



961 12th Avenue • PO Box 3007 • Longview, WA 98632

Submitted via email: www.bpa.gov/goto/comments

Bonneville Power Administration
905 NE 11th Avenue
Portland, OR 97232

Re: **Comments of Cowlitz County PUD No. 1 on BPA's Financial Reserves 2019**

Cowlitz PUD attended the March 11, 2019 Reserves Workshop in which BPA explained the accounting error that requires a reserves re-allocation between BPA's Transmission and Power Services business lines. BPA's review is currently ongoing and it is expected to utilize both internal and external audit personnel. Upon completion, BPA will transfer approximately \$300¹ million from transmission reserves to power reserves to correct an annual accounting error dating back to 2002.

We appreciate the open dialogue and information sharing BPA exhibited at the workshop, however an error of this magnitude causes serious concern over BPA's financial records and internal controls. Cowlitz PUD contributes approximately \$160 million annually to BPA's revenues, so we cannot stress enough the importance that BPA utilize sound business practices to ensure proper management of this revenue so rates for both power and transmission are set appropriately. An error of this nature causes significant concern over BPA's business management practices, so it is vital for BPA to take the following actions to regain customer confidence:

First, in the near term, BPA must make power customers whole with respect to the erroneous allocations made through the intergovernmental payments and collections (IPAC) system as soon as practicable. It appears that BPA believes its review and analysis regarding the IPAC misallocations has progressed to the point where only the following two questions remain: (1) How far back should the error be corrected (i.e., 2002 v. 2004)? (2) If and how interest should be applied to the error and how should interest be computed? Cowlitz PUD encourages BPA to answer these questions as soon as possible by adhering to the timeline identified in BPA's March 26th process update email and then to incorporate those decisions into reserve forecasts this year. Doing so will not only start the process of rebuilding customer confidence in BPA, but it will also help ensure that the corrections are done in sufficient time to prevent

¹ BPA's March 11, 2019 presentation identified a number of options for resolving the past error that encompasses a range from \$287 - \$397 million when interest is included.



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further harm to power customers in the form of unnecessary CRAC and/or Financial Reserves Policy (FRP) surcharges triggering in November of 2019.

Second, in the event BPA cannot correct the IPAC misallocation in the near term, it should delay implementation of its Financial Reserve Policy until FY 2022. This will ensure that any delay does not unnecessarily or unjustly harm BPA's power customers through the FRP surcharge during the BP-20 rate period. It would also acknowledge that BPA, as an agency, continues to maintain ample reserves to meet its policy objective of 60 days cash on hand, which given the uncertainty created by BPA's error should be good enough until BPA can make a final determination regarding how to correct the IPAC misallocation.

Third, BPA must work transparently and as expeditiously as is prudent to identify and resolve any other historic misallocations in its other business unit split modules.

Fourth, BPA should work with power and transmission customers to identify and discuss the new processes and oversights it intends to implement to (i) ensure that these types of misallocations do not happen in the future; and (ii) in the event that such errors do nonetheless occur, ensure that they are identified and corrected quickly.

Lastly, Cowlitz PUD believes it is more appropriate now than ever before that BPA settle its power rates at zero percent. The increase in power reserves resulting from the reserves re-allocation obviates the need for 1.5% of the 2.9% power rates increase contained in BPA's Initial Proposal. In addition, customer proposals in rate case testimony identify means to achieve significant reductions of the remaining 1.4% power rate increase. Cowlitz PUD strongly recommends BPA settle the power rates at zero percent and use the resources that would otherwise complete the rate case to focus on: improving its business practices, key strategic objectives, and restoring customer confidence.

Again, Cowlitz PUD appreciates BPA's open information sharing on this very concerning topic and we hope BPA will use this opportunity to reset expectations and regain customer confidence.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven D. Kern", written over a long horizontal line that spans across the page.

Steven D. Kern
General Manger