

BPA's Strategic Direction and Targets 2012-2017

To navigate the opportunities and challenges ahead, BPA leadership set a course for 2012-2017 by:

- assessing the drivers of change affecting BPA,
- confirming the agency's mission, vision, values and objectives, and
- elevating six strategic priorities for special focus.

To measure progress against our objectives and priorities, leadership also:

- established annual agency and business unit targets, and
- linked these targets to the individual performance contracts of our management team to align efforts across the agency.

Drivers

The major drivers of change we face in our industry and regional environment include the following:



Difficult Economic Environment

In the wake of the recession, the region continues to experience high unemployment, elusive economic growth and cautious capital spending. Regional power loads dropped about 9 percent from 2008 to 2010, and load growth is expected to be slight or flat until 2015. Given this environment and our aging infrastructure, a continued focus on disciplined cost management, low rates, capital project prioritization and access to capital is exceedingly important.



Climate Change Uncertainty

The direction of federal climate change policy and energy legislation remains uncertain. More certain is neighboring California's plan to launch a cap and trade platform to put a price on greenhouse gas emissions in January 2013, which is likely to affect electricity prices and the types of new generation developed in our region. Recent studies suggest Northwest weather could continue to warm, resulting in increased river flows in winter and early spring, reduced flows in summer and new challenges for river operations and planning.



Renewable Energy Growth

State Renewable Portfolio Standards in the region and California continue to drive renewable energy growth. In the Northwest, 6,500 MW of wind energy was operating by the end of 2011 and 4,300 MW of this was operating in the BPA Balancing Authority Area. The significant concentration of wind on BPA's system produces large swings in aggregate generation output and requires BPA to provide significant balancing reserves to preserve reliability. However, the ability of the federal hydro system to provide balancing reserves may be exhausted by the end of 2013 when as much as 6,000 MW of wind is forecast for the BPA Balancing Authority Area. Access to non-federal resources may be needed.



Shifting Resource Conditions

BPA's weather-dependent hydro resources continue to create high supply uncertainty for power planning and marketing. High wind and high water events, combined with the need to avoid high total dissolved gas levels for fish, are also adding to the complexity of operational and policy choices. Across the region, the impacts of planned and potential coal plant retirements and concerns about the long-term availability of gas-fired generators are also shifting fundamental assumptions about generation and transmission needs.



Compliance Requirements

Endangered Species Responsibilities: The federal plan for operating 13 mainstem hydroelectric dams while protecting salmon and steelhead on the Columbia and Snake rivers remains in litigation. Under the plan, flows, spills and dam operations are provided for fish spawning, rearing and migration. Uncertainty about future court action creates challenges for managing river operations and planning future power production, cost and revenue levels.

Reliability Standards: BPA is subject to a wide range of North American Electric Reliability Corporation reliability standards enforced by Western Electricity Coordinating Council. Since 2007, new and revised reliability compliance standards have steadily increased and are expected to continue to increase over the next several years. The increased volume and pace of these changes is creating new capital and expense requirements.



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's 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.

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 responsibilities through a commercially successful business.

Values

We accomplish our mission, vision and objectives through our three core values:

Trustworthy Stewardship

As stewards of the FCRPS, 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

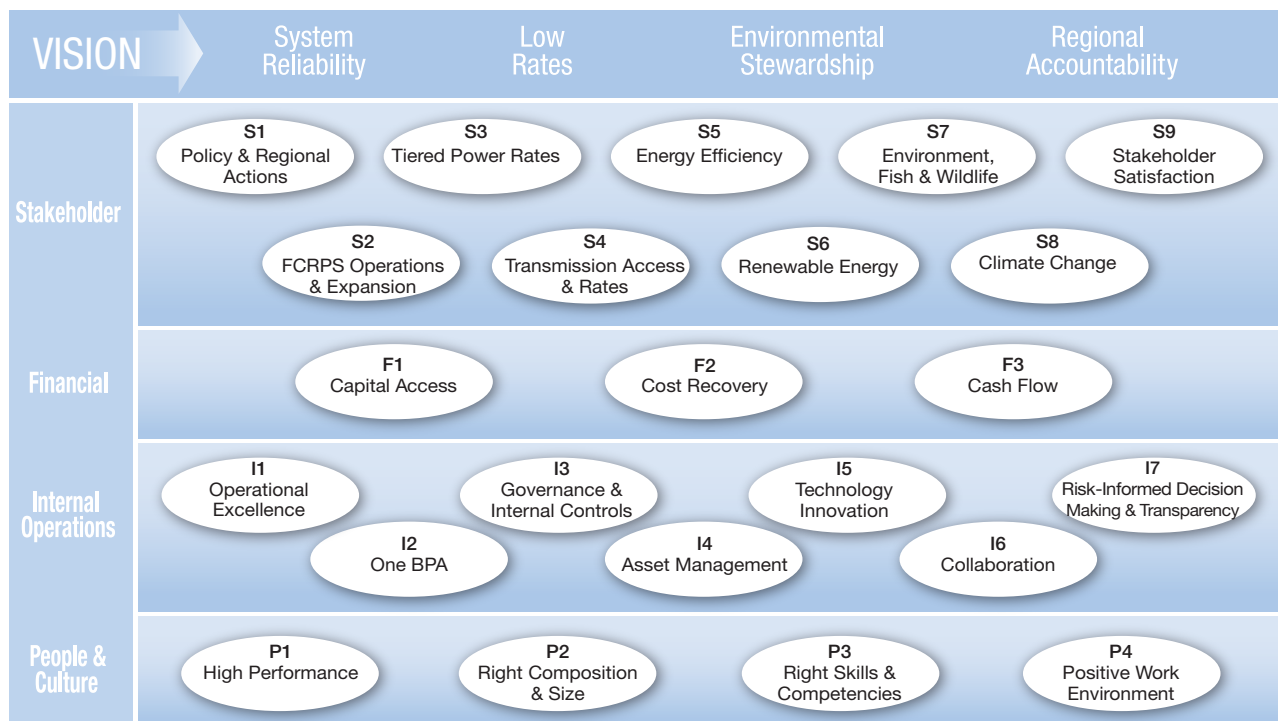
Trustworthiness grows out of a collaborative approach to relationships. Internally we must collaborate across organizational lines to maximize the value we bring to the region. Externally we work with many stakeholders who have conflicting needs and interests. Through collaboration we discover and implement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

