

# Response to CVP2150001 in the FY2015 Cost Verification Process (CVP)

---

By letter dated January 5, 2016, the Slice Customer Group (SCG) submitted a detailed list of issues and proposed agreed upon procedures (AUPs) for BPA’s review under section 2.7.5.1 of the Tiered Rates Methodology 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 procedures (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. Under the professional standards, customers who wish to obtain the results of the AUP engagement from the external auditor are required to take responsibility for the sufficiency of the AUPs by signing a representation letter to that effect. Only those customers who sign a representation letter will be able to view the AUP report results. BPA’s external auditor will need signed letters prior to the distribution of an AUP report. The auditor’s report will not be shared on BPA’s public website.

Before work is performed by BPA’s external auditor, the AUPs will need to be reviewed and agreed to by BPA’s external auditor for proper AUP language. Customers can provide input on AUP language, prior to BPA’s external auditor review. After BPA and customers agree on a specific list of AUPs, BPA will submit those AUPs to BPA’s external auditor for their review and approval.

BPA’s responses are incorporated below after each Issue listed as submitted by SCG boxed below. Slice and Non-Slice customers have until February 11, 2016 to comment on BPA’s response.

<p><b>Line Numbers 74-78, Fish &amp; Wildlife, etc.</b></p> <p><b>Issue: Did BPA incur any: 1) expenses, or 2) completed work associated and reported in Lines 74-77 F&amp;W, outside of Fiscal Year 2015?</b></p> <ol style="list-style-type: none"><li>1. Verify the actual expenses and revenues incurred by BPA match the amount reported in lines 74-77 Column A.</li><li>2. Inspect the supporting documentation, including work orders and invoices, and determine whether any payments were made prior to Fiscal Year 2015 (Oct. 1, 2014 – Sept. 30, 2015). Note any discrepancies.</li><li>3. Inspect the supporting documentation, including work orders and invoices, and determine whether any projects or costs were incurred prior to Fiscal Year 2015. Note any discrepancies.</li></ol>
---

## BPA Response on Line Numbers 74-78

The procedure the external auditor is to perform must be very explicit and is not suitable for an AUP. AT §201.16 states “the practitioner should not agree to perform procedures that are overly subjective and thus possibly open to varying interpretations. Terms of uncertain meaning (such as general review,

limited review, check, or test) should not be used in describing the procedures unless such terms are defined within the agreed-upon procedures”.<sup>1</sup> Item 1 is not specific and asks for a review in the nature of an audit. As such it can’t be performed by BPA’s external auditor as an AUP.

1. Slice True-up AUPs do not include cash accounting review. For this item, “payments” is out of scope of the slice-true-up as these are cash amounts, and cash amounts are not expenses. In order to inspect documentation a sample with parameters is required.
2. For lines 74 and 76, the invoice level would be appropriate because it would contain the date BPA was charged for the work done and the service period. For line 75, BPA enters accruals and does not have the underlying invoices. Line 77, Environmental Requirements has no charges. The actual charges for Environmental Requirements are instead flowing into Line 50, Generation Project Coordination. BPA will include the following AUPs.
  - a. Obtain listing of all accounts payable vouchers included in line 74, Fish and Wildlife from BPA personnel and select a sample of twenty five invoices, starting at the 10th item and selecting every 8<sup>th</sup> item thereafter. Inspect invoice and note whether the service date stated on the invoice falls within BPA’s 2015 fiscal year.
  - b. Obtain listing of all accounts payable vouchers included in line 76, Planning Council from BPA personnel and select a sample of five invoices, starting with the 3<sup>rd</sup> item and selecting every other item thereafter. Inspect invoice and note whether the service date stated on the invoice falls within BPA’s 2015 fiscal year.
  - c. Obtain listing of all project ids included in line 50, Generation Project Coordination from BPA personnel. Agree that there is an amount in project id 1079, Environmental Requirements, of \$59,736.09. Obtain listing of all accounts payable vouchers included in project id 1079, Environmental Requirements from BPA personnel and select a sample of four invoices from the list starting with the 1<sup>st</sup> item and selecting every 4th item thereafter. Inspect invoice and note whether the service date stated on the invoice falls within BPA’s 2015 fiscal year.

**Line Number 114, 4(h)(10)(c) Credits**

**Issue:** The November 3, 2015 Quarterly Business Review (QBR) presentation materials (Slide 4) notes under Power Services results for Fiscal Year 2015 that, “Total Operating Revenues are \$153 million less than the rate case due to lower load shaping from overall warmer than average temperatures throughout the year, lower DSI sales from Alcoa’s load reduction, lower 4(h)(10)(c) credit from lower Fish and Wildlife costs, and the Slice True Up.” The variance in Fish and Wildlife expense vs. actual was \$3.79 million, line 78, while the variance in 4(h)10(c) credits was \$15.28 million. We are wanting to verify the primary categories and their relative proportion to the overall 4(h)10(c) actual total credit.

