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On December 9, 2016, Pacific PUD submitted comments on behalf of the Slice customer group as proposed Agreed-Upon Procedures (AUPs) for BPA's review under section 2.7.5.1 of the Tiered Rates Methodology (TRM) and Attachment A procedures. Under Attachment A, section 1 of BP-12-A-03, AUPs are defined as services that fall under the category of miscellaneous financial services provided to BPA by an external auditor that are covered contractually between BPA and an external auditor. Agreed-Upon Procedure (AUP) engagements are governed by AT Section 201 of the AICPA professional standards. In an AUP engagement, the external auditor issues a report of findings based on specific procedures performed on a subject matter. The auditor does not perform an audit, examination or review, and does not provide an opinion or negative assurance.

The annual Slice True-Up Adjustment is set out in section 2.7.2 of the Tired Rates Methodology (TRM) which states that it is:

calculated by 1) subtracting (i) the average of the forecast annual expenses and revenue credits allocated to the Slice Cost Pool for the Fiscal Years of the applicable Rate Period from (ii) the actual expenses and revenue credits that are allocable to the Slice Cost Pool in the applicable Fiscal Year of the Rate Period and 2) multiplying the difference from 1) above by each customer's Slice Percentage divided by the sum of all Slice Percentages. TRM -12S-A-03, Section 2 p.12.

Section 2.7.5.1 on the Cost Verification Process for Slice True-Up Adjustment Charge states:

BPA will conduct a Cost Verification Process that will permit . . . customers to assess whether BPA has correctly calculated the amount of each expense or revenue credit subject to the Slice True-Up Adjustment, and whether the final Slice True-Up Adjustment contains only those expenses and revenue credits permitted to be included in, and does not contain any expenses or revenue credits excluded from, the Slice Rate pursuant to the TRM. The Cost Verification Process will not enable customers to question or dispute BPA's accounting policies and standards, management decisions, or other polices.

The customer comments and questions are related specifically to Power and Transmission financial statements and the Composite Cost Pool True-Up Table within the November 2016 Quarterly Business Review slide deck. The Composite Cost Pool True-Up Table in the QBR is on a forecast basis and is not Final. The customer has not submitted issues or comments on the Final Composite Cost Pool True-Up Table posted on the website under the CVP, which is different than the QBR Table. Further, we are unable to identify any specific tasks that qualify for Agreed Upon Procedures under the CVP. The proposed comments and questions on the QBR table and the Power and Transmission financial statements could have been asked as follow-ups during the Quarterly Business Review. BPA is willing to provide responses to questions 1 – 4, but these responses are not required under the CVP. BPA declines to provide responses to questions 5 and 6 under the CVP because questions 5 and 6 are related to Transmission expenses which are not a part of the Slice product, the Slice rate, or Composite Cost Pool True-Up Table under the TRM.

Regarding the first question, 1) Enumerate the costs that make up the \$85 million increase in Gross Contracted Power Purchases and Augmented Power Purchases 4th Quarter QBR p. 13 Line 13 in Column A – B, Column A contains actual data from FY15. BPA asked the customer to

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clarify and the customer indicated that actual data from FY16 is to be compared against the rate case data from FY16. Column E on slide 13 contains the actual data from FY16 and Column B contains the FY16 rate case amount. Slide 13 is the November 2016 QBR forecast of Power Services Summary Statement of Revenues and Expenses. BPA’s response enumerates the costs that make up the \$85 million increase in Gross Contracted Power Purchases and Augmented Power Purchases 4th Quarter QBR slide 13 line 13 in Column E – B as follows:

| <i>\$ Thousands</i> | Rate Case | Actuals |
|---|------------------|------------------|
| PNCA Headwater Benefits | \$3,000 | \$2,297 |
| Purchases for Service at Tier 2 Rates | \$22,058 | \$22,057 |
| Non Treaty Storage Agreement expense ^{/1} | \$0 | \$5,732 |
| Libby Coordination Agreement expense ^{/1} | \$0 | \$6,021 |
| Short Term Power Purchase expense | \$23,342 | \$97,787 |
| Other Power Purchases (e.g. Short term) | \$23,342 | \$109,540 |
| Augmentation Power Purchase Expense | \$0 | \$0 |
| Gross Contracted Power Purchases and Augmented Power Purchases | \$48,400 | \$133,893 |

/1. Non Treaty Storage Agreement expense and Libby Coordination Agreement expense are obligations or purchases that tie out to the \$11,753k on Row 19 of the Composite Cost Pool True-Up Table.

