



Regional Cost Review Process:

The Integrated Business Review

Supports the following Agency strategies:

Agency Strategic Objective I6: BPA's processes, decision making, and performance are transparent

Finance Function Strategic Objective \$I4: Finance functions support One-BPA consistent with SOC

Background

The Integrated Business Review (IBR) is the process designed to address the regional cost review portion of the Regional Dialogue Policy. The Regional Dialogue Policy states that

- 1) BPA will, in a separate process, establish a regional cost review cost control process which will, among other things, address agency capital and expense costs (replacing Capital Planning Review (CPR), Power Function Review (PFR), and Transmission's Programs in Review (PIR)) and examine major anticipated policy decisions that affect costs and explore potential alternatives; and
- 2) BPA is committed to ensuring regular access to clear and transparent financial information and frequent opportunities for meaningful input into BPA cost and program decisions

The development of the regional cost review process was prompted by customer requests for an approach that provides useful and detailed information *before* decisions on program levels are made and by BPA's desire to assure its decision-making is open and transparent.

BPA will not delegate its decision-making authority on costs and programs to third parties via this process. Rather, the process affords BPA the opportunity to make its decision-making on program costs open and transparent and to take input from stakeholders.

BPA held Focus Groups to get customer and constituent input for forming the regional cost review process (now named the IBR) that was agreed upon in the Regional Dialogue (see Chapter X of the Long-term Regional Dialogue Final Policy, July 2007). The focus group feedback and comments from customers and constituents were used to create the IBR.

As stated in the Regional Dialogue policy, BPA will revisit the IBR process at least every five years to review whether it is meeting the needs of BPA and its stakeholders. However, as this process is implemented beginning in FY 2008, BPA will ask for feedback and if needed, may modify the process to improve its ability to meet stated objectives.



Overview of Structure: The Integrated Business Review

The IBR structure will be made up of two processes. The first part of the IBR is the Integrated Program Review (IPR), which will address proposed program costs prior to their inclusion in a rate case, and will replace the CPR, PFR and PIR. The second part of the IBR is the Quarterly Business Review (QBR). This will focus on cost trends and implications for expense and capital programs.

Both sub-processes will be open to interested parties. However, stakeholders may choose to appoint spokespersons who would be committed to participate in the process, including making recommendations to BPA.

Part I: Integrated Program Review (IPR)

The IPR process will combine the current program level review processes, replacing the CPR, PFR and PIR and allowing interested parties to see all agency expense and capital spending level estimates in the same forum. The IPR will occur every two years, or just prior to each rate case, and will provide participants with an opportunity to review and comment on BPA's program level estimates prior to spending levels being set for inclusion in rate cases.

The general structure of the IPR is as follows:

BPA will hold a series of workshops in the year preceding a rate case. The first IPR will begin in mid-FY 2008 prior to the Power and Transmission rate cases expected to begin in the fall of 2009. The scope of the IPR will include all BPA expense and capital program levels.

There will be a number of workshops scheduled to go over program levels, drivers and alternatives. Materials will be sent out in advance of the workshops. BPA will check in with participants during the process and determine if other workshops are needed. BPA participation will include subject matter experts and program managers.

BPA will hold two types of workshops during this process. The first will be technical in nature for utility and other staff for in-depth review of program levels. The second type will be held, as necessary, at the manager level to facilitate policy discussion as necessary.

BPA will provide a comparable level of detail as has been provided at past PIR and PFR workshops. Expense levels will be provided for the period through the upcoming rate case period. Actual spending levels for the prior rate period will be provided for comparison purposes, with explanations for significant changes between time periods. A crosswalk will also be provided, when possible, when activities are being reported in a different program than in prior years.



Capital spending forecasts will be provided for a five-year period. The focus will be on investments that have not yet been approved (new starts), but all capital spending will be included. BPA will also provide the incremental costs resulting from the proposed levels of capital investment.

The capital review discussions will be focused on draft asset management plans, which are being prepared at this time for four asset categories: transmission, hydro-electric plant, information technology, and buildings maintained by BPA. The purpose of an asset management plan is to chart a course for investment, maintenance, and other actions directed at achieving long-term outcomes for an asset category. The plans are optimized and prioritized such that the organizations responsible for the asset categories can efficiently and effectively implement the plans. Providing comments on the asset management plans will be the most effective means of influencing BPA's capital spending estimates over the long term.

In addition to separate business unit expense and capital discussions, BPA will hold workshops to look at the combined results of both business units' spending on capital costs and corporate costs, including their allocation between business units.

When appropriate, BPA will provide analysis of impacts of alternative spending levels and policy decisions. To the extent practicable, major issues that can affect short and long-term costs will be discussed at the IPR for input before a BPA decision. Information requested at workshops that cannot be answered there will be provided subsequently by posting to BPA's web site. When possible, BPA will provide a rule-of-thumb estimate of the impact on rates of proposed program levels during workshops.

BPA will coordinate and encourage participation by representatives from the Corps of Engineers, Bureau of Reclamation, as well as ColumbiaGrid and Energy Northwest. To the extent possible, these meetings with other entities will occur before their budget processes are completed so that customer input can be provided as they build their budgets.

IPR meetings will be held in the Portland area during work hours. We know this is a challenge for regional participants, and we plan to provide other means such as phone conferencing, video conferencing, or online conferencing if practical.

