors as "accounting errors" and suggests that such errors should not be corrected retrospectively.

Bonneville respectfully disagrees with Mr. Pace's comment. The BU Cash Split process errors are more than "accounting errors." These errors affect the business unit's prior and current level of financial reserves. The BU Cash Split process determines a business unit's level of cash based on prior year's cash split determinations. As such, an error in a prior year will carry forward to the current year. Allowing errors from past years to remain in the business unit's cash split would skew the current year's attribution of cash. Correcting this error is appropriate to ensure that past calculations and the present calculation of each business unit's cash are accurate.

Mr. Pace describes Bonneville's proposal as "enlarging the administrator's discretionary authority." The courts have long recognized, however, that federal agencies have authority and discretion to correct their own errors.⁵⁸ That is what Bonneville is doing here and its proposal is squarely within its authority to correct its own errors.

Decision

The IPAC Adjustment, Payroll Adjustment, and Corporate Adjustment were errors and will be corrected.

⁵⁸ *Ass'n of Pub. Agency Customers v. Bonneville Power Admin.*, 733 F.3d 939, 967 (9th Cir. 2013) (quoting *Pub. Utils. Comm'n of State of Cal. v. F.E.R.C.*, 462 F.3d 1027, 1053 (9th Cir.2006)); *Dun & Bradstreet Corp. v. United States Postal Service*, 946 F.2d 189, 193 (2nd Cir. 1991); *Alberta Gas Chemicals, Ltd. v. Celanese Corp.*, 650 F.2d 9, 12 (2nd Cir. 1981) (every decision-making body, judicial and administrative, has power to reconsider and correct its own errors); *Sudarsky v. City of New York*, 779 F. Supp. 287, 298 (S.D.N.Y. 1991), *aff'd*, 969 F.2d 1041 (2nd Cir. 1992), *cert. denied*, 506 U.S. 1084 (1993) (agency may reconsider regardless of whether statute expressly so provides).

4.2.3 Duration

Issue 4.2.3.1

Whether Bonneville should make corrections to the BU Cash Split process dating back to FY 2003.

Parties' Positions

Several commenters support Bonneville's decision to apply the corrections to the BU Cash Split process back to FY 2003.⁵⁹

PNGC requests Bonneville to consider including FY 2002 in the correction.⁶⁰

AWEC questions the beginning balance used in FY 2003.⁶¹

The Modesto Irrigation District, City of Santa Clara, and City of Redding (MSR) argues that Bonneville should only correct the error for the prior six years.⁶²

Evaluation

As Bonneville explained during the extensive workshop process, staff confirmed that errors were present in the BU Cash Split process data beginning with FY 2003.⁶³ Bonneville was unable to confirm that errors existed in the beginning balances for FY 2002.⁶⁴ One of the criteria Bonneville adopted to guide its evaluation of this issue was that any corrections should be "auditable and traceable." Because Bonneville could not find documentation clearly identifying the errors in the FY 2002 cash balance, Bonneville proposed not to include that year in its correction proposal.

Most commenters support Bonneville's proposal to limit the historical error correction period to FY 2003.⁶⁵ PNGC, however, contends that it has little comfort in the fact Bonneville cannot confirm where the beginning balance for FY 2003 came from.⁶⁶ PNGC, thus, recommends that it would be "prudent" for Bonneville to include FY 2002 given the evidence showing that Bonneville followed the same methodology each year. PNGC notes that Bonneville staff stated that FY 2002 was likely a "back cast" performed by staff, and

⁵⁹ See NIPPC Comments at 1; AWEC Comments at 2; NRU Comments at 3; PPC Comments at 2; WPAG Comments at 3-4.

⁶⁰ PNGC Comments at 1.

⁶¹ AWEC Comments at 2.

⁶² MSR Comments at 2-3.

⁶³ July 16 Presentation at 15.

⁶⁴ *Id.* at 16.

⁶⁵ See NIPPC Comments at 1; AWEC Comments at 2; NRU Comments at 3; PPC Comments at 2; WPAG Comments at 3-4.

