

TRM MEETING HANDOUT

BPA'S QUARTERLY BUSINESS REVIEWS AND THE TRM COST VERIFICATION PROCESS

June 25, 2008

Quarterly Business Review (QBR)

- BPA proposes to continue its practice of sharing cost information with its customers through the use of the QBR meetings to aid in the Cost Verification Process, but the QBR meetings will not be the forum where the actual cost verification by customers will occur.
- Customers can inquire about specific areas of concern and request additional information as a proactive approach to isolating and raising concerns within a cost category, which may be resolved prior to the cost verification process (depending on the nature and forums established for cost issue resolution - cost allocation issues must be addressed in the rate case forum).
- Customers will not have the right to challenge BPA's internal accounting policies and procedures, or the cost allocation methodologies.
- QBR meetings will include BPA's estimates of the amount of the Slice True-Up, as integrated with the overall discussion of BPA's financial status – both actual and prospective.

Customer Participation in the QBR Process

- Customers are encouraged to attend the QBR meetings to gain an understanding of the Power Services Income Statement and its contents. Representation at the QBR is entirely up to the individual customers, and may include their subject matter experts or consultants.
- The QBR meetings will allow for a review of current year costs relative to BPA forecasts and for alerts and questions on new or changed items. Customers can ask questions (submitted in advance or at the meeting) about costs/credits and those questions could be addressed at the meeting or in follow-up discussions at subsequent meetings. Important areas of inquiry on specific subject areas (i.e. Slice excluded costs, etc.), may be integrated as a recurring topical subject included in the QBR.
- Customers will be able to raise issues, but will not be able to pursue disputes over cost/credit assignment issues in the QBR process.

Accumulation of QBR Issues to Address in the Verification Process

- Throughout the year, certain cost categories may be identified by any customer where additional verification will be desired upon completion of the annual audit of BPA's financial data.
- In cooperation with customers, BPA will accumulate a list of the cost categories identified where additional verification is desired and formulate specific tasks into the fiscal year-end Agreed-Upon Procedures (AUPs) that will be performed by

BPA's auditor. The specific tasks will describe the activities to be performed and the deliverables expected timeframe. By nature, AUPs are established procedures to perform specific tasks that are not subject to audit standards, responsibilities, or liabilities, but are procedures that the auditor agrees to perform and that specify the depth and scope of work to be performed. Review of the detailed information (commonly referred to as drill down capability) will be incorporated as part of the AUPs as necessary.

- The scope of the issues identified for the verification process will be limited to review and identification of cost assignment and the identification of errors in calculation and application of those costs. BPA's accounting policies, standards, management decisions, application of other policies, or similar issues are not subject to review and question. (See Lovell *et al.*, TRM-12-E-BPA-08, at 9, lines 4-8, TRM, TRM-12-E-BPA-01, at 83, lines 22-25.)
- If BPA's addressing of any issues or subjects is sufficient to resolve them during the QBR process, then these issues or subjects would not carry forward to the AUPs.

Agreed-Upon Procedures Performed by BPA's Auditor

- Upon completion of the BPA annual audit, BPA will calculate the annual Slice True-Up Adjustment Charge, based on final audited actual financial data, and provide notification to the Slice customers of the final Slice True-Up Adjustment Charge.
- Following the notification to the Slice customers of the final Slice True-Up Adjustment Charge, BPA will allow a short period of time (10 business days) for Slice customers to identify any further True-Up issues for inclusion in the AUPs (i.e., additional cost categorization issues will be included, but with limitations).
- In addition, after notification to the Slice customers of the final Slice True-Up Adjustment Charge, BPA will post the TRM Cost Allocation Tables (i.e., Composite Cost Pool, Non-Slice, Slice) for all customers to review. Slice customer-specific bills will not be shared with customers.
- BPA will allow for any customer to identify any further True-Up issues for inclusion in the AUPs within the allowable 10 business day time frame (i.e., additional cost categorization issues will be included, but with limitations).
- After the customers' identification of True-Up issues, BPA will finalize the tasks for the AUPs contract. The proposed tasks will be posted for all customers to review for completeness. After the review by customers for completeness of the tasks, BPA will finalize the AUPs. BPA will begin engagement procedures with its external auditor to perform the AUPs.
- The standard for the AUPs will be based on the True-Up calculations with verification of accuracy, whether categorization of costs incurred comport with categorization permitted in the TRM, and incorporate additional procedures to address concerns raised by customer during the QBRs and 10 business day Cost Allocation Table review period..

Cost Verification Process

- The Cost Verification Process will occur separately from the QBR meetings, after audited actual financial data is available, after the Slice customers are notified of the final Slice True-Up Adjustment Charge, after all customers have reviewed the TRM Cost Allocation Tables with fiscal year actual amounts listed in the applicable cost categories, after all customers have an opportunity to add items to the AUP tasks and review for completeness (i.e., additional cost categorization issues will be included, but with limitations), and completion of the AUPs.
- The verification process will adhere as closely as possible to the current Slice independent audit schedule related to the timing of the notification of Slice customers of the final True-Up Adjustment Charge and subsequent confirmation of charges included in the True-Up.

Cost Verification Process Workshops

- The Cost Verification Process will include all customers interested in participating in the process. It will begin with an initial workshop to review the calculation of the final Slice True-Up Adjustment Charge, the Power Services Statement of Revenues and Expenses, and the AUPs results. BPA would present the AUPs results as determined by BPA's auditor, as well as the BPA Annual Report containing the PwC audit opinion. Since the AUPs is not an audit, the auditors would not express an opinion on the activities performed under AUPs. Reliance on audit procedures can be derived from BPA's annual report.
- BPA staff will present the AUPs results.
- Customers can review and discuss the AUPs results at the workshop. Customers will have additional time after the workshop to formulate any further questions.
- BPA will hold at least one follow-up workshop to address all issues raised during the previous workshop and issues raised during the comment period following the previous workshop.

Final Results Publication

- BPA will issue a draft decision on the issues raised regarding the AUPs results.
- Customers will be allowed to submit written comments on BPA's decisions.
- Customers will need to acknowledge the identified items in BPA's draft decision. Items identified may fall into two general areas: 1) cost categorization, or 2) cost allocation. Cost categorization items may be considered errors and would require public agreement as to the disposition of those items if determined to be errors. If there is no customer acknowledgement and agreement on errors in cost categorization items, then the items will be handled as issues/disputes for the rate case. Cost allocation items will be handled as issues/disputes for the rate case. New costs or new issues will be addressed in the next rate case.
- Cost allocation principles in the TRM will guide which cost pool a cost will fall into. Any new cost allocation items where customers have raised concerns will be handled as issues/disputes for the subsequent rate case.

- An example of a cost categorization error could be a Hedging/Mitigation non-slice cost is mistakenly charged to Power Services Operations Scheduling. This type of error would affect both Slice and non-slice customers. This error would be resolved as an error and handled through adjustments in customer bills.
- Upon completion of the customer comment process, BPA will provide a final response document that separates issues into those that will be addressed in the next rate case, and those issues that can be resolved as errors and handled through adjustments in customer bills, including Slice bills in the following month.
- BPA will review the findings contained in this document at a follow-up workshop.

Verification Process Guidelines

- BPA proposes that the guidelines for the Cost Verification Process will reside in the GRSPs and reviewed in the relevant rate case. (See Lovell *et al.*, TRM-12-E-BPA-08, at 9, lines 12-17). The Cost Verification Process will comport with the principles of the TRM.