



Bonneville Power Administration's Power Function Review Internal Operations Charged To Power Technical Workshop

March 10, 2005



BPA's Financial Disclosure Information

1. "All FY05-09 information was provided in March 2005 and cannot be found in BPA-approved Agency Financial Information but is provided for discussion or exploratory purposes only as projections of program activity levels, etc."
2. "All FY97-04 information was provided in March 2005 and is consistent with audited actuals that contain BPA-approved Agency Financial Information".



Corporate General & Administrative Overhead and Shared Services Costs Charged to Power Rates



Corporate General & Administrative Overhead and Shared Services Costs Charged to Power Rates Objectives

- Increase transparency and promote a better understanding of BPA corporate and shared services organizations – who we are, what we do, our historic and projected costs, and how these costs are recovered by power rates.
- Describe how we manage overhead functions at BPA to achieve lowest practical costs – how costs and service requirements are determined, how costs are reported and managed, how decisions are made and implemented
- Outline future direction of corporate and shared services activities – what changes are expected due to:
 1. The Enterprise Process Improvement Project (EPIP)
 2. “One BPA”



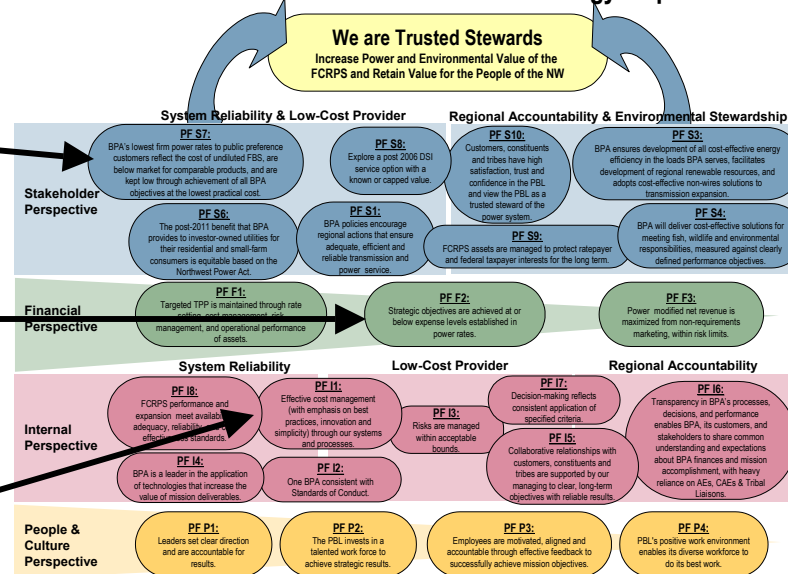
Power Function Review Internal Operations Charged To Power Support of PBL Balanced Scorecard

PF S7: BPA's lowest firm power rates to public preference customers reflect the cost of undiluted FBS, are below market for comparable products, and are kept low through achievement of all BPA objectives at the lowest practical cost.

PF F2: Strategic objectives are achieved at or below expense levels established in power rates.

PF I1: Effective cost management (with emphasis on best practices, innovation and simplicity) through our systems and processes.