⁶⁶ PNGC Comments at 1.

there is a question as to whether those back cast figures included the same adjustment errors.⁶⁷

Bonneville appreciates the concerns raised by PNGC. However, after extensively reviewing this issue, Bonneville finds that the correct approach is to exclude FY 2002. As noted in the July 16, 2019, presentation, Bonneville was unable to verify the starting or ending balance for FY 2002.⁶⁸ While staff did find spreadsheets that appeared to contain the same errors found in FY 2003, Bonneville could not tie those spreadsheets to the values actually used in the BU Cash Split process.⁶⁹ For all other years, Bonneville was able to verify that the errors were embedded in the BU Cash Split process's output. Following the "auditable and traceable" criterion, Bonneville believes it would not be prudent to assume that the errors existed in a year without verifiable documentation. PNGC's suggestion that Bonneville presume an error existed, without proper verification, cannot be accepted.

AWEC notes that "questions remain" about the initial balances that went into the BU Cash Split process.⁷⁰ Bonneville agrees that it was unable to verify with certainty how the starting balance for the BU Cash Split process was derived. Bonneville performed a thorough search of its archives and records in an attempt to recreate the beginning balance. As discussed above, the little information Bonneville could find did not confirm that the error was present in the beginning balance. Because Bonneville did not find any evidence indicating that the beginning balance was faulty, Bonneville concludes that there is no basis to revisit the beginning balance or to propose any changes to it.

MSR argues that Bonneville should consider limiting the period subject to correction. MSR acknowledges that there is no express statute of limitations applicable to this situation, but nonetheless, suggests that the reasons for a limitation period are applicable here. Those reasons include ensuring accurate fact finding, preventing evidence from becoming stale, and witnesses' memories fading. In this instance, Bonneville is seeking to recover for a period exceeding sixteen years. MSR notes that the loss of personnel and documentation would naturally limit Bonneville's ability to recreate what happened and why. The courts and legislatures have recognized such circumstances reduce the likelihood of accurate fact-finding and, consequently, MSR urges Bonneville to limit its own review. MSR suggests Bonneville limit any recovery to the longest "relevant" statute of limitation, which in MSR's view is the Tucker Act's six-year limitation.⁷¹

Bonneville agrees with MSR that no statute of limitation applies to this particular case. As MSR recognizes, the statute of limitations suggested by MSR (the Tucker Act) is inapplicable as that statute only applies to claims *against* the government.⁷² In this case,

⁶⁷ PNGC Comments at 1.

⁶⁸ July 16 Presentation at 15-16.

⁶⁹ *Id.*

⁷⁰ AWEC Comments at 2.

⁷¹ MSR Comments at 2-3.

⁷² See 28 U.S.C. § 1491(a)(1) ("The United States Court of Federal Claims shall have jurisdiction to render judgment upon any claim against the United States founded either upon the Constitution, or any Act of

the errors at issue are all internal to Bonneville. Bonneville also generally agrees with MSR that the policy justification for applying a limitation period, whether it is six years or otherwise, could be useful in a situation where the factors noted by MSR (lack of data, missing witnesses, staleness of evidence) are applicable. In this case, however, Bonneville believes its decision to correct the errors back to FY 2003 is reasonable and should be adopted. Three reasons support this decision.

First, Bonneville has been able to identify and verify the errors in the BU Cash Split process back to FY 2003. This has been confirmed not only through internal documentation,⁷³ but also verified by Bonneville's internal audit⁷⁴ and an external third party.⁷⁵ Thus, this situation is unique in that sufficient internal documentation was located and able to verify the presence of the error in the BU Cash Split process for the period dating back to FY 2003. Had this not been the case, or had the record been less clear, then another, potentially shorter period may have been more appropriate. For example, as just discussed above, Bonneville excluded FY 2002 from the recovery period because of a lack of data. Had a similar lack of data been prevalent throughout the period, a shorter time period may have been appropriate. Here, however, Bonneville has the data dating back to FY 2003, and that data readily verifies the presence of the error. Under these facts, Bonneville believes it reasonable to correct all years with the error.

Second, considering Bonneville verified that the error began in FY 2003, Bonneville is uncertain what justification it could have used to arbitrarily cut off correcting that error only to six years (*i.e.*, back to FY 2013). Where no statute of limitations dictates that claims are barred, Bonneville would need a reason to not make corrections for years prior to FY 2013. The question would invariably be raised "why stop at FY 2013 when data is available prior to this period?" Bonneville has confirmed with absolute certainty that the errors in FY 2014 (which would be corrected under MSR's proposal) also existed in FY 2013 (which would not be corrected under MSR's proposal). The same would be true for FY 2012 and for each year all the way back to FY 2003. Absent an applicable statutory cutoff, Bonneville is unaware of and unable to discern any justification for not correcting errors in years for which reliable data supports the necessary correction.