For the second question, 2) List the budget vs. actual of projects that underexecuted in FY16, Bureau of Reclamation costs under by \$24M, BPA has previously answered this question as a follow-up to the QBR. The Composite Cost Pool True-Up Table compares the Actual expenses and revenue credit amounts to the Rate Case Forecasted Amounts in the calculation of the Slice True-Up. The Composite Cost Pool True-Up Table does not compare Actual amounts to Budgeted amounts.

The customer’s question was answered as a follow-up to the November 2016 QBR at the following link and response:
<https://www.bpa.gov/Finance/FinancialInformation/FinancialOverview/fy2016/2016%204th%20Qtr%20Follow-ups.pdf>

The expense underspend can be attributed mostly to delays in non-routine projects and staffing vacancies for both Reclamation and Army Corps of Engineers. Reclamation’s most significant contributions came from delays in Grand Coulee’s Asphalt Paving and Powerhouse Fire Alarm projects; Hungry Horse Window project conversion from expense to capital; reversal of FY15 accruals and a few delays in receiving invoices for cultural resource projects. Corps of Engineers’ most significant contributions came from delays in two projects at Lower Monumental and high number of staffing vacancies at Chief Joseph.

Regarding the third question, 3) Obtain a listing of Obligations or Purchases Line 19 Column A, PNCA Headwater Benefits/purchases update \$11.7M, BPA needs to clarify that the description was inadvertently cut off for Line 19 Column A on slide 56. The description should have read as “Other Power Purchases (omit, except designated obligations or purchases)”. We would also like to point out that slide 56 is not the Final Composite Cost Pool True-Up Table. The BPA response is as follows: The \$11.7M total is made up of the following two designated obligations:

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| | |
|------------------------------|-------------|
| Short Term Libby Agreement | \$6,020,630 |
| Non-Treaty Storage Agreement | \$5,732,104 |

For the fourth question, 4) Verify the categories and enumerate what makes up the \$25 million increase in “Other Income, Expenses, Adjustments” in Line 79, Column A – B. Line 79 is located on Slide 57 in the November 2016 QBR which is not the Final Composite Cost Pool True-Up. Further, BPA has previously answered this question as a follow-up to a previous QBR.

The customer’s question was answered as a follow-up to the February 2016 QBR at the following link and response.

<https://www.bpa.gov/Finance/FinancialInformation/FinancialOverview/fy2016/2016%201st%20Qtr%20Follow%20Ups.pdf>

The \$25 million reflects an undistributed reduction of \$29.7 million assumed in the rate case and \$3.6 million resulting from the Regional Cooperation Debt program (RCD).

The \$29.7 million undistributed reduction was reduced by \$9.7 million to \$20 million at SOY. At SOY \$9.7 million was assigned. At the first quarter the remaining \$20 was removed from the forecast, however, it was not assigned to specific programs instead BPA expects to recognize it throughout the year in underspending. As of Q1, \$2 million of the \$20 million was identified in the forecast primarily in forecast reductions to non-generation operations.

The \$3.6 million is the estimated net impact of the Regional Cooperation Debt extensions in FY 2016. These transactions were not assumed in rate case, but their net impact on non-Federal debt service, Federal interest, and MRNR that were estimated and included in this line. In actuals, the RCD transaction and corresponding appropriations payment impacts adjust naturally which eliminates the need for the \$3.6 million adjustment.