Power Function 2005-2011 Strategy Map

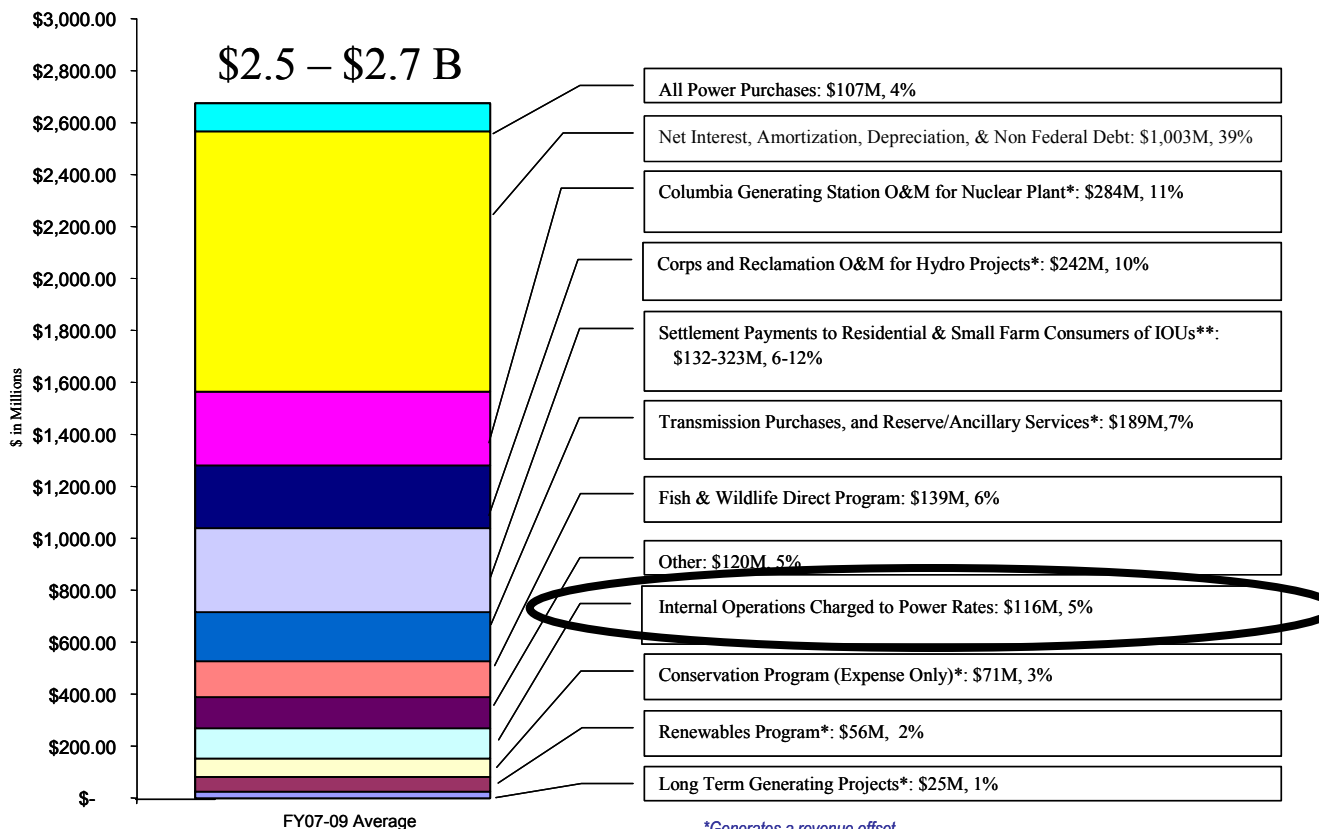


- G&A and Shared Services are part of Power Internal Operating Costs. They provide essential support functions including executive direction and services such as legal, financial, human resources, safety, security, risk, communications, constituent relations, and other agency-wide functions.