Third, Bonneville finds that the nature of this error warrants making corrections as far back as the errors are identifiable. As discussed above, the BU Cash Split process uses a prior year's balance to form the basis of the current year's business unit cash split. This means that an error in the ending balance for a prior year will carry over to the next year. This is a unique feature of the BU Cash Split process. Most models and forecasts Bonneville uses refresh each year with new data and assumptions. The BU Cash Split process, however, builds off of the previous BU Cash Split results. As such, correcting an error in one year of the BU Cash Split process affects all other subsequent years. Conversely, *not*

Congress or any regulation of an executive department, or upon any express or implied contract with the United States, or for liquidated or unliquidated damages in cases not sounding in tort.")

⁷³ July 16 Presentation at 15-16.

⁷⁴ Bonneville Internal Audit Report at 4.

⁷⁵ Baker Tilly Report at 5.

correcting an error in one year of the BU Cash Split process will leave an error in place that will affect all other subsequent years. Leaving an error in the BU Cash Split process has far reaching and long-term consequences to the business unit cash split calculation. In light of this unique feature of the BU Cash Split process, Bonneville believes it is appropriate to make corrections to as far back as data can verify the error occurred, *i.e.*, FY 2003.

To be clear, Bonneville is not finding here that in every case it must reach back to the inception of an error and make a correction. In a future situation, a reasonable case may be made to limit Bonneville's revisions to a shorter period than the date of when the error first occurred. But in this case, Bonneville has not found a compelling reason to forgo corrections to any period where the errors can be verified with actual data.

Decision

Bonneville will make corrections to the BU Cash Split process dating back to FY 2003.

4.2.4 Interest

Issue 4.2.4.1

Whether Bonneville should apply simple interest at the Bonneville Fund rate to the amounts misallocated by the BU Cash Split process errors.

Parties' Positions

Several commenters support Bonneville's proposal to apply simple interest at the Bonneville Fund rate to the cash that was misallocated due to the BU Cash Split process errors. For example, AWEC agrees that simple interest is an "equitable way to account for the time value of money with respect to the misattribution."⁷⁶ NRU also supports Bonneville's proposal, noting that applying simple interest at the Bonneville Fund rate makes each business unit whole and is the most transparent method to best approximate the amount of interest income that would have been allocated to Power.⁷⁷ PPC voices similar support. PPC states that the interest Bonneville proposes to include is likely "conservative," but viewed as a whole, represents a reasonable balance.⁷⁸

NIPPC supports Bonneville's proposal, noting that it would not be equitable for Power customers to lose the benefit of interest that would have accumulated in the Bonneville Fund on sums that should have been allocated to Power's cash.⁷⁹ NIPPC argues that providing compound interest would be an "overreach."⁸⁰

⁷⁶ AWEC Comments at 3.

⁷⁷ NRU Comments at 3.

⁷⁸ PPC Comments at 2.

⁷⁹ NIPPC Comments at 1-2.

⁸⁰ NIPPC Comments at 1-2.

WPAG supports Bonneville’s proposal to provide interest and to use the Bonneville Fund rate.⁸¹ However, WPAG contends Bonneville should use compound interest, not simple interest.⁸² Cowlitz similarly argues that compound interest be applied to the misallocated amounts.⁸³

Commenting Parties, in contrast, argue against applying simple interest on the basis of “fundamental fairness” and to avoid “unduly disadvantaging one business unit over the other.”⁸⁴

MSR similarly argues that no interest should be provided for the misallocated amounts.⁸⁵ MSR contends that Bonneville previously rejected proposals to apply interest to the financial reserves relied on by Power for liquidity support in the BP-18 rate proceeding, when developing the Financial Reserves Policy.⁸⁶ MSR claims the BU Cash Split process errors are analogous, and consequently, Bonneville should provide no interest on the misallocated cash.⁸⁷

Charles Pace also argues no interest should be provided for past misallocations.⁸⁸

