

Bonneville Power Administration's (BPA's) strategic direction as expressed in this paper will guide the goals and actions we pursue to position BPA in 2008-2014 to fulfill our mission and vision. BPA's strategic direction will be refreshed or confirmed on a regular basis.

BPA Mission

The Bonneville Power Administration's mission as a public service organization is to create and deliver the best value for our customers and constituents as we act in concert with others to assure the Pacific Northwest:

- An adequate, efficient, economical and reliable power supply;
- A transmission system that is adequate to the task of integrating and transmitting power from federal and nonfederal generating units, providing service to BPA's customers, providing interregional interconnections and maintaining electrical reliability and stability; and
- Mitigation of the Federal Columbia River Power System's¹ impacts on fish and wildlife.

BPA is committed to cost-based rates and public and regional preference in its marketing of power. BPA will set its rates as low as possible consistent with sound business principles and the full recovery of all of its costs, including timely repayment of the federal investment in the system.

BPA Vision

BPA will be an engine of the Northwest's economic prosperity and environmental sustainability. BPA's actions advance a Northwest power and transmission system that is a national leader in providing:

- High reliability;
- Low rates consistent with sound business principles;
- Responsible environmental stewardship; and
- Accountability to the region.

We deliver on these public responsibilities² through a commercially successful business.

¹ Federal Columbia River Power System (FCRPS): The transmission system constructed and operated by BPA, the hydroelectric dams constructed and operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation in the Northwest, and nonfederal generation capability acquired by BPA under long-term arrangements. The transmission and power systems are separately managed and financed, but the facilities are operated as an integrated power system.

² The four characteristics listed above define our public responsibilities and are the "four pillars" of our vision.

BPA Values

Trustworthy Stewardship

As stewards of the Federal Columbia River Power System we are entrusted with the responsibility to manage resources of great value for the benefit of others. We are trusted when others believe in and are willing to rely upon our integrity and ability.

Collaborative Relationships

Trustworthiness grows out of a collaborative approach to relationships. Internally we must collaborate across organizational lines to maximize the value we bring to the region. Externally we work with many stakeholders who have conflicting needs and interests. Through collaboration we discover and implement the best possible long-term solutions.

Operational Excellence

Operational Excellence is a cornerstone of delivering on the four pillars of our vision (system reliability, low rates, environmental stewardship, and regional accountability), and it will place us among the best electric utilities in the nation.

Critical Factors Driving BPA Strategy

In the current operating environment, 11 broad areas present special challenges and opportunities we must address if we are to realize our vision and add value to the region. These critical factors are driving BPA's approach to regional issues and internal operations.

- 1. Energy independence and environmental sustainability:** The importance of national and state energy and environmental policy reform is being more clearly and widely recognized. Enactment of major federal and state legislative initiatives is widely anticipated in order to reduce greenhouse gas emissions and improve national energy security. Initiatives include measures to reduce fossil fuel use and increase renewable resource development. These policy developments present significant new challenges and opportunities to contribute to workable solutions that preserve and enhance the economic value of the federal power system and contribute toward sustainability of the environment. These developments also highlight trade-offs between interdependent energy and environmental choices.
- 2. Low rates and regional economic health:** There is a continued need to maintain low rates, which are vital to the region's economic health and to sustaining customer confidence.
- 3. Market evolution, potential load/resource imbalances and increasing FCRPS operational impacts:** The dynamics of Western power and transmission markets are fundamentally changing. Western power market designs are evolving in different directions, while interdependencies between regions are growing. There is increasing reliance on firm energy, capacity and ancillary services as well as on short-term energy transactions between regions. These developments are increasing the complexity of operating the transmission grid, particularly during the summer when load composition presents its greatest challenge (e.g., air conditioning and irrigation pumping). Concurrently, the Pacific Northwest (PNW) faces potential load/resource imbalances, and changes in load shape are shifting the PNW toward higher summer loads, moving us into a dual-peak region (winter and summer). A number of additional developments are placing greater and more complex constraints on the flexibility of Federal Columbia River Power System (FCRPS) operations. These include transmission congestion, integration of intermittent resources, court-ordered river operations, environmental regulations, evolving reliability compliance measures and variable water supply.