Operational Excellence

Operational excellence is continuously improving the way we do business to produce more efficient and effective ways of delivering on BPA's mission and vision. Achieving operational excellence will place us among the best electric utilities in the nation.

Strategic Objectives

Our mission and the "4 pillars" of our vision are supported by our strategic objectives. These are the ongoing, long-term outcomes we pursue across all dimensions of our business. For details, see "BPA Strategic Objectives" at www.bpa.gov/go/strategy.



Strategic Priorities

To fulfill our vision in the industry and regional environment described, and to sustain the satisfaction of the customer, constituent and tribal government stakeholders we serve, the following focus areas are especially vital for 2012-2017. For details, see “BPA Strategic Direction” at www.bpa.gov/go/strategy.

1. Generation and Transmission System Assets and Value

Preserve and enhance federal generation and transmission assets and the economic, environmental and operational value they produce for the region, while anticipating and adapting to industry developments and regulatory changes.

Significance: Our system infrastructure is aging at the same time we face high operational demands from a new era of variable generation and the potential for new market structures and carbon constraints in the West.

Strategies: (i) Preserve and enhance system infrastructure through robust asset management and capital investment practices. (ii) Reform transmission Network Open Season and Generation Interconnection policies and processes. (iii) Continue to implement Regional Dialogue power contracts. (iv) Explore new approaches to operating the system and capturing its value (e.g., pumped storage, demand response, Smart Grid, technology innovation, hydro power sales).

2. Columbia River Treaty Review

Recommend a course of action to the U.S. Department of State so that a viable Treaty strategy can be developed with substantial support among basin sovereigns and stakeholders.

Significance: The Treaty governs power generation and flood control between the U.S. and Canada and has no definite end date. Beginning in 2024 the Treaty can be terminated. This can only occur with 10 years’ advance notice by either country, so preparation for 2014 is vital. Also, the nature of flood control operations will change in 2024.

Strategies: Collaborate with the U.S. Army Corps of Engineers to (i) analyze Treaty benefits and (ii) assess how the Treaty affects stakeholders and interests beyond power and flood control (e.g., climate, fish, wildlife, irrigation, navigation, recreation and cultural resources) in order to develop an informed and balanced course of action.

3. Energy Efficiency

Meet 85 percent of the load growth of regional public utilities through energy efficiency and conservation over 20 years.

Significance: Energy efficiency (EE) savings are the most cost-effective solution to meet load growth and mitigate greenhouse gas emissions and costs. EE investments also enable our customers to extend the value of their allocation of low-cost BPA Tier 1 power by deferring the need to purchase more costly Tier 2 power or make other resource acquisitions.

Strategies: Capture (i) utility program savings, (ii) market transformation savings and (iii) non-programmatic savings at targeted levels.

4. Balancing Capabilities and Resources

Expand BPA Balancing Authority capabilities and customer access to flexible balancing resources in order to support reliability and renewables.

Significance: Reliably integrating the output of the region’s significant wind fleet is vital and requires expanding balancing capabilities and resources.

Strategies: (i) Reduce generation imbalance demands placed on the BPA Balancing Authority (e.g., committed intra-hour scheduling). (ii) Facilitate an increase in the supply of non-federal balancing resources to broaden customers’ access to flexibility. (iii) Develop and enhance operational tools and technologies to better manage the deployment of balancing reserves. (iv) Develop power oversupply solutions for high wind and high water events and for hydro operations for fish. (v) Explore potential participation in a regional imbalance market. (vi) Collaborate with the region to increase long-term system adequacy, reliability and cost-effectiveness.