Evaluation

In the July 30, 2019, presentation, Bonneville explained that it intended to provide simple interest at the Bonneville Fund rate on the misallocated cash between the business units. Bonneville’s proposal ensured that the misallocated cash maintained its value over the sixteen years that passed since the original error occurred. Bonneville viewed this proposal as striking the proper balance between returning the misallocated funds to the correct business unit, while also making that business unit whole without unduly harming the other business unit. Bonneville’s proposal added \$23.7 million of interest to the outstanding principal amount of \$158.7 million. Many commenters support Bonneville’s proposal.⁸⁹

Some stakeholders, however, claim Bonneville’s proposal does not go far enough. WPAG, for instance, contends Bonneville should provide compound interest on the misallocated cash. Other stakeholders contend Bonneville’s proposal goes too far. The Commenting Parties, MSR, and Charles Pace, all argue Bonneville should not award any interest on the misallocated amounts. For the reasons articulated below, Bonneville finds that its proposal

⁸¹ WPAG Comments at 5.

⁸² WPAG Comments at 4-5.

⁸³ Cowlitz Comments at 1.

⁸⁴ Commenting Parties at 3.

⁸⁵ MSR Comments at 4.

⁸⁶ MSR Comments at 4.

⁸⁷ MSR Comments at 5-6.

⁸⁸ Pace Comments at 1.

⁸⁹ See PPC Comments at 2, NIPPC Comments at 1-2; AWEC Comments at 3; NRU Comments at 3.

strikes the proper balance between these two positions. Bonneville's proposal to provide simple interest makes Power whole, without unduly disadvantaging Transmission.

Compound Interest

WPAG supports Bonneville's decision to provide interest at the Bonneville rate. However, WPAG contends that Bonneville should calculate the interest using compound interest rather than simple interest.⁹⁰ WPAG claims that Bonneville's explanation for choosing simple interest over compound interest is erroneous. In the July 30, 2019, presentation, Bonneville explained that the reason it chose simple over compound interest was that the misallocated funds did not actually accumulate interest within the Bonneville Fund.⁹¹ Instead, consistent with Bonneville's historic practice, interest earnings in the Bonneville Fund were credited back to the business units as a rate credit.⁹² Thus, the misallocated cash did not grow within the Bonneville Fund due to interest accumulation because the actual interest growth was paid out each year.

WPAG contends that this rationale is faulty because Transmission customers received the benefits of the additional interest, not power customers.⁹³ WPAG argues that Power lost out as a result of this error. Had this error not occurred, Power could have lowered its power rate and improved its competitive position, or earned compound interest in the Bonneville Fund on the misallocated reserves.⁹⁴ Since the opportunity to lower past power rates has passed, WPAG recommends that Bonneville assume that the misallocated cash remained in the Bonneville Fund, where it earned compound interest.⁹⁵

Bonneville appreciates WPAG's perspective, but disagrees that applying compound interest would be reasonable in this instance. No regulation or statute requires Bonneville to award interest to itself, so whether Bonneville decides to provide interest is a matter left to the discretion of the Administrator.⁹⁶ Here, Bonneville considered three criteria (discussed above) to guide the agency's development of a remedy to the BU Cash Split errors. The third criterion states:

Business Line are Made Whole – The decision should make the business lines whole while also not unduly disadvantaging one business line over the other.

Bonneville finds that applying simple interest at the Bonneville Fund rate meets this criterion. It is important to understand the components of Bonneville's proposal. The first component is that Bonneville is providing interest. This, as noted above, is not required. Bonneville chose to provide interest to ensure that the misallocated cash's value is

⁹⁰ WPAG Comments at 4-5.

⁹¹ July 30 Presentation at 8.

⁹² July 30 Presentation at 8.

⁹³ WPAG Comments at 5.

⁹⁴ *Id.*

⁹⁵ *Id.*

⁹⁶ See *Farmers Export Co. v. United States*, 758 F.2d 733, 738 (D.C. Cir. 1985).

preserved with the passage of time. If interest is not applied, the value of the misallocated cash would be diminished solely from inflationary pressures. That result would not have made Power whole, as it would be receiving less value through the reallocation than was erroneously assigned to Transmission.

