

**REPORT OF THE  
BONNEVILLE POWER ADMINISTRATION'S  
POWER NET REVENUE IMPROVEMENT  
SOUNDING BOARD**

**July 1, 2004**

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**I. The Sounding Board's Mission**

In November 2003, the Bonneville Power Administration (BPA) launched a review of opportunities to reduce costs and enhance revenues for fiscal years (FY) 2004 and 2005. The process was unique in its reliance upon a "Sounding Board" drawn from representatives of public power, investor-owned utilities, the Northwest Power and Conservation Council, tribes and tribal organizations, states and public interest groups. This report presents the Sounding Board's views and recommendations.

The purpose of the Sounding Board was to assist BPA in its pursuit of potential cost reductions and/or revenue enhancements for FY 2004–2005, and to provide an element of outside independent judgment of the extent to which the Agency was aggressively pursuing this task. BPA had established a target of approximately \$100 million of financial improvements over the two-year period, which if realized would have eliminated the need for a Safety Net CRAC (SN CRAC) in FY 2005, if nothing else changed from the assumptions contained in the FY 2004 SN CRAC deliberations. During the course of the year, BPA's financial condition has changed significantly, with improvements in some areas and erosions in others. Yet regardless of those changes, BPA has remained committed to the objective of the \$100 million or greater in net financial improvement.

**II. Summary of Conclusions and Recommendations**

The final decisions regarding specific financial adjustments remain the responsibility of the Administrator and the BPA staff. The Sounding Board members are not offering recommendations on all elements of the subject areas we reviewed, nor the potential tradeoffs between the aggregate dollars contained in the reduction package and the question of the size of the FY 2005 SN CRAC, if one is proposed. However, a limited number of recommendations are contained in the following sections.

We commend BPA for a sincere, creative and constructive effort. Face-to-face discussions certainly have a greater impact than any second-hand reports on how important efficient, cost-effective management is to the Region. The diversity of the Sounding Board has proved to be a strength, given all parties' willingness to work constructively together on some exceedingly complex and difficult issues. We learned much from each other and from the BPA staff, which put extraordinary effort into assessments of all major aspects of agency operations and sustained a commitment to be open and responsive to all views and questions. Where they could not answer questions on the spot, staff members' promises to provide follow-up information were always kept. The Sounding Board's existence, far from being disruptive, helped to create a common focus among BPA and its colleagues at the Bureau of Reclamation, the Corps of Engineers, and Energy Northwest. Paul Norman, Michelle Manary and Cheryl Larson deserve

particular credit for managing the process with a rare combination of candor, courtesy and skill. Most important, we believe that BPA emerges from the Sounding Board effort with prospects for appreciable new cost savings and some previously unrecognized prospects for revenue enhancements (see Table I). We have already seen evidence that BPA is changing the way that it does business in response to the Sounding Board process, and we believe that the Sounding Board was a productive way to improve communications and understanding between BPA and its many customers and constituents.

We also believe that there is more to be done to realize the agency's objectives to cut costs and enhance revenues so that it can reduce its rates. While some in the extended BPA family show a real commitment to minimizing the cost of reliable service, an attitude still prevails in other quarters that "the costs are what they are;" such complacency undercuts the continuing sense of urgency about operating efficiency that is essential to avoiding unnecessary rate increases. Energy Northwest struck many of us as an illustration of this problem, although we were heartened by evidence of progress in our later meetings. The Sounding Board understands and accepts, for purposes of this report, the budgetary allocations that BPA has established for its Integrated Fish and Wildlife Program, involving \$139 million in annual average expenditures for FY 2004-2006. And we acknowledge and appreciate BPA's success in accommodating some \$7 million per year in security costs for hydropower facilities without cutting into the proposed net cost reductions identified in this report.

We would like to see a stronger agency orientation toward rigorous integrated resource planning (IRP) principles. As BPA evaluates potential investments in the Northwest power system, objective tests of resource value should be paramount. Winners and losers should emerge on the merits, not through political muscle or claims of entitlement. We were particularly impressed with BPA's energy efficiency portfolio and the objective presentation of it. While the portfolio appears to meet reasonable tests of resource cost effectiveness used in the past, it and all other resources will face the continuing challenge of meeting IRP tests in the future. One issue that is clear is that evaluation of environmental benefits is not sufficient. We also see opportunities to realize net benefits for all concerned in BPA's partnerships with irrigators and renewable energy developers, as explained in greater detail below.

Finally, our task is to report to the Administrator and to the community on whether the Agency has fulfilled its commitment to try to reduce rates by aggressively pursuing cost reductions and revenue improvements. While individual members of the Board may have differing positions regarding components of the full landscape of items we reviewed, or where BPA rates are headed, collectively we concur that BPA has fulfilled the commitments made for the Sounding Board process.