5. Endangered Species Responsibilities

Implement hydro, habitat and hatchery actions that effectively and efficiently advance the recovery of listed fish, including salmon, steelhead, sturgeon and bull trout.

Significance: Implementing these responsibilities is central to our environmental stewardship in the Columbia Basin and includes biologically effective and efficient mitigation for federal dam impacts on fish, wildlife and cultural resources.

Strategies: (i) Drive BPA’s “on the ground” actions in hydro and habitat mitigation by continued use of biological performance targets. (ii) Continue to make regional partnerships central to progress in implementing and supporting mitigation efforts. (iii) Clarify future operational and environmental requirements related to ongoing litigation over the federal plan for Endangered Species compliance for the mainstem dams on the Columbia and Snake Rivers.

6. Operational Excellence and Employee Engagement

Foster a culture of deeper operational excellence and employee engagement to ensure that (i) BPA meets the demands of business operations efficiently and effectively through standardized, continuously-improved systems and processes, and (ii) BPA’s employee-employer relationships produce high levels of employee commitment and enthusiasm toward our work and deliver better business outcomes for the region.

Significance: To advance our strategic priorities and objectives, innovative approaches and solid execution are crucial.

Strategies: (i) Provide training, consultation and benchmarking in operational excellence. (ii) Increase engagement through new hiring processes, leadership skills and competency development, and initiatives in high performance for individuals and impact planning for groups.

Targets

Below is an overview of our Key Agency Targets for FY 2012. For details, go to www.bpa.gov/go/strategy.

Stakeholder Perspective

System Infrastructure

- ★ **Transmission System Infrastructure**
Expand and strengthen the transmission system to meet current and future demands.
- ★ **Hydro Generation System Infrastructure**
Replace and modernize FCRPS hydro generation equipment to sustain reliability and performance.
- ★ **Energy Efficiency**
Promote and achieve cost-effective energy conservation in the region and improve budget management.

System Performance

- ★ **Transmission System Performance**
Keep the lights on by effectively managing transmission system availability, interruptions and reliability.
- ★ **Federal Hydro Performance**
Keep the lights on by effectively managing federal hydro generation availability, outages, cost and reliability.

Columbia Generating Station Performance

Energy Northwest operates and maintains its nuclear plant within cost and performance targets.

Industry Advancement

- ★ **Renewable Resource Integration**
Develop durable solutions for managing oversupply conditions and increasing available balancing reserves to integrate renewable resources.
- Pumped Storage**
Evaluate and make an investment decision on modernizing the Keys Pump Generating Plant.
- Commercial Transmission Policy**
Modify Network Open Season and Generation Interconnection policies and processes to support efficient regional planning.
- Columbia River Treaty**
BPA and the U.S. Army Corps of Engineers lead development of a balanced and informed recommendation to the State Department on the future of the Treaty with Canada and effectively engage federal and regional entities and other parties.

Environmental Stewardship

- ★ **Endangered Species Act Compliance**
Protect and enhance the condition of endangered and threatened fish through implementation of the FCRPS Biological Opinion and Columbia Basin Fish Accords.
- Climate Change Risk Management**
Identify priority areas in planning and operations to apply scientifically sound climate scenarios and begin integrating scenarios into analysis and decision-making.

Regional Accountability

- ★ **Customer, Constituent and Tribal Government Satisfaction**
Maintain high levels of customer, constituent and tribal government satisfaction.

Financial Perspective

- ★ **Cost Management**
Keep actual total departmental operating costs at or below the start-of-year target.
- ★ **Capital Access Strategy**
Implement a comprehensive plan for long-term access to cost-effective capital.
- Net Revenue**
Realize net revenue within or above the targeted range.
- Treasury Payment**
Make annual planned payments to the U.S. Treasury in full for the 29th consecutive year.
- Bond Rating**
Sustain high credit ratings on BPA-backed bonds.

Internal Operations Perspective

- ★ **RODS Replacement & Retirement**
Business units confirm all legacy systems for dispatch and scheduling are replaced with new or existing technology.
- Smart Grid**
Collaborate and meet milestones for regional Smart Grid Demonstration Project, West-wide synchrophasor project and development of regional business case to evaluate cost/benefit of smart grid technologies to BPA and region.

People and Culture Perspective

- Talent Management**
Develop and maintain BPA workforce with the right size, skills and environment to deliver on agency objectives.
- ★ **Safety**
Create and maintain a safe work environment to keep employee and contract staff accident rates low and with no fatalities.

Success Share

Success Share awards for BPA employees are based on successful performance against targets denoted with a star (★) and on achieving the Treasury payment target and at least \$5 million in net revenue.