Second, Bonneville is providing interest at the Bonneville Fund rate. That is an additional benefit to Power. There are multiple ways of preserving the value of cash from inflation. One method which Bonneville has used before and which WPAG specifically notes, is to use the Gross Domestic Price Deflator, an inflationary-based interest rate.⁹⁷ Bonneville, however, did not use an inflationary rate, but rather the actual rate of interest earned in the Bonneville Fund. This approach ensures that Power receives the value of the misallocated funds at the rate that would have applied to the funds (the Bonneville Fund rate). This approach, in Bonneville's view, makes Power whole by preserving the value of the misallocated cash through the interest rate Power would have received had the error not occurred.

On the other hand, applying compound interest to the misallocated amounts, as suggested by WPAG, would have unduly harmed Transmission. Transmission's cash did not grow by compound interest as a result of this error. This is because Bonneville distributes the amount from the interest growth in the Bonneville Fund back to the business units as a rate credit, which precludes the compounding of interest. WPAG notes that this interest was credited to transmission rates, not power rates, and so it would not be reasonable to assume Power customers received the benefits of this interest. While it is true that the misallocated cash resulted in additional interest credits to transmission rates, the credits are effectively being returned to Power by applying the Bonneville Fund rate to the misallocated cash. Applying compound interest to the misallocated amounts would return more in interest and principal to Power than Transmission actually benefitted from, instead of returning to Power only the lost interest it would have received from the Bonneville Fund. This would be unduly harmful to Transmission in that it would place Transmission in a worse position than if the misallocation had never occurred.

WPAG contends that to meet its criteria, Bonneville must use compound interest because doing so would place Power "in as good a position pecuniarily as it would have been if the errors had never occurred, while . . . not unduly disadvantaging the [T]ransmission business unit."⁹⁸ This argument presumes Power would have left the cash in the Bonneville Fund and allowed it to grow through compound interest. That is incorrect. Power would have paid out any interest to its customers through a rate credit. Providing compound interest to Power would, in fact, place Power in a better position than if the error had not occurred.

⁹⁷ WPAG Comments at 5, FN 5; *See also* 2007 Supplemental Wholesale Power Rate Case Administrator's Final Record of Decision, WP-07-A-BPA-5, at 207-212 (Sept. 2008).

⁹⁸ WPAG Comments at 6.

No Interest Because of Fundamental Fairness

Commenting Parties argue that “consistent with both fundamental fairness and the decision criteria of not ‘unduly disadvantaging one business unit over the other,’ . . . BPA should, if it adopts any remedy . . . limit the remedy to reallocating the financial reserves and certainly should not attempt to assess compound interest.”⁹⁹ Bonneville disagrees. As discussed above, the purpose of applying simple interest here is to preserve the value of the misattributed cash. It would be an unreasonable outcome to, first, decide to reallocate financial reserves to correct prior misallocations, but simultaneously decide that the interest accrued on those misallocated amounts should remain with the incorrect business unit. Having decided that cash was misallocated and should be reallocated, Bonneville is including in its reallocation the interest that accrued on the misallocated amounts. Doing so makes each business unit whole without undue disadvantage. Further, as just discussed, Bonneville will not assess compound interest.

No Interest Because of BP-18 Decisions

MSR asserts that “in BP-18 BPA clearly established the precedent that interest was not to be paid by one business line to another business line for holding reserves because the funds belong to the Agency.”¹⁰⁰ MSR is incorrect. In the BP-18 ROD, Bonneville stated it “fundamentally disagrees with MSR’s view that BPA must require ‘compensation’ between its own business lines for financial reserves *held for purposes of the [Financial Reserves Policy]*.”¹⁰¹ As discussed in the BP-18 ROD section cited by MSR, there are circumstances when one business unit does pay interest to the other. However, holding financial reserves under the terms of the Financial Reserves Policy (FRP) is not one of those reasons. The context of the BP-18 comment warrants further discussion.

Bonneville adopted the FRP in BP-18 to address gaps in Bonneville’s existing policies for managing financial reserves levels.¹⁰² The FRP sets upper and lower thresholds, and determines the actions Bonneville may take when financial reserves are outside these thresholds.¹⁰³ As part of the FRP, Bonneville adopted thresholds for “repurposing” excess financial reserves (*e.g.*, providing a rate credit, rebates, paying down debt). Two requirements needed to be met to trigger the “repurposing” provision: (1) financial reserves for the agency must exceed 90 days cash on hand *and* (2) a business unit’s financial reserves must exceed 120 days cash on hand. Many transmission customers opposed this proposal because Transmission’s financial reserves already exceeded 120 days cash, while agency financial reserves did not exceed 90 days cash because Power’s financial reserves were below its lower threshold.