- 4. Increasing requirements for adequacy, reliability and least-cost infrastructure:** With each advancing year, the region's infrastructure is at risk of becoming inadequate to meet increasing demands on the power and transmission system. More investments are needed in generation, transmission and energy efficiency if the region is to maintain economic and physical adequacy and reliability. Tiered rates are needed to provide a transparent price signal that distinguishes the historical low cost of the existing Federal Base System (FBS) from the marginal cost of future higher-cost power resources required to meet load growth. More robust, integrated regional planning and greater efficiencies from innovative technologies and practices are required to ensure least-cost infrastructure solutions. The challenge of meeting increasing loads is exacerbated by the restrictions on resource development occurring as a result of Driver 1.
- 5. Increasing requirements for operational reliability and security:** The Energy Policy Act of 2005 significantly increased the Federal Energy Regulatory Commission's (FERC) authority to ensure reliability of the bulk-power system and created a complex institutional framework, of which BPA is a part, for ensuring reliability. In addition, physical and cyber security threats against the facilities and operations of the nation's critical energy and communication infrastructure present significant new challenges.
- 6. The need for greater alignment on fish and wildlife mitigation:** Ongoing debate over increasing protection for fish and wildlife underscores the need to seek closer alignment in the region about what constitutes "success," to further clarify objectives, to affirm an integrated "all-H" recovery plan (habitat, harvest, hatcheries and hydropower) and to determine the most cost-effective means of achieving success.
- 7. Increasing competition over river uses:** There is increasing competition, debate and litigation over river uses, including low-cost electricity production, sustainable fish populations, wildlife habitat, irrigation and agriculture, navigation, recreation and flood control, as well as municipal water supply given the expanding PNW population. At the same time, the complex trade-offs among competing uses and their economic, environmental and societal value is not well understood.
- 8. The need to sustain long-term financial health:** While BPA's financial health has improved considerably since the West Coast energy crisis, BPA continues to operate in an environment of increasingly complex risks and competing demands. In this context, BPA also continues to have a significant responsibility to protect near- and long-term ratepayer and federal taxpayer interests in the FCRPS through the fundamentals of solid revenue generation and cost management, while meeting its other public responsibilities. Increased transparency of BPA financial information allows customers and constituents to continually assess the soundness of BPA's

management of those responsibilities. Long-term financial health remains a critical element in maintaining BPA's access to capital.

9. **Organizational capability and public values:** BPA's workforce has a long history of dedication to public service, with many employees providing service for at least 30 years. With over 40 percent of our workforce projected to retire in the next five years, we face not only a threat to the continuity of our organizational capability with the loss of institutional knowledge, but also a challenge and opportunity to retain and strengthen a workforce culture around our three core values (operational excellence, trustworthy stewardship and collaborative relationships). We also face an increasingly tight labor market for specialized skills and talent given that the utility industry at large is also experiencing a significant wave of current and projected retirements. The size and pace of this wave, combined at BPA with particular skill mix requirements (including strong business acumen and analytical and technical skills) and a highly constrained federal recruiting system, present significant challenges for recruitment, retention, training and succession.

10. **Continuous improvement expectations and business complexity:** As low rates and maximizing stakeholder value continue to drive BPA, employees must continue to increase efficiency and effectiveness in order to deliver on our mission at the lowest practical cost. In culture and practice, continuous improvement at BPA will be expected, including an increasing need to leverage existing, new and emerging technology to efficiently complete work.

11. **Internal Controls:** Recent corporate ethical and financial collapses (Enron, WorldCom, Tyco and others) have thrust internal control of financial management and reporting into the spotlight and have led to stronger requirements in OMB Circular A-123. This has heightened the need to maintain robust internal control of our business practices in order to sustain public trust and confidence, not only in our financial management and reporting, but also in the effectiveness and efficiency of our operations and their compliance with applicable laws and regulations. Internal control is essential to assure we realize our continuous improvement expectations.

Future State of the BPA Business: Agency Strategy Map for 2008-2014

Our strategic direction has been updated to address key changes in our external and internal environment and to better position us to fulfill our mission and vision in the years ahead. The updated strategic direction is summarized by the long-term strategic objectives shown on the new Agency Strategy Map (see ellipses on next page) and in the explanations which follow.

As the map colors illustrate, the purpose of each strategic objective is to help uphold one or more of the four pillars of our vision: system reliability, low rates, environmental stewardship and regional accountability. Using a balanced scorecard approach, we have placed our strategic objectives within four interrelated perspectives to highlight the direct and indirect relationships and interdependencies among strategic objectives. The four balanced scorecard perspectives are:

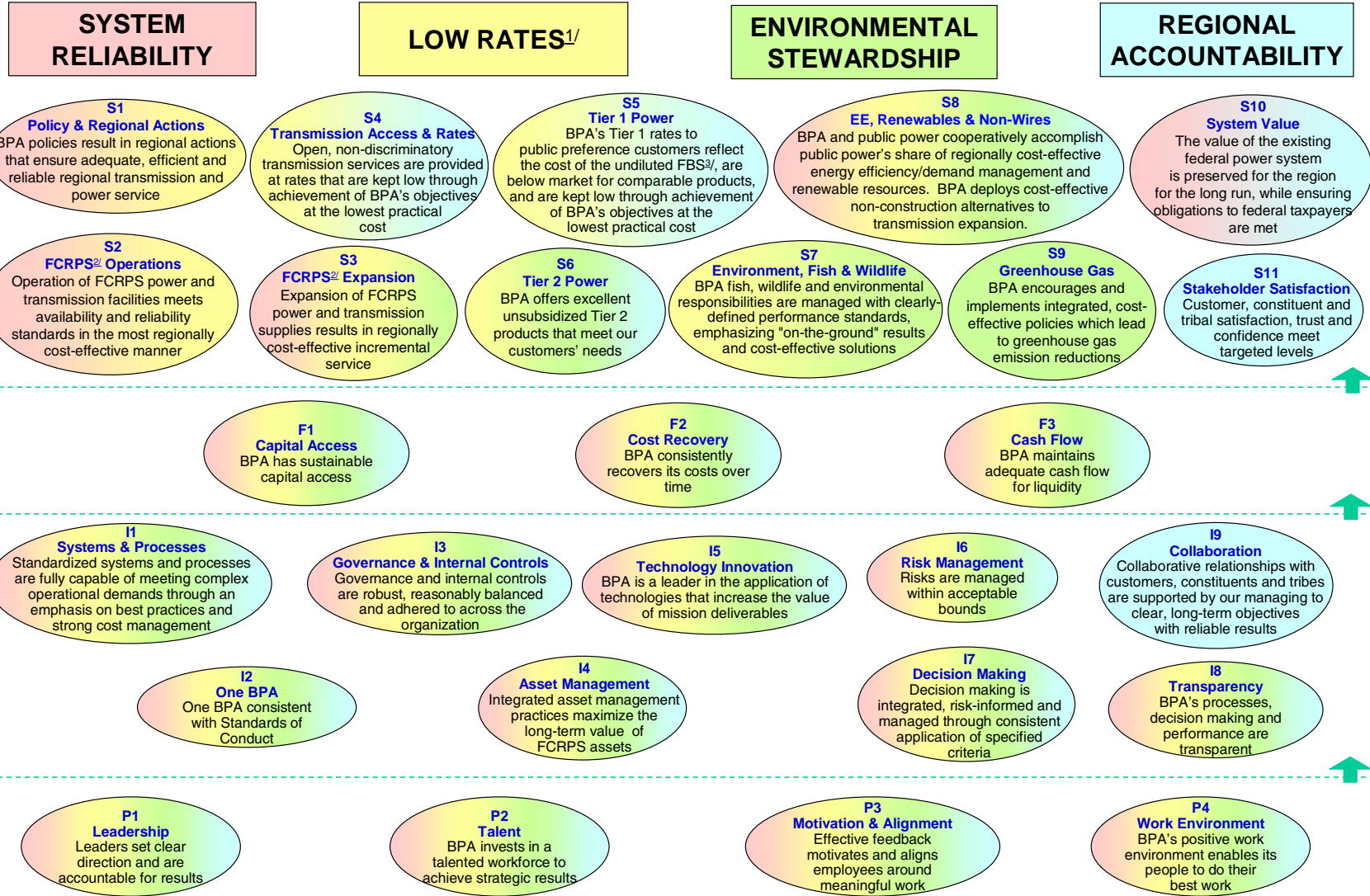
- *Stakeholder Perspective*
 - The value of mission deliverables as experienced by stakeholders
- *Financial Perspective*
 - The strength of BPA's financial health and performance
- *Internal Operations Perspective*
 - The efficiency and effectiveness of BPA and FCRPS operations
- *People and Culture Perspective*
 - The health of workforce capabilities, performance and work environment

Individual strategic objectives must be understood and balanced with strategic objectives within the same perspective and with strategic objectives in the other perspectives of the strategy map. For example, I2, Standards of Conduct, and S4, related to FERC open, non-discriminatory transmission access, are not stand-alone efforts. Together, these address key aspects of how we conduct our business as it relates to many other strategic objectives, such as S2 on FCRPS operations. Similarly, our S1 focus on ensuring that our policy development considers best outcomes for regional consumers of electricity is not treated in isolation, but is factored into strategic objectives such as I4, Asset Management, to guide our pursuit of maximizing the long-term value of FCRPS assets.

BPA's STRATEGIC DIRECTION FOR 2008-2014

Agency Strategy Map (2008-2014)

Bonneville Power Administration



^{1/} Consistent with sound business principles.

^{2/} Federal Columbia River Power System (FCRPS): The transmission system constructed and operated by BPA, the hydroelectric dams constructed and operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation in the Northwest, and nonfederal generation capability acquired by BPA under long-term arrangements. The transmission and power systems are separately managed and financed, but the facilities are operated as an integrated power system.

^{3/} Federal Base System.

v. Agency 6/12/07

Stakeholder Perspective

Focus: The value of mission deliverables as experienced by stakeholders

S1 Policy and Regional Actions

BPA policies result in regional actions that ensure adequate, efficient and reliable regional transmission and power service.

BPA policies will seek regionally optimized solutions for the adequacy, efficiency and reliability of power and transmission service in the Pacific Northwest. BPA intends to seek the best outcomes for regional consumers of electricity, whether through policies set by BPA or through recommendations made to regional or other bodies. Key BPA policy areas looking ahead include but are not limited to regional electric infrastructure investment, regional resource adequacy standards, one-utility transmission management and reliability standards.