4. Inspect supporting documentation, including requests for reimbursement or credit, and determine the proportion of credits associated with the following categories: individually identified fish and wildlife specific projects; foregone revenues; power purchases; other. Report out on these proportions, by category.

---

1. <sup>1</sup> Source: SSAE No. 10; SSAE No. 11., AICPA, 2015.

### BPA Response on Line Number 114

3. AUPs do not include the provision of a legal opinion on the meaning of contract or statutory provisions such as 4(h)(10)(c). This requested procedure would require the auditor to interpret documents outside the scope of the practitioner's professional expertise which is prohibited by AT 201. However, in response BPA is willing to engage customers during the Quarterly Business Review (QBR) to discuss customer's 4h10c issue with BPA's internal subject matter experts. BPA will include the following AUP for the 4h10c amounts:
  - a. Agree the amount of \$80.1M in 4h10C credits to the amount in the September 14, 2015 Administrator Certification Letter to the Department of Energy provided by BPA personnel., and agreeing the rounded amount of \$77.7M in 4h10C credits, line 114 in column A to the amount in the Enclosure 1 true-up verification for fiscal year 2015.

#### Line Number 116, Energy Efficiency Revenues

**Issue:** BPA's Quarterly Business Review (QBR) materials from February 2014, slide 26, states that "...also includes Energy Efficiency Development costs that are rate neutral and have equal and offsetting revenues."

During the QBR on November 3, 2015, the Fiscal Year 2015 Composite cost pool True-Up Table, line 116, cites actual Fiscal Year 2015 Energy Efficiency Revenues of \$7.603 million. Line 39 of the same table cites actual Energy Efficiency Development Expenses at \$8.218 million. Please explain the basis for the Fiscal Year 2015 actual expenses and revenues for this line item, the accounting treatment, and its effect on the Fiscal Year 2015 Slice True-Up Adjustment.

5. Verify the actual expenses and revenues incurred by BPA match the amount reported in line 116 Column A.
6. Determine if a corresponding or offsetting actual expense is included in the Slice True-Up calculation, and note any difference between the actual expense and the actual revenues associated with line 116, Column A.
7. Obtain from BPA a description or summary of the items included in the forecast of line 116, Column B. Include the description or summary as an attachment to the final report.
8. Same question as #5 above for line 116, Column A.
9. Obtain from BPA supporting documents for the amount listed in Column A and Column B, and verify that the total of those source documents agrees with the totals of Columns A and B, respectively.

### BPA Response to Line Number 116

Under Attachment A, BPA's accounting policies are not subject to CVP review and are not at issue. BPA is willing to engage customers during the QBR to discuss customer's energy efficiency issues or provide a discussion of accounting practice.

4. Item 5 is not specific under AT 201.16 and can't be performed by BPA's external auditor.
5. Item 6 is not specific under AT 201.16 and can't be performed by BPA's external auditor.
6. The amount in item #7 is from Table G, under the General Rate Schedule Provisions (FY 2014-2015) and a decision of the items included in the forecast was made in BP-14 which is not within the scope of the CVP AUPs. BPA's external auditor would not be able to validate the information

in a summary report, therefore, they would not be able to include it in their AUP report. Item 7 can't be performed by BPA's external auditor.

7. Item #8 appears to be the same as question #5. Item 8 can't be performed by BPA's external auditor.
8. The number in Column B is in accordance with Table G in the General Rate Schedule Provisions (FY 2014 – 2015) and as established by the BP-14 Administrator's ROD is not within the scope of the CVP AUPs. BPA will include the following AUP for Energy Efficiency Revenues:
  - a. Obtain a listing of BPA revenues for power product code 68383 associated with energy efficiency from BPA personnel and agree the total of the amount in the listings to Energy Efficiency revenues, line 116 in column A.