⁹⁹ Commenting Parties at 3.

¹⁰⁰ MSR Comments at 4-5.

¹⁰¹ Administrator’s Final Record of Decision, BP-18-A-04 at 339 (emphasis added).

¹⁰² BP-18-A-04 at 197-98.

¹⁰³ *Id.*

To address this, MSR proposed a modification to allow the Administrator to hypothetically “lend” financial reserves from one business unit to the other if (1) the former had reserves in excess of its business unit upper threshold and (2) the latter had reserves below its lower threshold.¹⁰⁴ MSR proposed that the lending business unit should be compensated at its “opportunity cost of holding excess reserves,” which MSR argued should be calculated as “the difference between the relatively low interest earned on the excess reserves, and the 5-7% interest expense that could be avoided if higher cost debt were pre-paid.”¹⁰⁵ More specifically, MSR argued that Transmission should be compensated for the lost opportunity cost of having to hold reserves above its business unit upper threshold to support Bonneville’s credit rating due to Power’s low financial reserves levels.¹⁰⁶

Bonneville did not adopt MSR’s proposal. MSR’s proposal would have, in effect, required Power to pay Transmission for holding its own financial reserves.¹⁰⁷ The supposed “use” MSR sought to have Power compensate Transmission for was the ineligibility of Transmission cash to be used for other purposes because Power’s financial reserves were not sufficient to exceed the 90 day agency cash requirement. That hypothetical use, however, did not change the ownership of the underlying financial reserves. Transmission customers still received all of the economic benefits of the financial reserves attributed to Transmission. Those benefits included a higher interest rate credit from the funds held in the Bonneville Fund. Bonneville found that the payment of interest was sufficient compensation for holding financial reserves in excess of 120 days, and as such, there was no sound basis to require Power to pay additional interest on top of the interest already being paid to Transmission.

Bonneville’s BP-18 decision is inapposite to the BU Cash Split process misallocation. Here, cash (a component of financial reserves) was effectively transferred from one business unit’s financial reserves to the other. Thus, the economic benefit of the financial reserves actually shifted between the business units because of the BU Cash Split process errors. The interest benefit that Bonneville stated in the BP-18 ROD would be sufficient to compensate a business unit for holding on to its own cash did not occur in the present case because a different business unit (Transmission) received the interest. To correct this error, both the principal balance and the lost value (in this case simple interest at the Bonneville Fund rate) must be returned.

Furthermore, Bonneville included interest in its reallocation, not because Transmission must compensate Power for missed opportunities to pay down high interest rate debt, but because the value of a misallocation in 2003 is different from a misallocation of the same amount in 2019. Bonneville is not applying interest to the present reallocation under a “lending” paradigm. Instead, the reallocation recognizes that misallocated financial reserves accumulated interest over time. Transmission should not retain the interest that

¹⁰⁴ BP-18-A-04 at 338; MSR Initial Brief, BP-18-B-MS-01 at 7.

¹⁰⁵ *Id.* at 24.

¹⁰⁶ *Id.* at 7, 22-24.

¹⁰⁷ BP-18-A-04 at 338-40.

accrued on financial reserves that should have been attributed to Power. A reallocation without interest would not make the Power business unit whole.

No Interest Because of Indian Court of Claims Cases

Mr. Pace argues that “there is no basis for payment of interest,” and even if there was, “it still should not be paid.” Mr. Pace asserts that “the reasoning used to excuse the USA from paying interest on awards in the Indian Court of Claims” supports his position.

Rulings of the United States Indian Claims Commission that sovereign immunity foreclosed the award of interest on claims against the United States—*e.g.*, *Loyal Band or Group of Creek Indians v. U.S.*, 97 F.Supp. 426 (1951), and *Osage Nation v. U.S.*, 97 F.Supp. 381 (1951)—are not applicable to Bonneville’s allocation of financial reserves between its business units.

Decision

Bonneville will apply simple interest at the Bonneville Fund rate to the amounts misallocated by the BU Cash Split process errors.

