CVP12 0002 – Richard A, Sargent/Franklin PUD No. 1
P.O. Box 2407
Pasco, WA 99302
(509) 542-5911, rsargent@franklinpud.com

1. Why is the Total Interest Credit from Reserve Req (line 6 of 4th Qtr QBR slide 116) $26M when the amount calculated from an estimate of power reserves of $491M (40% of monthly reserves attributed to Power)to $613M (50% attributed to Power), with an interest rate of 2.41%, ranges from $12M to $15M? 2. Why is the Non-Slice pool interst credit $12M when the rate case forecast was $1M? 3. Base on above ansswers to the above questions, are there some components that make up the Total Interest Credit from Reserve Req that should result in an increase in the Total Composite Interest Credit? 4. Based on answers to questions 1 and 2, is theres something in the determination of Composite Pool interest rate that should result in an increase in the Total Composite Interest Credit?

BPA Response to CVP12 0002

Franklin PUD's questions are answered below and will not be included in the Agreed Upon Procedures (AUPs).

1) This first question cites the wrong figure for the FY 2012 interest credit attributed to Power Services. The FY 2012 interest credit was actually $30.301 million. See October 2012 Quarterly Business Review, slide 13, cell E31. The 2012 interest credit includes a $16 million non-cash item which was recorded in the second quarter of FY 2012 and represents the minimum interest receivable on the California ISO/PX receivables. BPA has not received the $16 million in interest income. If this $16 million is excluded, then the total interest credit attributed to Power Services for FY2012 is $14.301 million.

2) The non-Slice cost pool interest credit is the difference between the total interest credit attributed to Power Services for FY 2012 and the calculated composite cost pool credit. The reason that the non-Slice cost pool interest credit is so much larger than the BP-2012 rate case forecast is due to the influence of the $16 million non-cash item described above. This $16 million amount was not an item that we would have included in the forecast in the 2012 rate case because it was not the product of power operations forecasted to occur in the 2012-2013 rate period.

Calculating the interest allocation between the two cost pools is a three step process as discussed below:

First, we identify the total interest credit attributed to Power Services. This is regularly reported to parties in Quarterly Business Review meetings.

Second, we calculate the interest credit for the composite cost pool. The starting reserve balance was determined in the Tiered Rates Methodology (TRM), see section 2.5 , BP-12-A-03, and may be adjusted periodically for cash transactions related to pre-2002 power sales/purchases that are not otherwise distributed or applied to Slice customers, also see Section 7.3.6 of the Power Rates Study, BP-12-FS-BPA-01. To date, the reserve balance is $570.255 million. We then apply an imputed interest earnings rate to the balance. As noted in the conference call, the original estimate was incorrect and was adjusted. The corrected interest rate is 2.41%. This produced a composite cost pool credit of $13.722 million.

Third, we calculate the non-Slice cost pool credit by subtracting the composite cost pool credit from the total credit. This produced a non-Slice interest credit of $16.579 million. As noted earlier, this interest credit is substantially higher than the rate case forecast because it reflects the interest on California ISO/PX receivables. Without that component, the non-Slice interest credit was $0.579 million.

As noted in the TRM, the non-Slice interest credit can be negative or positive. This is entirely dependent on the relationship between the total Power Services interest credit and the composite cost pool credit. If the composite cost pool credit is larger than Power Services' total credit, the non-Slice credit will actually be a cost, that is, a negative credit

3) No. The TRM describes the basis for calculating the composite cost pool credit. The $16 million non-cash item does not qualify as an adjustment to the pre-2002 reserves balance because it is non-cash item and not a cash adjustment.

4) No.