Internal Operations Charged To Power

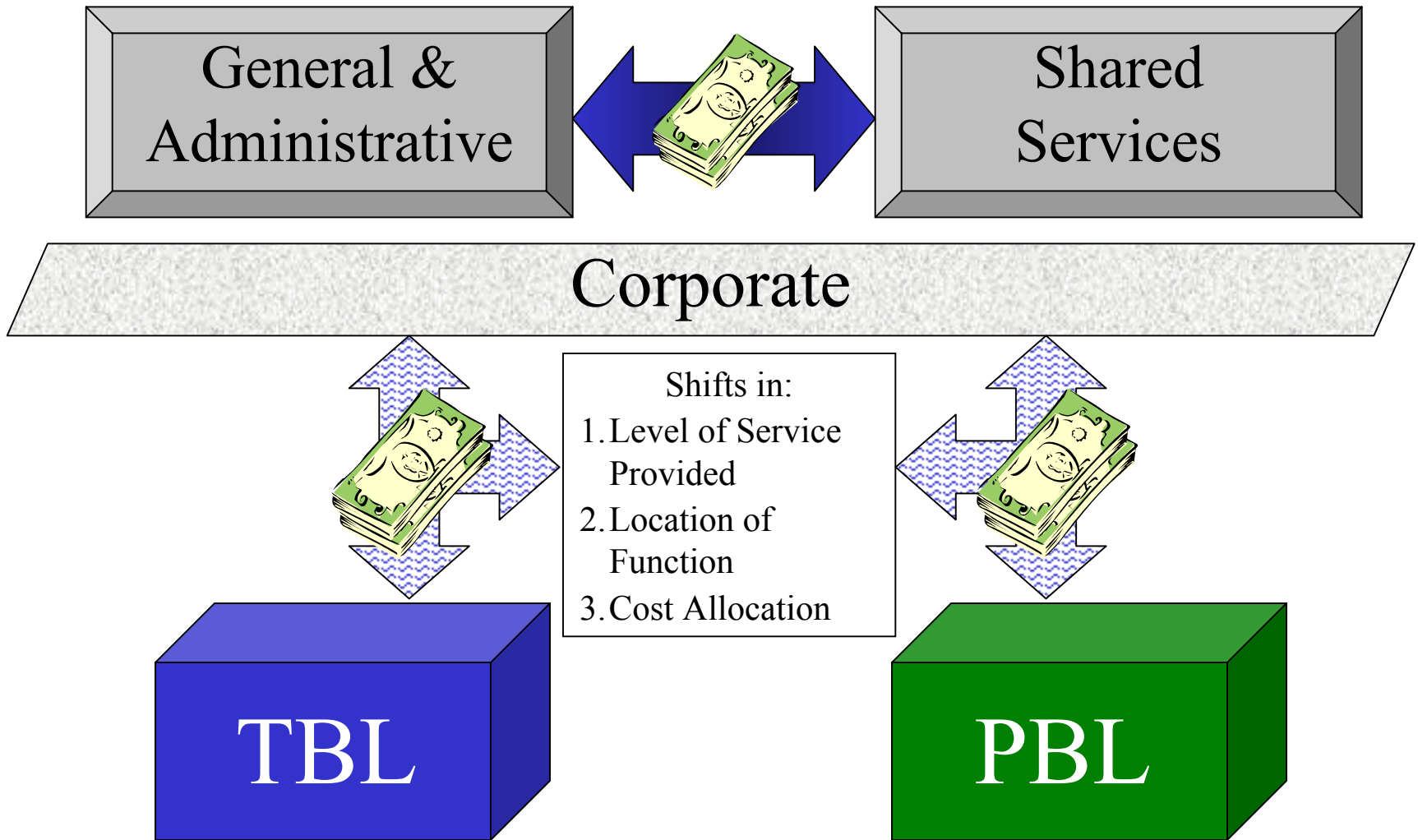
- The Internal Operations Charged To Power costs are included in the revenue requirement of the PBL rate structure. These are the costs that are controllable by BPA and the final level will be decided in the Power Function Review.



*Generates a revenue offset
 ** This level is heavily dependant on forward market prices
 Percentages may not add to 100% due to rounding