### **III. Description of the Process**

In November 2003, BPA named 21 individuals to a new Power Net Revenue Improvements Sounding Board, and at least twelve others participated in Board meetings (see attachment 1 for a full list). The Sounding Board members represented public power, investor-owned utilities, the Northwest Power and Conservation Council, tribes and tribal organizations, states and public interest groups. The group convened nine times between November 21, 2003, and June 30,

2004, to discuss major near-term aspects of agency costs and revenues (see attachment 2). BPA staff circulated extensive agendas and briefing materials in advance of each meeting, and kept detailed minutes. BPA's Paul Norman chaired all nine sessions, which were notable for vigorous yet civil exchanges among all participants, and for effective time management. BPA Administrator Steve Wright attended the March 16 and June 30 meetings.

In the words of Sounding Board member Ralph Goode:

“The Sounding Board allowed customers to provide input to and review progress of BPA, the Bureau of Reclamation, the Corps of Engineers, and Energy Northwest. The Sounding Board members could then provide feedback to their groups as a third party participant. The process was a great learning experience for me personally, and it broadened my understanding of the Columbia River Power System and the interface between many of the players.”

## IV. Overview of Cost Savings and Revenue Enhancements

### PBL FY 2004 - 2005 Aug 28th Workshop vs. June 30, 2004 Update

Dollars in Millions

	Discussion Date	Avg % of Categories	Expense Reduction/Revenue Enhancement Categories	August 28th Base		June 30th Update		June vs. Base		\$100 M Progress FY 2004-05
				FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	
1	6/15/2004	11%	Internal Operations Expenses Charged to Power Rates	\$ 106.5	\$ 108.5	\$ 100.0	\$ 104.8	\$ (6.5)	\$ (3.7)	\$ 10.2
2	6/15/2004	2%	Generation Conservation Expense	\$ 28.9	\$ 29.0	\$ 30.3	\$ 31.7	\$ 1.4	\$ 2.8	\$ (4.1)
2a	6/15/2004		Generation Conservation Revenue	\$ (9.3)	\$ (9.3)	\$ (10.8)	\$ (12.0)	\$ (1.6)	\$ (2.7)	\$ 4.3
3	4/22/2004	25%	Columbia Generating Station O&M	\$ 216.9	\$ 251.7	\$ 222.7	\$ 243.2	\$ 5.8	\$ (8.5)	\$ 2.7
4	6/15/2004	22%	Bureau of Reclamation O&M	\$ 61.3	\$ 63.3	\$ 58.3	\$ 63.3	\$ (3.0)	\$ -	\$ 3.0
5	6/15/2004		Corps of Engineers O&M	\$ 140.5	\$ 144.5	\$ 138.5	\$ 144.5	\$ (2.0)	\$ -	\$ 2.0
6	6/15/2004	1%	Renewable Generation Expense**	\$ 23.8	\$ 48.7	\$ 20.9	\$ 23.5	\$ (2.9)	\$ (25.2)	\$ 28.1
6a	6/15/2004		Renewable Generation Revenue	\$ (20.1)	\$ (32.1)	\$ (17.8)	\$ (17.8)	\$ 2.3	\$ 14.4	\$ (16.6)
7	6/15/2004	1%	Trojan Decommissioning	\$ 12.2	\$ 8.4	\$ 1.4	\$ 8.4	\$ (10.8)	\$ -	\$ 10.8
8	6/15/2004	15%	BPA Fish & Wildlife ***	\$ 139.0	\$ 139.0	\$ 153.9	\$ 131.3	\$ 14.9	\$ (7.8)	\$ (7.1)
9	6/15/2004	24%	Net Interest Expense	\$ 217.8	\$ 235.1	\$ 172.9	\$ 205.1	\$ (44.8)	\$ (30.0)	\$ 74.8
10	6/15/2004	0%	Revenue Enhancements	\$ -	\$ -	\$ 3.0	\$ -	\$ 3.0	\$ -	\$ 3.0
11	<b>Total</b>									<b>\$ 111.0</b>
12			Other Expense Categories (excluding augmentation p.p, other power purchases, Transmission, and ENW debt service)*	\$ 478.7	\$ 485.9	\$ 477.9	\$ 489.1	\$ (0.8)	\$ 3.2	\$ (2.5)

\*August 28th Base Other Expense Categories Includes: Canadian entitlement (\$2 M), Hedging/Mitigation (\$3 M), Residential Exchange costs (\$144 M), Other generating projects (\$32 M), Civil Service Retirement (\$14 M), WNP 1&3 O&M (\$0 M), Conservation and Renewable Discount (\$37 M), Planning Council (\$9 M), USF&W Lower Snake Hatcheries (\$17 M), Colville Generation Settlement (\$17 M), Non-Federal Debt Service (not including ENW) (\$27 M), Depreciation (\$107 M), Amortization (\$74 M), and Non Project Expense Adjustments (\$0 M). [Numbers are average of FY04-05 August 28th Base]

\*\* The change in renewable cost will impact the LB CRAC calculation, but the magnitude of this impact is uncertain.