4.3 Other Issues

Most commenters included additional requests that Bonneville keep them informed on the process improvements Bonneville intends to make to its internal financial processes to restore stakeholder confidence. Commenters also raised a number of other issues outside of the scope of this process. Bonneville addresses these comments in this section.

4.3.1 Insulating Transmission Customers From Impact of Error in Future Processes

Issue 4.3.1.1

Whether Bonneville should insulate Transmission customers from future adverse impacts.

Parties’ Positions

Commenting Parties argue that Bonneville should insulate transmission customers from future adverse impacts of its error correction proposal.¹⁰⁸

Evaluation

Commenting Parties argue that, “consistent with both fundamental fairness and the decision criteria of not ‘unduly disadvantaging one business line over the other,’ . . . BPA should, if it adopts any remedy . . . insulate [T]ransmission customers from any future adverse impacts resulting from the reallocation to the maximum extent practicable.”¹⁰⁹ As an example, Commenting Parties point to Bonneville’s BP-20 decision to assume for risk-modeling purposes that the revenue financing in the Transmission Revenue Requirement is

¹⁰⁸ Commenting Parties at 3.

¹⁰⁹ *Id.*

available to pay the U.S. Treasury. Similarly, Commenting Parties suggest Bonneville could phase-in the reallocation to further minimize harm to customers.¹¹⁰

Bonneville agrees that the impact of correcting misallocated financial reserves was a factor in Bonneville's BP-20 decision.¹¹¹ Bonneville also considered, in accordance with the "undue disadvantage" criterion, whether to phase-in the reallocation. Bonneville considered the impact of a phase-in to both business units, including whether additional interest would apply. Bonneville determined, under the circumstances, to fully implement the reallocation at the end of FY 2019.

However, Commenting Parties' request goes further: "Whether in BP-22, or any other context, BPA should take action to attempt to insulate transmission customers from any adverse financial or policy consequences stemming from this error correction."¹¹² Commenting Parties base this argument on having "already contributed significantly to the agency's reserve accounts, and [having] relied on the accuracy of BPA's accounting models."¹¹³

Bonneville will not agree to this request. Bonneville has established policies for financial health. These policies recognize future uncertainty and provide guidance on the actions Bonneville should take under different scenarios. Bonneville is not required to consider what financial reserves levels would have been without the reallocation before implementing policies or making future decisions. It is not improper to impose costs on Transmission customers under the terms of established policies.

Decision

Bonneville considered undue disadvantage in making its decision, but will not insulate transmission customers from the impacts of this correction in future proceedings.

4.3.2 Additional Processes

Issue 4.3.2.1

Whether Bonneville should commit to additional processes.

Parties' Positions

AWEC "recommends that BPA use upcoming proceedings to thoroughly review the opportunities for modernization of BPA's financial processes."¹¹⁴

Commenting Parties request that Bonneville "establish a clear action plan for instituting controls, documentation, and oversight going forward."¹¹⁵

¹¹⁰ *Id.*

¹¹¹ See BP-20 Administrator's Final Record of Decision, BP-20-A-03, at 13 (July 2019).

¹¹² Commenting Parties at 3-4.

¹¹³ *Id.* at 4.

¹¹⁴ AWEC Comments at 3.

MSR “commends BPA for proposing and implementing changes to improve its accounting processes,” but finds “two additional reviews may be appropriate in the coming months.”¹¹⁶ First, MSR suggests Bonneville hold a customer process to review its current allocation percentages and explore alternate allocation methods. Second, MSR requests Bonneville consider decentralizing, by business unit, as many accounts as possible.¹¹⁷

NIPPC urges Bonneville “to examine all the models and forecasts it is using as inputs to its financial policies,” including “conduct[ing] an internal review of all of the models and forecasts used in the leverage and access to capital financial policies,” with results presented to customers.¹¹⁸

NRU “requests that BPA keep its customers apprised of its work towards complying with its remediation plan.”¹¹⁹ NRU also “urges BPA to use the lessons-learned from the cash reserves errors as a guide to properly set up its participation in the EIM at the get-go.”¹²⁰

Powerex urges Bonneville to comprehensively review its forecasts, starting by identifying those used in rate-setting, in order “to ensure that adequate scrutiny and controls are involved and that the procedures in use are clearly delineated and documented, supported by best-available information, and are reliably repeatable.”¹²¹ Powerex is particularly concerned that the capital expenditure forecast—which has “taken on a new and accentuated purpose” in view of the agency’s Leverage Policy—has been higher than actuals. Powerex requests additional workshops on these topics.¹²²

