

August 21, 2019

*Submitted electronically*

**RE: BPA Financial Reserves Review Process**

The Public Power Council (PPC) appreciates this opportunity to comment on BPA's Financial Reserves Review process. PPC is a trade association representing BPA's non-profit preference utility customers. PPC members purchase wholesale power and transmission products from BPA. These purchases represent the substantial majority of the revenues that BPA uses to pay the costs of the federal power and transmission systems. As such PPC has a clear interest in BPA's overall financial position and the correct allocation of financial reserves between the business lines.

The fact that errors of this magnitude and duration could occur and persist over 16 years is extremely frustrating, but to their credit BPA staff have been transparent and accountable throughout the process. No attempt has been made to avoid responsibility or ownership of the errors. PPC appreciates this approach and supports BPA staff's proposal to rectify past errors. PPC also supports a strong action plan with proper controls to ensure this type of issue can never occur again in this area. Additionally, a broader review of BPA's internal financial processes is warranted.

BPA staff have identified three criteria to evaluate and support its proposed resolution of historically misallocated amounts of financial reserves. The first two of these are alignment with the financial system used in rates and fully auditable corrective actions. The combination of BPA's review and that of third-party consulting firm Baker Tilly has provided a strong degree of assurance on the first two criteria.

The third criterion is that each business line is made whole without undue disadvantage. In evaluating this criterion, it is necessary to consider the uses of financial reserves in rates. The first is as a risk mitigation tool to handle financial variance. Thus, if financial reserve levels had been different historically, it is possible that the implementation of surcharge or credit mechanisms might have been different in a historical year. Based on PPC's analysis, there is no historical rate surcharge or credit that would have been substantially different had it not been for the allocation errors.

The second effect in rates is that BPA applies any interest earned on financial reserves as a credit to offset the revenue requirements of each business line. Therefore, to the extent

that reserves were misallocated historically, any solution must account for these foregone interest credits.

The BPA staff proposal to reallocate \$158.7 million of historical principle and \$23.7 million of interest on those misallocated amounts reasonably satisfies the criteria to make Power services whole without unduly disadvantaging Transmission. The interest amount is likely conservative given that it does not account for the time value of money foregone by Power customers. However, viewed as a whole, the proposed correction represents a reasonable balance.

Given the current process and timeline, if BPA plans to make any substantive changes to the staff initial proposal, stakeholders should be given an additional opportunity to comment on the new proposal ahead of adoption of a Record of Decision.

PPC also supports BPA's efforts develop and transparently share the direction of the action plan to prevent future issues with the business unit cash split process. The focus on actions that address root causes of the error such as lack of systematic controls, oversight, documentation, and records management is appropriate. As the action plan moves from development into implementation, ongoing transparency and accountability will be essential. PPC looks forward to working closely with BPA to identify the most productive avenues for this external engagement.

Finally, PPC supports efforts to conduct broader review and analysis of BPA's financial processes and modifications to align with industry best practices where necessary. Conducting this type of review in a transparent and collaborative manner is essential to rebuilding customer confidence in the integrity of BPA's financial systems.

Thank you for your consideration of these comments.

Sincerely,

A handwritten signature in black ink that reads "Michael Deen". The signature is written in a cursive, flowing style with a large, prominent "D" at the end.

Michael Deen

Policy Director, Public Power Council