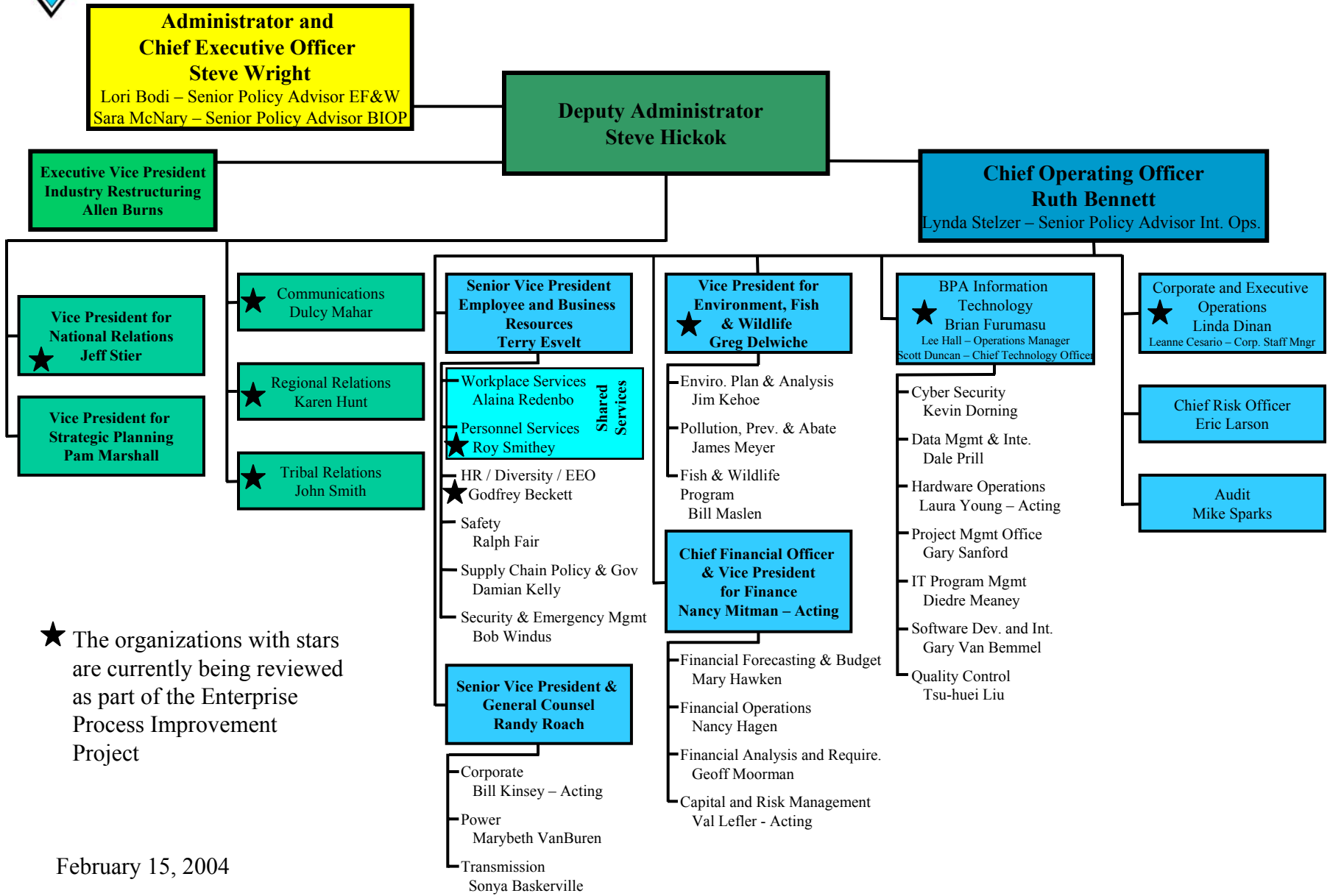
Note: See BPA’s Financial Disclosure Information Page