PPC states that “a broader review of BPA’s internal financial processes is warranted.”¹²³ PPC “looks forward to working closely with BPA” on an action plan.¹²⁴ PPC also requests an additional opportunity to comment if Bonneville plans to make any substantive changes to the staff initial proposal.¹²⁵

Snohomish “encourages BPA to develop a strategy for a periodic review of all of its financial systems and legacy models.”¹²⁶

Western Montana G&T requests Bonneville apply new controls to ensure that internal estimates of financial reserves are as accurate as possible.¹²⁷ WMGT also states, “[o]verall,

¹¹⁵ Commenting Parties at 3.

¹¹⁶ MSR Comments at 5.

¹¹⁷ *Id.* at 6.

¹¹⁸ NIPPC Comments at 2

¹¹⁹ NRU Comment at 2.

¹²⁰ NRU Comment at 2.

¹²¹ Powerex Comment at 1.

¹²² Powerex Comment at 2.

¹²³ PPC Comment at 1.

¹²⁴ *Id.* at 2.

¹²⁵ *Id.* at 2.

¹²⁶ Snohomish Comment at 2.

we understand the need to bolster financial reserves but would greatly prefer that rate actions not be linked to internal estimates of this kind which have been erroneously calculated in the past.”¹²⁸

Evaluation

Commenters request an array of additional processes to review Bonneville’s financial systems. This ROD specifically resolves the misallocation of cash between the Power and Transmission business units. Nonetheless, Bonneville is currently engaged in a broader review of its financial systems and processes. Bonneville appreciates commenters highlighting specific areas of concern, but Bonneville is not committing to any specific additional public process in this ROD. Any additional processes or reviews are beyond the scope of this ROD.

As part of this reserves review and reallocation process, Bonneville developed an action plan to address the control and process issues identified in the review. Implementation of the action plan is currently underway, and includes validation controls for each module of the BU Cash Split Model. Bonneville will remain transparent in reporting out its progress in complying with, and the results of, this plan. Likewise, Bonneville will keep customers apprised of findings in its other financial review efforts through the Quarterly Business Review (QBR) meetings or through other forums, as appropriate. As discussed above, Bonneville appreciates the compliments received, and hopes to continue to earn commenters’ trust through ongoing transparency and accountability.

Decision

Bonneville will not commit to additional processes at this time, but will provide information through QBR meetings and other appropriate forums.

¹²⁷ WMGT Comment at 1.

¹²⁸ WMGT Comment at 1.

5. NATIONAL ENVIRONMENTAL POLICY ACT ANALYSIS

Bonneville has assessed the potential environmental effects that could result from the proposed transfer of financial reserves from Transmission business unit (Transmission) to Power business unit (Power), consistent with the National Environmental Policy Act (NEPA), 42 U.S.C. § 4321 et seq.

As previously discussed in this ROD, the proposed transfer of financial reserves is necessary to correct all validated errors in attribution of reserves between Transmission and Power for fiscal years 2003 through 2018. These errors resulted in historical over reporting of Transmission reserves and under reporting of Power financial reserves totaling approximately \$182.3 million, which includes \$158.7 million for misallocated principal and \$23.7 million of interest on the principal. Additionally, this transfer of reserves is expected to align the reserves allocation with the financial system and to make the two business units whole while not unduly disadvantaging one business unit over the other. Overall, Bonneville's combined financial statements and the reserves in total continue to be unaffected.

The current decision to transfer reserves from Transmission to Power is simply an administrative and financial action that is not expected to result in reasonably foreseeable environmental effects. Any future reserves actions would be implemented in accordance with the Financial Reserves Policy and the procedures stated in Section 4 of the Financial Reserves Policy Phase-In Implementation Record of Decision adopted by Bonneville in September 2018.

Accordingly, Bonneville has determined that the decision to transfer reserves between the two business units does not require further consideration or documentation under NEPA.

6. CONCLUSION

For the reasons articulated above, the business units' cash split shall be corrected as described in section 3 of this ROD.

Issued at Portland, Oregon this 22nd day of October, 2019.

/s/ Elliot E. Mainzer

Elliot E. Mainzer

Administrator and Chief Executive Officer

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