Regional Electric Infrastructure Investment: Adequate infrastructure development is essential to ensuring a reliable future power supply and avoiding excessive market price volatility. By offering 20-year power contracts, BPA seeks to increase long-term certainty for regional federal power customers and thereby substantially contribute to stable conditions for resource and transmission infrastructure investment.

By offering tiered rates within these contracts, BPA intends to define the amount of power each public preference customer is able to buy at a low embedded cost rate (the Tier 1 rate). We also intend to define pricing and terms for incremental power beyond this base amount (the Tier 2 rate) both to reflect the cost of purchasing power to meet those incremental loads and to encourage the region to make resource provider decisions sufficiently in advance of 2011 when current BPA power sales contracts expire. To these ends, BPA will engage customers in the process of developing new contracts well in advance of the expiration of existing power sales contracts.

Adequate infrastructure development is essential to ensuring reliable electricity service to consumers and avoiding excessive market price volatility. BPA will work with the region to develop policies for reducing congestion on the transmission grid and for transmission expansion to enable delivery of new resources to load. Further, BPA will continue to work with FERC, the Western Electricity Coordinating Council (WECC) and the region to develop workable regional and internal processes that provide for coordinated and eventually more integrated resource and transmission planning within the region and at BPA, while complying with Standards of Conduct.

Regional Resource Adequacy Standards: The development of consensus-based regional resource adequacy standards, which create transparency over whether the region will have sufficient resources to reliably serve load three-to-five years out, is a critical first step toward clearly defining the respective

responsibilities of resource providers across the region. Another important step is developing mechanisms to reasonably assure utilities will plan and build resources consistent with these regional standards. With strong BPA leadership, the PNW Resource Adequacy Forum (Forum) has already developed energy and pilot capacity adequacy standards and an implementation plan for the region (adopted in 2006 by the Northwest Power and Conservation Council, or the Council).

BPA will continue to actively support and rely on the Forum to assure long-term regional resource adequacy. BPA will support the next steps toward establishing a more robust resource adequacy framework, including finalization of a capacity adequacy standard, development of an economic adequacy standard and formulation of a utility-specific translation of the regional standards (to show utilities how their resource plans relate to the regional standard). BPA will also strive to assure additional participation in and coordinate progress on adequacy issues by working with national, Western and regional institutions such as the North American Electric Reliability Corporation, WECC, Northwest Power Pool, Council and ColumbiaGrid.

One-Utility Transmission Management: For the last decade, BPA and Northwest utilities have been considering ways to improve operation and management of the Northwest transmission system. BPA will continue to support a “one-utility” vision for the Northwest’s transmission system consistent with FERC open access requirements and SOC standards. While BPA believes that it is important to have an independent entity that is free of market interests to manage this development, an evolutionary approach also is needed to provide a meaningful set of checks and balances to ensure nondiscriminatory access, regional accountability and responsiveness to regional needs.

BPA will continue to support ColumbiaGrid as an independent entity to foster regional transmission planning, reliability and operational efficiency objectives in an open and transparent forum. ColumbiaGrid’s organization, board, CEO and Functional Agreements for Planning and Expansion and Reliability are now in place. To continue to pursue its “one-utility” vision in the near term, BPA will strive to increase participation in ColumbiaGrid. BPA will also work with ColumbiaGrid to develop a common OASIS Functional Agreement and, as a long-term objective, a Transmission Operator and Balancing Authority Functional Agreement (consolidated control area).

Reliability Standards: BPA will continue its active engagement in North American Electric Reliability Council (NERC) and WECC on national and regional reliability issues in order to shape related policies, standards and tools and to advance the quality of the region’s power and transmission systems, including their interface with other regions.

S2 *FCRPS Operations*

Operation of FCRPS power and transmission facilities meets availability and reliability standards in the most regionally cost-effective manner.

The operation of FCRPS power and transmission facilities, including among other things the transmission grid, hydro operations, Columbia Generating Station (CGS) resources and future wind resources, is intended to result in the best regional outcomes for consumers of electricity in the Pacific Northwest. We will work actively and collaboratively consistent with SOC to identify regional best outcomes. In some instances, the "best for the region" operational approach may not be best for BPA Power Services or best for BPA Transmission Services. If so, we will attempt to find ways of accomplishing the best regional solution while sustaining the health and integrity of Power Services and Transmission Services and their respective customers. Likewise, the regulatory and legal mandates under which we operate are sometimes in conflict. This will challenge us to continue to seek ways to accomplish the best regional solutions while complying with these mandates.

Meeting this objective will become increasingly challenging as demands on the system increase in number and complexity. While continuing to improve system operations and maintenance, we will endeavor to increase the available transfer capacity, facilitate implementation of regionally cost-effective transmission adequacy guidelines, facilitate the integration of large amounts of new wind generation, address increasing peak loads including summer peaks, meet regional resource adequacy standards, work within the increasing limitations on hydro operations for fish protection, provide redispatch of the hydro system to support the transmission system, provide ancillary services, and comply with regional standards and guidelines and the evolving requirements from FERC, NERC and WECC.

