

HANDOUT FOR SLICE CONTRACT MEETING
JUNE 12, 2008
MARRIOTT RESIDENCE INN
BPA COMMENTS ON SLICE CUSTOMER PROPOSAL

ANNUAL SLICE TRUE-UP TO ACTUAL COSTS

1. BPA will periodically conduct a series of Quarterly Budget Review process (QBR) to provide information regarding its financial performance and forecasts of future performance. Such information will include BPA's estimates of the amount of the Annual Slice True-Up.

BPA Comments

- The Quarterly Business Review will take place quarterly and can incorporate BPA's estimates of the amount of the Annual Slice True-Up.

2. BPA will promptly provide written responses to questions about such financial information, including questions by Slice customers regarding the estimated Annual Slice True-Up. BPA expects this process to resolve many questions and issues that are currently dealt with in the Annual Slice True-Up audit process.

BPA Comments

- "Promptly" should be discussed so that we can have a mutual understanding of expectations.
- It is anticipated that the process will include BPA subject matter experts to answer questions in the meetings. Written responses would not be required in all cases.
- Questions can be submitted by all customers to BPA in advance of the meetings. BPA would make its best intent to provide answers to issues at the meeting, but whether BPA can provide the answer at the meeting would depend on the timing of when the question was submitted, its complexity, and the complexity of the answer (additional time may be needed if BPA provides background, prepares presentation materials, etc.).
- Some issues may not be resolvable in the QBR process, such as allocation of new costs to the various Cost Pools, depending on the nature of the issue. Certain issues can only be addressed in the rate setting environment as outlined in the TRM Rate Case documentation.

3. After BPA's books for each fiscal year are closed, BPA will calculate and provide to its Slice customers the Annual Slice True-Up for such fiscal year. As part of the Annual True-Up, BPA will engage its auditor under separate agreed upon procedures to determine whether each Annual Slice True-Up calculated by BPA contains only those costs permitted under the TRM, and does not contain any costs that should be excluded from the Annual Slice True-Up. The agreed upon procedures will comport with the

standards therefore set out in the Slice Agreement and, among other matters, use a level of materiality for the costs included in the Annual True-Up set out therein. The auditor's opinion will be provided to all Slice customers, and any other customers requesting it.

BPA Comments

- The rate case conducted under the TRM set the basic cost assignments for the rate period for which the Annual Slice True-Up is produced. If specific issues are identified, BPA has proposed a treatment for those issues. BPA will engage its auditor under a separate agreement to perform Agreed Upon Procedures (AUPs). The AUPs may incorporate specific areas identified in the QBR process by all customers as well as based on the results of the Slice True-up. As outlined in the Draft BPA's Quarterly Business Reviews and the TRM Cost Verification Process, issues will be accumulated from all customers who choose to participate in the QBR process. After Slice customers receive notification of the Annual Slice-True-Up Adjustment Charge, Slice customers will have an additional opportunity to ask BPA to include specific cost categorization issues for the AUPs.
 - The AUPs will deliver facts of the auditor's review of specific subject matter based on the directives of the AUPs. There will not be an "opinion" rendered by the auditor, but there will be the results of what is requested (i.e., what are the costs included in a particular category, etc.).
 - The results of the AUPs will be provided to the customers. We can also provide a copy of the FCRPS Annual Report and auditor's opinion on the financial statements. The auditors report on internal controls may also be useful to customers and can address concerns regarding internal controls surrounding source documents and recording of accounting transactions.
4. After the delivery of the Annual Slice True-Up to the Slice customers and the auditor's opinion, BPA will convene one or more public meeting to provide an opportunity to verify the costs included and excluded from the Annual Slice True-Up, as well as other costs from the prior fiscal year that customers and other interested parties wish to verify. At such meetings, attendees can be assisted by consultants and experts. BPA will promptly respond in writing to requests for documentation and information regarding its costs, including without limitation requests to drill down and provide detailed source documents deemed necessary by Slice customers.

BPA Comments

- BPA envisions a cost verification process as a series of workshops for purposes of reviewing actual costs identified in the Annual Slice True-Up. Customer use of consultants and experts is not limited in BPA's public processes. Rate case proceedings and other processes will have customer representatives, and we would expect that each customer will engage a representative whether employed directly by or under contract with the customer.

- “Promptly” should be discussed so that we can have a mutual understanding of expectations.
 - As with the QBR, it is anticipated that the cost verification process will include BPA subject matter experts to answer questions in the meetings. Written responses would not be required in all cases.
 - Language such as “without limitation” should be refined to prevent an unwieldy cost verification process. With the number of customers that will be involved, limitations would need to be imposed to ensure the completion of the process. Please refer to the TRM language regarding the process and the intent. As an example: “Customers would not be able to question BPA’s accounting policies, standards, management decisions, application of other policies, or other similar issues.” (*See Lovell et al.*, TRM-12-E-BPA-08, at 9.) This may be an area where protocols can be developed similar to those developed for the current process.
5. After BPA has provided the documentation and information requested by customers and interested parties, BPA will provide a written document setting out its final resolution of issues identified by customers that remain after conclusion of the public meetings.

BPA Comments

- A final written resolution of issues will be drafted by BPA to document the final results of the cost verification process.
 - Some issues may not be resolvable in the QBR process, such as customer allocation and new costs, depending on the nature of the issue. Those issues would be identified and included as part of BPA’s next rate case. Certain issues can only be addressed in the rate case processes as proposed in the TRM and TRM testimony. As such, the final resolution document also will indicate those issues needing rate case attention.
 - It is anticipated that some errors may be calculation errors, etc., which can be resolved when identified and would follow similar procedures that are used in the current True-Up and audit process. Issues, such as that type of error that does not require a decision in a rate case under the TRM to resolve will be addressed as part of the final resolution documentation.
 - All 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. Cost allocation items will be handled as issues/disputes for the subsequent rate case.
6. Any customer that is aggrieved by one or more of BPA’s final decisions can by written notice submit the matter(s) at issue to a subject matter expert (accounting and cost allocation) for a non-binding opinion. The matter(s) at issue will be submitted to the subject matter expert by written statement of a limited length (50 pages) from any firm

power customer of BPA. The subject matter expert may pose questions to any party making a submittal, and will issue a written opinion on all matters at issue within a set time period (30 days after submittals).

BPA Comments

➤ BPA has made a specific proposal for disputes in the TRM. This will need to be addressed. BPA's current proposal is to resolve disputed cost assignment, cost allocation, new cost issues, and other such issues in the subsequent rate case.

7. If BPA and the party requesting the opinion agree to be bound by the opinion, it will become BPA's final disposition of the issue. If either BPA or the party requesting the opinion elect not to be so bound, BPA's original decision will prevail and any party may pursue any other remedy available regarding such BPA decision.

BPA Comments

➤ See above, BPA has made a specific proposal for disputes in the TRM. This will need to be addressed. BPA's current proposal is to resolve disputed issues in the subsequent rate case.