**Line Number 123, Firm Surplus and Secondary Adjustment (from Unused RHWM)**

**Issue: Slice Customers understand that BPA forecasts the Unused Rate Period High Water Mark (RHWM) Credit Computation (sourced at Table 2.5.2, BP-14-FS-BPA-01A) and that the Secondary Energy Credit associated with unused RHWM is credited to the Composite cost pool, pursuant to Tiered Rates Methodology, Section 2.4. Please verify BPA followed the steps outlined in the Tiered Rates Methodology to reallocate revenues from the unused RHWM and also specifically for any Slice customer unused RHWM, pursuant to Tiered Rates Methodology, Section 3.6.2.**

10. Obtain from BPA the FY2015 Rate Case forecast of unused RHWM in average megawatts and forecast of average \$ per megawatt-hour value used to develop the forecast \$ amount in Column B.
11. Obtain from BPA documentation that shows the actual unused RHWM in megawatt-hours during Fiscal Year 2015. Verify the unused RHWM volume (in average megawatts and megawatt-hours) used to calculate the \$ figure in Column A.
12. Calculate the difference between the forecast megawatt-hours and the actual megawatt-hours.
13. Calculate the difference between the forecast \$ per megawatt-hour value and the actual \$ per megawatt-hour value.

**BPA Response to Line Number 123**

Items 10 and 11 are not AUPs, and the data is readily available from BPA's BP-14 rate proceeding record. Items 12 and 13 are simple mathematical calculations and are not AUPs. BPA is willing to engage customers during the QBR to discuss customer's Firm Surplus and Secondary Adjustment issue. The Firm Surplus and Secondary Adjustment (from Unused RHWM) is calculated in accordance with the formula adopted by the Administrator in the BP-14 ROD and stated in the General Rate Schedule Provisions (FY 2014-2015). BPA will include the following AUP:

- a. Agree firm surplus and secondary adjustment (from unused RHWM) line 123 in column A to the amount in Excel file, SliceTrue-upUnusedRHWM DSI FY2015 Final, provided by BPA's Power Rates group and agree the calculation in that supporting document to the Calculation of the Actual Firm Surplus and Secondary Adjustment from Unused RHWM on pages 83-84 in the General Rate Schedule Provisions (FY 2014-2015).

#### Line Number 136, DSI Revenue Credit

**Issue:** Customers recognize that some of BPA's sales agreements with certain DSI customers changed during FY2015, but have no clear understanding of the timing and quantity of these changes and the impact on the Composite and Non-Slice cost pools. Slice Customers seek verification of the DSI Revenue Credit BPA received (line 136), and that the result is consistent with the contract terms of any existing, amended, and new DSI customer agreements, including the determination of the amounts applicable to the Slice True-Up Adjustment for Fiscal Year 2015.

14. Review the underlying BPA sales agreement for each power sale included in the total dollar figure in Column A for Fiscal Year 2015 (Oct 1, 2014 through Sep 30, 2015).
15. For each month during Fiscal Year 2015, compare that the contractually obligated quantity is consistent with each sales agreement(s) and/or amended sales agreement(s).
16. Inspect BPA invoices associated with these power sales agreements during the period Oct 1, 2014 through Sep 30, 2015. Verify sales invoices are consistent with contractual energy amounts.
17. Review BPA accounts receivables and determine whether all invoices issued by BPA associated with these power sales agreements have been paid for during the Oct 1, 2014 through Sep 30, 2015 period. Note and report any discrepancies.

#### BPA Response to Line Number 136

BPA is willing to engage customers during the QBR to discuss customer's DSI revenue credit issues. AUPs do not include the provision of a legal interpretation or legal opinion on the meaning of contract or statutory provisions. This requested procedure would require the auditor to interpret documents outside the scope of the practitioner's professional expertise which is prohibited by AT 201. Items 14 and 15 are not AUPs because they are subject to interpretation. Accounts receivable and payments are not a part of the slice true-up and regard cash accounting. These requests are out of scope; therefore item 17 can't be performed by BPA's external auditor. BPA will include the following AUP for item 16:

- a. Inspect DSI Sales Agreements, Port Townsend Paper Corporation and Alcoa Inc., provided by BPA personnel and find the contractual monthly energy amounts. Obtain all Power Services sales invoices for Port Townsend Paper Corporation and Alcoa Inc. (for the billing period from Oct. 1, 2014 through Sep 30, 2015 and agree the monthly energy amounts from each invoice to the monthly energy amounts in the respective DSI Sales Agreements.

The DSI revenue credit is calculated in accordance with a formula in the General Rate Schedule Provisions (FY 2014-2015). BPA will include the following AUP for the DSI revenue credit:

- b. Agree total DSI revenues line 136 in column A to the amount in Excel file, SliceTrue-upUnusedRHWMDSI FY2015 Final, provided by BPA's Power Rates group and agree the calculation in that supporting document to the Calculation of the Actual DSI Revenue Credit on page 84 in the General Rate Schedule Provisions (FY 2014-2015).