S3 *FCRPS Expansion*

Expansion of FCRPS power and transmission supplies results in regionally cost-effective incremental service.

BPA will make prudent investments in FCRPS power and transmission system supplies that result in the best outcomes for consumers of electricity in the Pacific Northwest. To this end, we will work with ColumbiaGrid and other regional planning entities to conduct integrated generation and transmission planning studies to develop least-cost, environmentally sound plans and provide transmission expansion information to help facilitate customer resource decisions. We will also work to implement our share of actions consistent with PNW Resource Adequacy Forum standards to support an adequate and regionally cost-effective resource supply for the region.

We will work with our customers and the region to cost-effectively expand the transmission system to meet load projections and deliver resources consistent

with NERC, WECC and regional reliability and adequacy standards and guidelines and with environmental objectives. We will integrate new generation into the BPA grid under terms that meet generators' development needs and schedules while equitably allocating and recovering the costs they add to the system. We will work with the region to develop and implement new business policies for transmission expansion to reduce congestion.

In addition, we will continue to work with the U.S. Army Corps of Engineers and the Bureau of Reclamation to ensure implementation of all regionally cost-effective system refurbishments and enhancements to federal hydro projects. We will also work with Energy Northwest to improve the efficiency and cost effectiveness of the CGS nuclear plant.

S4 *Transmission Access and Rates*

Open, non-discriminatory transmission services are provided at rates that are kept low through achievement of BPA's objectives at the lowest practical cost.

BPA will ensure open, timely and non-discriminatory access to our transmission services. We will target future transmission costs and revenues based on meeting reliability, adequacy and cost-recovery objectives in the most efficient manner, and then will seek to manage to these levels. We are sensitive to the rate pressures of additional infrastructure investment and will manage costs to keep rate increases as low as possible, while ensuring reliable power delivery, facilitating power markets and repaying the federal taxpayers' investment in the system.

S5 *Tier 1 Power*

BPA's Tier 1 rates to public preference customers reflect the cost of the undiluted Federal Base System (FBS), are below market for comparable products and are kept low through achievement of BPA's objectives at the lowest practical cost.

We have a legal mandate to keep our power rates as low as possible consistent with sound business practices, and this is one of the greatest contributions we make to the Northwest economy. With greatly reduced sales to direct service industries (DSIs) and no requirements sales to investor-owned utilities (IOUs), this mandate applies, as a practical matter, primarily to our rates to our public preference customers. The tiered rate structure we are putting in place will help us meet this objective by minimizing the "dilution" of the low-cost existing system with higher-cost purchases. Achievement of BPA's objectives at the "lowest practical cost" requires that we translate BPA's objectives into clear performance measures and then seek creative ways to meet those performance measures at the lowest practical cost.

S6 *Tier 2 Power*

BPA offers excellent unsubsidized Tier 2 products that meet our customers' needs.

BPA will manage the Tier 2 business to effectively meet customer requests that we serve all or part of their load growth with Tier 2 services priced at their full incremental cost to BPA. We will do so in a fashion that contributes to a power and transmission system that is regionally optimized for adequacy, reliability and efficiency.

BPA's intent is neither to compete aggressively to serve its customers' load growth nor to try to push customers toward nonfederal sources. Rather, BPA's intent is to do an excellent job of meeting customers' requests for service at the Tier 2 rate, and do so without using Tier 1 to subsidize Tier 2 sales. Avoiding subsidy from Tier 1 requires close management of the risks of Tier 2 to prevent those risks spilling into Tier 1 rates. Doing an "excellent job" includes ensuring that our purchases and acquisitions for Tier 2 fit into an optimal plan of expansion of the federal system that is consistent with the Council's power plan. We will use Tier 2 to help with our renewables facilitation goal by offering a renewables-based Tier 2 option to customers.

S7 *Environment, Fish and Wildlife*

BPA fish, wildlife and environmental responsibilities are managed with clearly-defined performance standards, emphasizing "on-the-ground" results and cost-effective solutions.

BPA will work in concert with others to clearly define its fish and wildlife mitigation responsibilities under the Endangered Species Act and the Northwest Power Act. In meeting those responsibilities, BPA will further move from measuring the success of its mitigation activities by how much it spends or by merely carrying out a list of activities to defining the mitigation objectives in biological or environmental terms. We will then pursue the most cost-effective set of actions for achieving those objectives. In addition, BPA will work to sharpen the focus of on-the-ground mitigation activities and reduce the level of effort associated with studying mitigation alternatives through research, monitoring and evaluation.

S8 Energy Efficiency, Renewables and Non-Wires

BPA and public power cooperatively accomplish public power's share of regionally cost-effective energy efficiency/demand management and renewable resources. BPA deploys cost-effective non-construction alternatives to transmission expansion.

Consistent with the Council's energy efficiency targets for all the region's utilities, BPA will work with the public utilities we serve to help ensure that they achieve their share of energy efficiency in the region. In this context, BPA will pursue energy efficiency that is regionally cost effective and will continue to treat energy efficiency as a resource integral to meeting our load-serving obligations. BPA expects the costs of achieving public power's share of these targets will be recovered in Tier 1 rates (to the extent BPA pays for them).