\*\*\*Includes High Priority/Action Plan projects of \$9 M for FY04 in the 2nd Qtr Review estimate. The actual F&W budget is \$153 M (not including High Priority/Action Plan projects) for FY04 and \$131 M for FY05-06, averaging \$139 M over the rate period.

## V. Unrealized Opportunities

### A. Cost Savings

Each of the BPA partners that provided information and answered questions demonstrated a commitment to scrutinize costs intensely. But in the final analysis, BPA, Energy Northwest, the Corps of Engineers and others still appear to believe that costs will go up at some rate and that ultimately more money will be required from BPA customers. We are not prepared to accept this conclusion. BPA must continue to seek ways to reduce wholesale energy prices and not assume that “costs will go up so we have to raise rates.” A strong new commitment to reduce rather than raise costs and rates would revitalize both federal agencies and the region that they serve.

The Sounding Board inquired into BPA’s internal costs. As a result of the agency being split into a power business line and a transmission business line, BPA now has separate load forecasting, scheduling, billing and meter data management functions in each business line. Options include merging the two business lines, preferred by many of us, or eliminating the duplications (a stopgap measure). Another proposal centered on having BPA secure more management flexibility by obtaining the authority to offer VERAs (Voluntary Early Retirement Authority) or VSIs (Voluntary Separation Incentive).

### B. Integrated Resource Planning

The Sounding Board reviewed extensive evidence on the resource value of BPA’s energy efficiency investments. For example, an independent assessment of BPA’s investment in the Northwest Energy Efficiency Alliance concludes that the average cost of savings has been about one cent per kilowatt-hour. (*Findings and Report: Retrospective Assessment of the Northwest Energy Efficiency Alliance—Final Report, prepared by Summit Blue Consulting and Stratus Consulting Inc.*) BPA’s success in driving the cost of its other principal energy efficiency acquisitions down to about \$1.3 million dollars per average megawatt is equivalent to a levelized cost to the agency per kWh acquired of about two cents, assuming a ten-year average life for the measures installed. We call for comparable rigor in the assessment of all candidates for agency investment in both resources and grid assets. Many BPA customers have extensive experience in developing public Integrated Resource Planning processes for reviewing energy efficiency and generation investments, from which BPA could benefit if and when it evaluates future resource options.

We note that a diverse “Roundtable” review group analogous to the Sounding Board is assisting the Transmission Business Line in reviewing and improving its planning and investment process. For a full account of this effort and its numerous work products, see [http://www.transmission.bpa.gov/PlanProj/Non-Construction\\_Round\\_Table/](http://www.transmission.bpa.gov/PlanProj/Non-Construction_Round_Table/).

## **C. Revenue Enhancement**

BPA should evaluate its investments with an eye to ensuring that agency programs return sufficient net value to justify the investment of time, energy and funds. Two examples worth further consideration are irrigation and renewable resource development.

Irrigation development remains one of the primary purposes of the federal hydropower system (others include flood control, transportation, recreation, power production and fish and wildlife). BPA's role in meeting each project's irrigation responsibilities has traditionally included establishing rates that are designed to reflect the seasonal cost of hydropower generation; reviews of BPA's role in achieving the system's irrigation objectives should routinely examine whether this design criterion is being met, along with other statutory and contractual goals for irrigation. Analysis presented to the Sounding Board suggests that BPA/irrigation partnerships may be leaving significant potential economic benefits on the table (for example, in FY2002, BPA had 25 irrigation contracts covering approximately 1.2 billion kWh of annual energy at an average rate of 2 mills per kWh). The aim here should be to advance both irrigation and power interests by looking for ways to energize the agricultural economy while improving BPA revenues.

In the case of renewable energy, there appear to be two primary reasons for BPA to be involved in expanding its portfolio beyond the current hydropower and wind assets. One would be an integrated resource plan demonstrating that, on a life-cycle basis, these are cost-effective elements of a diversified least-cost resource portfolio that meets the needs of BPA and its customers. A second reason would be the availability of mutually beneficial opportunities to sell power production from new renewable resources to other parties. For example, the Sounding Board has identified what it believes are significant opportunities to enhance revenues by shaping new wind power generation with the BPA hydropower system, applying a properly designed rate and marketing the product to meet various states' renewable energy purchase requirements.

## **VI. Conclusion**

BPA should continue to use a diverse Sounding Board to provide advice and challenges on cost and revenue issues for FY 2006 and beyond, targeted to specific outcomes and processes, provided that the agency is willing to maintain a comparable level of management focus and staff support.