Evolving Nature of Corporate





Who We Are and How We're Organized

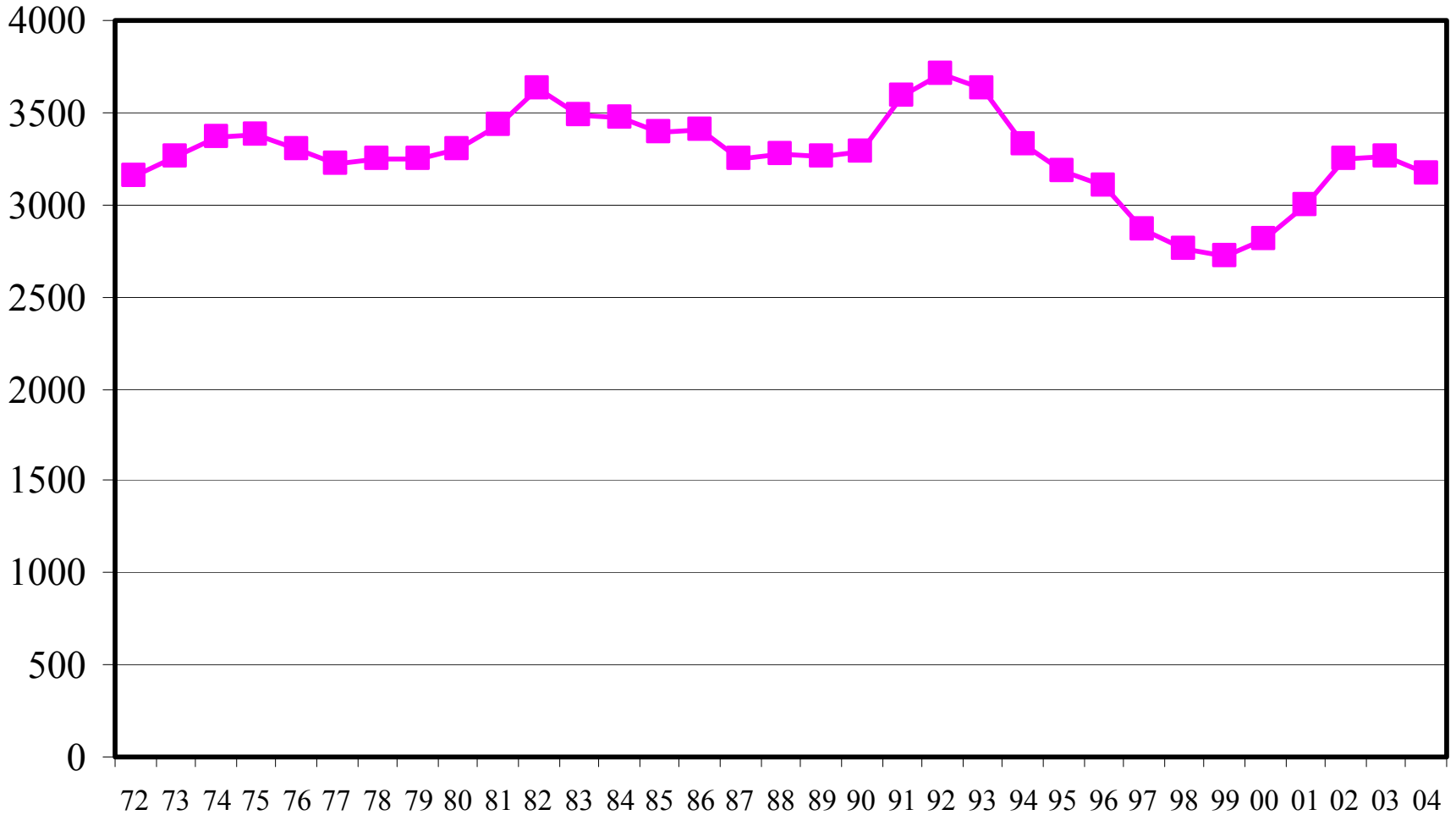


★ The organizations with stars are currently being reviewed as part of the Enterprise Process Improvement Project