To meet its conservation goals, BPA intends to implement tiered rates to create an economic incentive for customers to pursue conservation whenever they face Tier 2 rates. BPA will also provide a set of conservation programs that build on those incentives to ensure that conservation targets are met at the lowest practical cost. While the specific portfolio of conservation programs is slated to be set closer to 2012, the programs are expected to be a combination of cost-effective energy efficiency acquisition programs, adoption of policies that support others' development or acquisition of cost-effective energy efficiency, support of market transformation that results in more efficient electric energy use and support for tribal and low-income weatherization programs.

BPA's renewable resources goal will be to ensure the development of our share of cost-effective renewables based on our public customers' share of regional load growth and the renewables forecast in the Council's power plans. Targets will be adjusted over time to match load growth and the Council's updated forecasts. To achieve these targets, BPA will pursue least-cost actions including the acquisition of renewable-based power to serve public power load at Tier 1 and Tier 2 rates.

BPA is also committed to providing shaping and integration services to public power utilities serving requirements load to accommodate intermittent renewable generation. BPA will work with others in the region to promote long-term resource planning and to minimize the costs of integrating large amounts of wind into the grid. In particular, BPA will work with the region to develop flexibility resources to balance loads and resources in real time in order to accommodate wind variability and to identify needed transmission system upgrades as noted in the Northwest Wind Integration Action Plan. BPA may also choose to provide renewable incentives such as a rate credit program. To help ensure the targets are met, BPA will budget up to \$21 million/year (plus escalation) in Tier I rates to cover above-market renewable costs. BPA plans to design its renewable efforts to complement utility and state-level initiatives such as portfolio standards.

BPA will also continue to evaluate and deploy cost-effective non-wires solutions to transmission needs, including demand-side management, on equal footing with new transmission construction.

S9 Greenhouse Gas

BPA encourages and implements integrated, cost-effective policies which lead to greenhouse gas emission reductions.

Potential climate changes resulting from greenhouse gas emissions are of increasing concern in the Northwest, the nation and the world. We recognize that the region's existing greenhouse gas emissions are very low, thanks to hydropower and years of investment in energy conservation and renewable generation, but load growth and the capacity limits of the hydro system will challenge the region to maintain its low-carbon footprint.

BPA will support greenhouse gas mitigation by engaging with the region and the nation in devising reasonable policies to reduce greenhouse gas emissions. BPA will integrate greenhouse gas mitigation considerations into all relevant internal decisions and processes to ensure internal compatibility, and will consider the cost of greenhouse gas emissions in its operating and planning decisions. The agency will continue its active support of energy efficiency, renewables development and climate-friendly internal business practices. BPA will include greenhouse gas emission implications as an important criterion in evaluating and selecting strategies and actions for meeting its other environmental/fish and wildlife objectives. Finally, the agency will track and report its greenhouse gas emissions.

S10 System Value

The value of the existing federal power system is preserved for the region for the long run, while ensuring obligations to federal taxpayers are met.

Federal taxpayers made a tremendous initial investment in the FCRPS. BPA ratepayers have been faithfully repaying that investment for more than 65 years. The benefits of the federal system are provided to our customers in return for their commitment to pay the full costs of the system. New 20-year contracts and tiered rates will secure these benefits for Northwest citizens and also secure BPA's ability to continue full and timely repayment of the taxpayers' investment in the system.

Long-term clarity through contracts and rates about allocation of the costs and benefits of the system among public preference customers, IOU residential and small-farm customers, and the remaining DSIs is also important to the future development of electric infrastructure. Public preference customers will benefit through our delivery of most of the firm output of the existing system at a cost-based Tier 1 rate.

BPA will work with the region to develop a sustainable residential exchange mechanism that provides IOU residential customers a fair allocation of system value, but without the year-to-year uncertainty and high administrative costs of the traditional residential exchange program. Although BPA is not obligated to sell DSIs power, the DSIs are longstanding customers who are the economic mainstay of several communities. We anticipate providing an agreement that gives the remaining DSIs a reasonable chance of sustaining their operations within the region while strictly limiting BPA's costs and risks.

S11 Stakeholder Satisfaction

Customer, constituent and tribal satisfaction, trust and confidence meet targeted levels.

BPA provides a fundamental public service to the Pacific Northwest and delivers on its responsibilities through a commercially successful business. Feedback on how we are serving the region is an integral part of achieving and delivering high value. Customers provide the funding for everything we do, and their satisfaction is crucial to BPA, just as it is for any business. Customer, constituent and tribal government satisfaction also reflect both how effectively and fairly the agency is balancing the needs of its various constituencies and how clearly BPA is communicating its abilities and limitations to meet those needs, especially given multiple and often competing demands. We will regularly survey our customers, constituents and tribes to determine our performance in meeting targets for the quality of our relationships, communications, programs and service to them.