**Sounding Board Members**

Jason Eisdorfer	Citizens' Utility Board of Oregon
Kris Mikkelsen	Inland Power and Light Company
Ralph Goode	Mission Valley Power
Ralph Cavanagh	Natural Resource Defense Council
Nancy Hirsh	Northwest Energy Coalition
Ed Bartlett	State of Montana and Northwest Power and Conservation Council
Larry Cassidy, Jr.	State of Washington and NW Power and Conservation Council
Gene Derfler	State of Oregon and Northwest Power and Conservation Council
Melinda Eden	State of Oregon and Northwest Power and Conservation Council
Jim Kempton	State of Idaho Northwest Power and Conservation Council
Tom Karier	State of Washington and NW Power and Conservation Council
Rachel Shimshak	Renewables Northwest Project
John Saven	Northwest Requirements Utilities
Pat Reiten	PNGC Power
Lyn Williams	Portland General Electric
Jerry Leone	Public Power Council
Pat Ford	Save Our Wild Salmon
Steve Loveland	Springfield Utility Board
Steve Eldrige	Umatilla Electric Cooperative
Mary Verner	Upper Columbia United Tribes
Howard Schwartz	Washington State Dept. of Trade & Economic Development



**Power Net Revenue Improvement Sounding Board**  
**Meetings and Topics**

- November 21, 2003 **First Meeting – Overview of Purpose of Sounding Board** – Paul Norman, Senior Vice President, Power Business Line
- December 17, 2003 **Sounding Board Work Plan** - Michelle Manary, Financial Analyst, PBL  
**BPA’s Benchmarking Effort** - Ruth Bennett, Chief Operating Officer  
**Fish Forums** – Christy Brannon, Acting Public Involvement Manager, PBL
- January 16, 2004 **FCRPS** – Greg Delwiche, PBL Vice President, Generation Supply; Mark Jones, PBL Federal Hydro Projects Manager; Mike Alder, Hydro Program Manager  
**Corps of Engineers** – Peter Gibson, Chief, Operations Division; Hiroshi Eto, Hydro Power Specialist; Rick Werner, Chief of Maintenance, Chief Joseph Dam  
**Bureau of Reclamation O&M** - Terry Kent, Facilities Operations and Maintenance Manager, Pacific Northwest Regional Office; Dave Lyngholm, Grand Coulee Project Power Manager; Karl Wirkus, Regional Manager, Resource and Technical Services
- February 5, 2004 **Conservation Programs and Initiatives** - John Pynch, PBL Energy Efficiency Implementation Manager  
**Renewable Program** - Steve Oliver, PBL Vice President, Bulk Marketing and Transmission Services; Deb Malin, Renewable Energy Account Executive; Elliot Mainzer, Manager, Pricing and Transaction Analysis; and Orville Blumhardt, Industry Economist
- February 11, 2004 **Columbia Generating Station** – Andy Rapacz, PBL Oversight Manager for Columbia Generating Station; Rod Webring, Energy Northwest Vice President of Nuclear Generation
- February 25, 2004 **F&W Operating and Direct Program Costs** - Greg Delwiche, PBL Vice President, Generation Supply; Roger Schiewe, Hydraulic Engineer for PBL; Therese Lamb, Vice President, Environment, Fish and Wildlife
- March 16, 2004 **Potential Revenue Enhancements** - Greg Delwiche, PBL Vice President, Generation Supply; Steve Oliver, PBL Vice President, Bulk Marketing and Transmission Services; Lynn Aspaas, PBL Transmission and Reserves Specialist; Sarah Bermejo, PBL Transmission and Reserves Specialist  
**Trojan Decommissioning** – David Steele, PBL Budget Analyst; Claudia Andrews, Manager, Capital & Risk Management

**Sounding Board Midpoint Check-in** with Steve Wright, BPA  
Administrator

April 22, 2004

**Columbia Generating Station** - Andy Rapacz, PBL Oversight Manager for Columbia Generating Station; Vic Parrish, Chief Executive Officer, Energy Northwest; Rod Webring, Energy Northwest Vice President of Nuclear Generation

June 16, 2004

**Conservation Programs and Initiatives** - John Pynch, PBL Energy Efficiency Implementation Manager  
**Renewable Program** - Deb Malin, Renewable Energy Account Executive  
**PBL Internal Operating Costs** - David Steele, PBL Budget Analyst  
**FCRPS** – Scott Coe, Acting PBL Vice President, Generation Supply; Mark Jones, PBL Federal Hydro Projects Manager; Mike Alder, Hydro Program Manager  
**Corps of Engineers** – Peter Gibson, Chief, Operations Division; Kimberley Oldham, Direct Funded O&M Program Manager  
**Bureau of Reclamation O&M** - Terry Kent, Facilities Operations and Maintenance Manager, Pacific Northwest Regional Office; Karl Wirkus, Regional Manager, Resource and Technical Services