Subsequent to workshops being held for review of cost estimates, a comment period will be held during which interested parties can provide written comments and recommendations regarding the proposed program levels. Taking into consideration those comments, BPA's Administrator will provide proposed decisions on the program levels, and those documented will be provided in a close-out report to the participants and the region. In the event of significant disagreement with a proposed BPA decision, recourse will be provided in the form of informal debate before the Administrator. Any IPR participant can propose specific issues for debate. BPA will endeavor to schedule time for debate of all suggested issues. In the event of time constraints, BPA will prioritize issues in consultation with participants, taking into account such factors as overall level of interest of participants and financial impact of issue involved. Final decisions will be documented in the close-out report.

Date: April 10, 2008

Purpose/Subject: Integrated Business Review

Legal Disclaimer:



The following communication tools will be used for the IPR process where appropriate: letters/e-mail messages to customers; news releases; fact sheets; comprehensive workshop materials available prior to the workshop; web-based conferences, public comment periods, a draft close-out report, public meetings to comment on the draft closeout report, and a final close-out report. A workshop schedule will also be provided to customers and constituents well in advance of the workshops so meeting attendees can organize travel plans. Any changes to the schedule during the process will be reflected in a revised schedule to be sent to all participants by e-mail and posted on the web.

After the close-out report is issued and those costs are put into BPA's initial rate proposal, any changes to program levels between the initial proposal and final proposal will be identified. Information on the amount of change and reasons for the change will be provided in a letter, or if needed, at a workshop to be held prior to the final rate proposal. BPA will take comment on them and issue a final report that will be reflected in the final rate proposal.

Part II: The Quarterly Business Review (QBR)

The Quarterly Business Review (QBR) is intended to be an ongoing forum consisting of quarterly meetings/workshops that focus on BPA's finances with a review of current fiscal year actual financial results compared to financial forecasts such as start-of-year targets. BPA will also report on how actual spending compares to rate case assumptions. Standard financial reports will be provided for this discussion, and will be available to participants prior to the meetings. This forum may also be used to make customers aware of new circumstances that could affect rates, as well as be used to focus on long-term cost trends and implications for both expense and capital programs.

The QBR meetings will take place in Portland with phone, video, or online conferencing available to regional participants. QBR meetings will start in November 2008 after the first IPR process. BPA encourages customers and representatives to participate in the QBR meetings on a regular basis, to promote continuity. Meeting material and financial reports will be available on the BPA website for those who cannot attend the meetings.

Stakeholders may appoint spokespersons who would be committed to participate in the process, including making recommendations to BPA.

The following communication tools will be used for the QBR process: letters/e-mail messages to customers; news releases; fact sheets; financial reports and meeting materials available prior to the meeting; web-based meetings/materials; public comment periods. A meeting schedule will also be provided to customers and constituents well in advance of the workshops so meeting attendees can organize travel plans.

BPA will have a dedicated section of the BPA web site that will hold QBR and IPR materials. Additionally, any appropriate announcements to alert customers to updates and program changes will be posted there.



Appendix: Regional Dialogue Policy

X. LONG-TERM COST CONTROL

A) REGIONAL COST REVIEW

BPA will, in a separate process, establish a Regional Cost Review (RCR) cost control process that will include the following features:

- a) The RCR will address all agency capital and expense costs and will replace the Power Function Review (PFR) and Transmission's Programs in Review (PIR).
- b) The RCR will examine all costs and major anticipated policy decisions that affect costs and explore potential alternatives.
- c) The RCR will feature long and short-term aspects of cost management and control.
- d) The RCR will be ongoing and include intense focus on rate period costs in advance of rate cases.
- e) When not reviewing costs, the RCR will focus on long-term cost trends and implications for both expense and capital programs. These review discussions could occur monthly or quarterly.
- f) BPA will, to the extent practicable, bring major issues that can affect short and long-term costs to the RCR for input before a BPA decision.
- g) BPA will develop and provide detailed cost information to the RCR (for example, multi-year cost forecasts of capital and expense), including analysis of impacts of alternative spending levels and policy decisions.
- h) The RCR will be open to all interested parties and will be structured to facilitate both technical input and manager-level input.
- i) BPA and the Resource Agencies (Corps of Engineers, Bureau of Reclamation and Energy Northwest) consistent with past practices will supply information necessary for RCR participants to render quality input, limited only by proprietary issues and the goal of not becoming overly administratively burdensome.
- j) BPA will actively coordinate and encourage the participation of Resource Agencies in the RCR.
- k) The RCR will be structured to facilitate regional consensus-building around best choices.
- l) BPA and the Resource Agencies will retain final decision authority.
- m) In the event of significant disagreement with a proposed BPA decision, recourse will be provided in the form of informal debate before the Administrator. Any RCR participant can propose specific issues for debate. BPA will endeavor to schedule time for debate of all suggested issues. In the event of time constraints, BPA will prioritize issues in consultation with participants, taking into account such factors as overall level of interest of participants and financial impact of issue involved.
- n) The RCR process will permit stakeholders to appoint spokespersons who would be committed to participate in the process, including making recommendations to BPA.



- o) Mechanisms will be developed to allow discussion of emergent issues with the RCR before BPA makes commitments, when practicable.

For administrative efficiency, BPA will try to concentrate the cost-related public discussion in the RCR forum, although BPA will also discuss cost management and financial performance with other interested groups. BPA is committed to ensuring regular access to clear and transparent financial information and frequent opportunities for meaningful input into BPA cost and program decisions.

B) PERIODIC REVIEW

BPA will periodically review the RCR process at least every five years to determine whether it is meeting the needs of BPA and stakeholders. If BPA deems it necessary, the RCR process may be modified to improve its performance.