Financial Perspective

Focus: The strength of BPA's financial health and performance

F1 Capital Access

BPA has sustainable capital access.

BPA will develop a capital investment and funding program that will ensure sustained access to adequate capital to accomplish our mission without relying on additional borrowing authority from the U.S. Treasury. This program will include an increasing use of third-party financing options, such as capital leases.

F2 Cost Recovery

BPA consistently recovers its costs over time.

BPA sells cost-based wholesale power and transmission services at rates consistent with sound business principles that are designed to fully recover the taxpayers' investment in the FCRPS. We remain committed to meeting all of our financial obligations in full and on time. BPA will measure its progress in recovering its costs by managing to sustain positive Net Revenues over time and will maintain its Accumulated Modified Net Revenue at targeted levels.

F3 Cash Flow

BPA maintains adequate cash flow for liquidity.

BPA will continue to apply the financial standard it adopted in 1992. That means it will plan to achieve and maintain a Treasury payment probability (TPP) target that is the equivalent of a 95 percent probability of making our annual Treasury payments – in full and on time – for a two-year period. This helps retain our high credit quality and access to cost-effective capital, which in turn lowers costs for ratepayers in the long term.

Internal Operations Perspective

Focus: The efficiency and effectiveness of BPA and FCRPS operations

I1 Systems and Processes

Standardized systems and processes are fully capable of meeting complex operational demands through an emphasis on best practices and strong cost management.

In pursuing a complex mission that encompasses power, transmission, environmental, and fish and wildlife responsibilities, BPA has risen to meet this challenge with equally complex and unique systems and processes. In recent years, we have undertaken significant efforts to improve, standardize and simplify how we meet these increasingly complex, evolving and interwoven demands. For the past three years, the Enterprise Process Improvement Program (EPIP) has identified, benchmarked, analyzed and redesigned systems and processes to meet BPA's operating requirements. To date, this work has included initiatives within Energy Efficiency; Public Affairs; Marketing and Sales; Transmission Plan, Design, Build; Transmission Operations and Maintenance; Human Capital Management Asset Management; Supply Chain; and Information Technology.

Sustaining these and similar continuous improvement efforts is important. As noted in the critical factors driving our strategy, we face operational demands which are increasing in number, complexity and interdependence. Because of this, it is imperative now that we optimize the future time, talent and dollar costs required to manage and maintain our systems and processes.

BPA recognizes the benefits of more standardized systems and processes and will pursue these, particularly when more centralized approaches fully meet both demanding operational requirements and strong cost-management criteria better than approaches that are locally optimal but less integrated and economical.

I2 One BPA

One BPA consistent with Standards of Conduct.

BPA is committed to complying with Standards of Conduct (SOC), while pursuing integrated and efficient solutions to the complex operational challenges of running a transmission and power business. In the mid-1990s, BPA separated its transmission and power functions in response to Federal Energy Regulatory Commission's Standards of Conduct (SOC), the protocols for organizations that both operate transmission and market power. The SOC are intended to help ensure nondiscriminatory, open access to transmission.

At the same time, BPA has an obligation to provide both power and transmission services at the lowest possible cost, consistent with sound business principles.

This does not mean achieving lowest cost through discriminatory behavior as a transmission provider. It does mean that, while ensuring open access, we otherwise manage our business in the most efficient and economic fashion, consistent with our legal and environmental obligations. Accordingly, we have an ongoing obligation to assess and refine implementation of SOC and find ways to capture cost savings and efficiencies. In this process, we believe we can also improve customer service, make better use of capital, improve system operations and improve workforce succession planning.

13 Governance and Internal Controls
Governance and internal controls are robust, reasonably balanced and adhered to across the organization.

A strong and highly effective governance structure requires that oversight, direction and control are robust, reasonably balanced and applied consistently across the agency. BPA's governance framework should make it clear to employees how the "business of business" is to be conducted. BPA will strive to have consistent and appropriate policies and procedures for managing its day-to-day operations. In addition, organizational responsibilities and internal delegations of authority will be clear and documented.

Reasonably balanced and risk-informed internal controls will help assure efficient and effective operations, proper financial disclosure and compliance with applicable laws and regulations, all of which will build stakeholder trust and confidence.

14 Asset Management
Integrated asset management practices maximize the long-term value of FCRPS assets.

Our goal is to maximize the long-term value of FCRPS assets for the benefit of the region. To do this, BPA will integrate and optimize its total approach to planning and implementing capital investments and to operating and maintaining FCRPS assets. This includes managing the performance, costs and risks of FCRPS assets so that the agency's strategic objectives are achieved at lowest long-term cost to the region.

BPA will target improvements to its asset management practices to achieve industry "best practices." Capital investments will be made with a full understanding of their long-term impact on the region and on the agency's long-term operational costs, benefits and risks. The agency's operation and maintenance programs will be implemented based on full information on the condition, performance and cost history of the assets.

15 Technology Innovation

BPA is a leader in the application of technologies that increase the value of mission deliverables.

