

Cost Verification for FY 2013 Slice True-Up Adjustment Charge comment

[SCV13 0001](#) - Hunter/Snohomish PUD

Please find below Snohomish PUD's comments regarding potential items for inclusion in the AUPs as part of the Cost Verification process. These comments are also being submitted electronically via the BPA comment submission website. After considering the Composite Cost Pool True-Up table, Snohomish requests additional review of the following line items: Line 40: Conservation Acquisition Line 42: Energy Efficiency Development Line 67: Conservation Support Line 103: Conservation Debt Service Snohomish would be interested in further discussion of these line items, specifically detailing a breakdown of costs and explanations of why these line items deviated from budget. If sufficient information is provided prior to the development of the AUPs, Snohomish would be willing to withdraw these line items from consideration. Thank you.

BPA Response to SCV13 0001 comment

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.11.

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, 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 customer to question or dispute BPA's accounting policies and standards, management decision or other polices.**

Snohomish PUD has raised an issue regarding a breakdown of actual costs and requested an explanation of why these line items deviated from BPA's budget. We must point out that BPA's budget is not a subject for review as part of the Cost Verification Process under section 2.7.2, and that BPA affords a different forum for discussion of BPA budget issues. If Snohomish meant to ask for an explanation of why actual expenses varied from BPA's budget, then we can discuss that issue in BPA's next QBR. Since the purpose of the Slice True-Up Adjustment is to calculate the difference between BPA rate case period forecast of a Fiscal Year's expenses and the actual expenses that BPA incurred, the reason for that difference is obvious. It needs no explanation beyond the direction given section 2.7.2 of the TRM. If Snohomish PUD is asking why actual expenditures differed from BPA budget, and is not questioning the

accuracy of the amounts of the actual expenses, or their inclusion in the Slice True-Up Adjustment, then BPA's reasons for the actual expenditures it made are a policy or management decision of BPA, which are not a subject for the Cost Verification Process. Likewise they are not subject to Agreed Upon Procedures (AUP) for an external audit. External auditors do not provide variance explanations surrounding deviations from budgets or rate case proceedings, as such decisions are a responsibility of BPA management. Again any issue of BPA policy or management decision may be raised in the QBR or IRP process.

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. Since these comments do not qualify for AUPs for our external auditors to perform, the issue will not be addressed in this Cost Verification Process. If Snohomish PUD wants to raise a specific question regarding the inclusion of a line item cost that is subject to True-up, or BPA's calculation of the True-Up Adjustment, then please restate what precisely the cost calculation, the cost inclusion, or the cost exclusion issue is that needs to be reviewed.

BPA is willing to have a discussion with Snohomish and other customers and provide the customer with variance explanations but it is not required under the Cost Verification Process per the TRM, Attachment A. Customer comments or questions regarding actual expenditures made in a Fiscal Year may be raised and addressed under the Quarterly Business Review Sessions. That being said, we include a brief explanation of the variances below.

The Table below is a comparison of Rate Case, SOY, and OY:

<u>Line #</u>	<u>Composite Cost Pool Line Description</u>	<u>2013 Rate Case Forecast</u>	<u>SOY Budget</u>	<u>OY Budget</u>
		(\$000)	(\$000)	(\$000)
40	CONSERVATION ACQUISITION	\$ 15,950	\$ 15,950	\$ 15,270
42	ENERGY EFFICIENCY DEVELOPMENT	\$ 11,500	\$ 11,500	\$ 11,500
67	CONSERVATION SUPPORT	\$ 9,686	\$ 9,272	\$ 9,289
103	CONSERVATION DEBT SVC	\$ 2,377	\$ 2,610	\$ 2,610

Below contains the line items questioned as they appear on the Composite Cost Pool True-Up Table:

<u>Line #</u>	<u>Composite Cost Pool Line Description</u>	<u>2013 Final Actual</u>	<u>2013 Rate Case Forecast</u>	<u>Actual - Rate Case</u>
		(\$000)	(\$000)	(\$000)
40	CONSERVATION ACQUISITION	\$ 10,394	\$ 15,950	\$ (5,556)
42	ENERGY EFFICIENCY DEVELOPMENT	\$ 5,368	\$ 11,500	\$ (6,132)
67	CONSERVATION SUPPORT	\$ 7,902	\$ 9,686	\$ (1,784)
103	CONSERVATION DEBT SVC	\$ 2,617	\$ 2,377	\$ 241

Variance Explanations

Line 40: Reflects funds held to accommodate forecasted customer spending that did not materialize and contract cycle challenges.

Line 42: This is a reimbursable (rate neutral) line item. The variance reflects internal and federal agency contracting delays and delays in executing new agreements.

Line 67: The variance in Conservation Support is largely due to delays in hiring both full time and contract employees.

Line 103: The slight variance in Conservation Debt Service is due to the difference in the number of decimal places used for the interest rate in Rate Case estimates versus the actual percentage that is used to calculate the debt payment.