Our technology application challenge requires engagement in technology development, technology demonstrations and technology integration into BPA operating standards and asset management initiatives. In addition, the challenge requires modern research portfolio management, project management excellence, and a focus on research and development projects directed at BPA and PNW electric grid operations.

BPA's history of creating and applying technologies critical to our own business challenges and the industry's development has provided significant reliability and financial benefits to the Pacific Northwest. We will increase financial support and personnel resources for investments in technology innovation commensurate with a baseline of 0.5 percent of gross revenues and with technology innovation achievements that enable us to meet our strategic business objectives at lower cost. We have opportunities now in the Pacific Northwest to support innovative industries developing new technologies that promise to add value to our power, transmission and public benefits delivery.

16 Risk Management

Risks are managed within acceptable bounds.

BPA's ability to deliver public benefits depends on its continued commercial success. Effective risk management is a vital ingredient to this success. While BPA has always faced significant risks such as hydro supply variability, BPA today faces an increasingly complex array of risks. These include:

- *strategic risks* related to BPA's ability to deliver on future business plans, strategies and on its mission and vision (e.g., workforce skill gaps);
- *operational risks* resulting from inadequate or failed internal systems and processes, facilities performance, and personal performance (e.g., extended loss of Columbia Generating Station);
- *legal/regulatory risks* arising from new and existing regulations and court rulings (e.g., environmental compliance regulations); and
- *hazard risks* from situations that have an adverse effect on overall business operations (e.g., disruption of critical functions from a natural disaster).

Assuring commercial success in the face of these risks requires sophisticated risk management. BPA will strengthen its risk management governance, policies and practices. We will increasingly employ a coordinated, systematic, integrated, documented and repeatable risk management framework to effectively and efficiently manage risks to achieving our strategic objectives. In doing this, BPA will clarify its tolerance for risks and will work to minimize the cost of managing risk within that tolerance.

17 ***Decision Making***

Decision making is integrated, risk-informed and managed through consistent application of specified criteria.

BPA's business, environmental and regulatory requirements and stakeholder expectations are continually evolving. We will continuously improve the quality of our business decisions by applying a risk-informed decision-making framework. This framework will employ a consistent set of decision criteria, including impacts on: (1) BPA's finances and business; (2) external stakeholders; (3) the environment; (4) BPA's legal mandates; and (5) BPA's people and processes. BPA's decision-making framework will be internally and externally transparent.

18 ***Transparency***

BPA's processes, decision making and performance are transparent.

We will provide accessible, well noticed and timely opportunities for public involvement to ensure that customers, constituents, tribes and others in the region have appropriate input into our decision making. Our public processes will clarify decision making and the rationale for policy decisions and we will manage them to facilitate a better understanding of both BPA's overall direction and of individual issues. We will continue to improve the clarity, content and timeliness of reports on our performance, particularly financial performance, and we will do this in ways that are consistent with law, standard reporting practices, commercial interest and fair disclosure. We believe these practices will enhance our credibility with our customers, constituents, tribes and other stakeholders, and consequently will increase their trust of us.

19 ***Collaboration***

Collaborative relationships with customers, constituents and tribes are supported by our managing to clear, long-term objectives with reliable results.

We recognize the benefit of drawing on customers', constituents' and tribes' insights and experience and will seek to be responsive to regional views to increase their satisfaction, confidence and trust. We will work collaboratively with our stakeholders to identify regional priorities and issues, to increase stakeholder understanding of the trade-offs we are balancing, and to develop potential alternatives and options. We will seek as much alignment as possible on how to meet long-term objectives that will benefit the region as a whole, and we will manage our efforts accordingly, making ourselves clearly accountable to the region for results.

People and Culture Perspective*

Focus: The health of workforce capabilities, performance, and work environment

**This section is from 2004 and is slated to be updated in 2008.*

P1 Leadership

Leaders set clear direction and are accountable for results.

BPA must be clear about its strategic direction. We will articulate our mission, vision, strategic objectives and how performance will be achieved through specific initiatives. We will hold ourselves accountable for achieving these results.

P2 Talent

BPA invests in a talented workforce to achieve strategic results.

BPA succeeds only through its highly skilled, knowledgeable, creative and service-oriented employees. BPA anticipates the loss of key institutional knowledge and skills due to attrition and will replace that loss in a timely manner. Given the current age profile of the BPA workforce, both advance hiring and accelerated training will be employed in parts of the organization.

P3 Motivation and Alignment

Effective feedback motivates and aligns employees around meaningful work.

People are motivated when they have meaningful work that is clearly aligned with organizational objectives. Through balanced scorecards, managerial performance contracts and other performance management tools, BPA will establish clear objectives and accountabilities. These will provide the foundation for appropriate systems to reward good individual and team performance and to address poor performance.

P4 Work Environment

BPA's positive work environment enables its people to do their best work.

BPA will support and enhance a positive work environment to attract and retain the talent needed to fulfill its challenging public service mission. A positive work environment allows people to do their best work and to bring the full benefit of their diverse backgrounds, styles and skills to meet the needs of BPA.