February 15, 2004



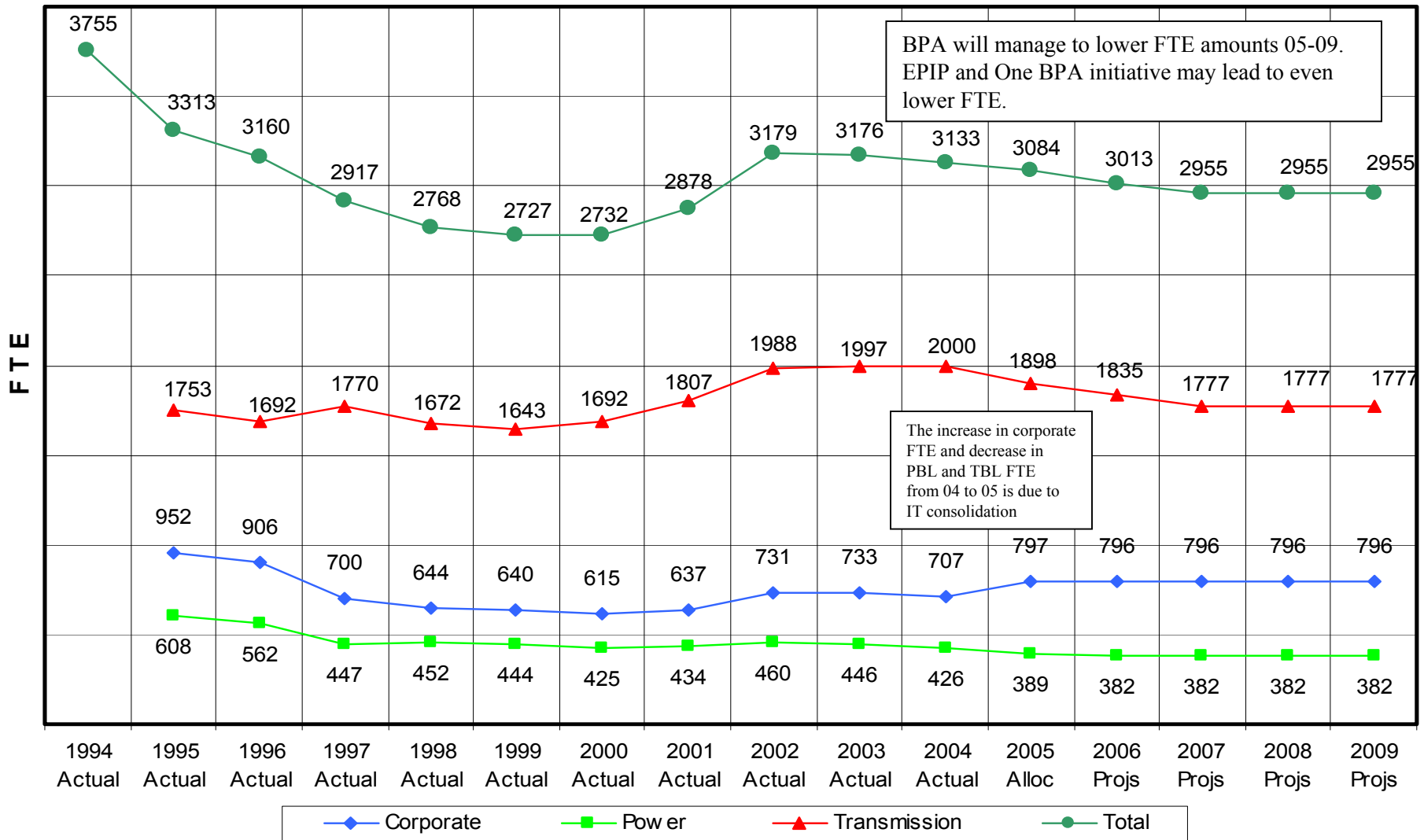
BPA FTE: 1972 to 2004





BPA FTE: 1994 to 2009

As of January 28, 2005, FTE Allocations 1994-2011 Updated, (after-IT- Re-Org)

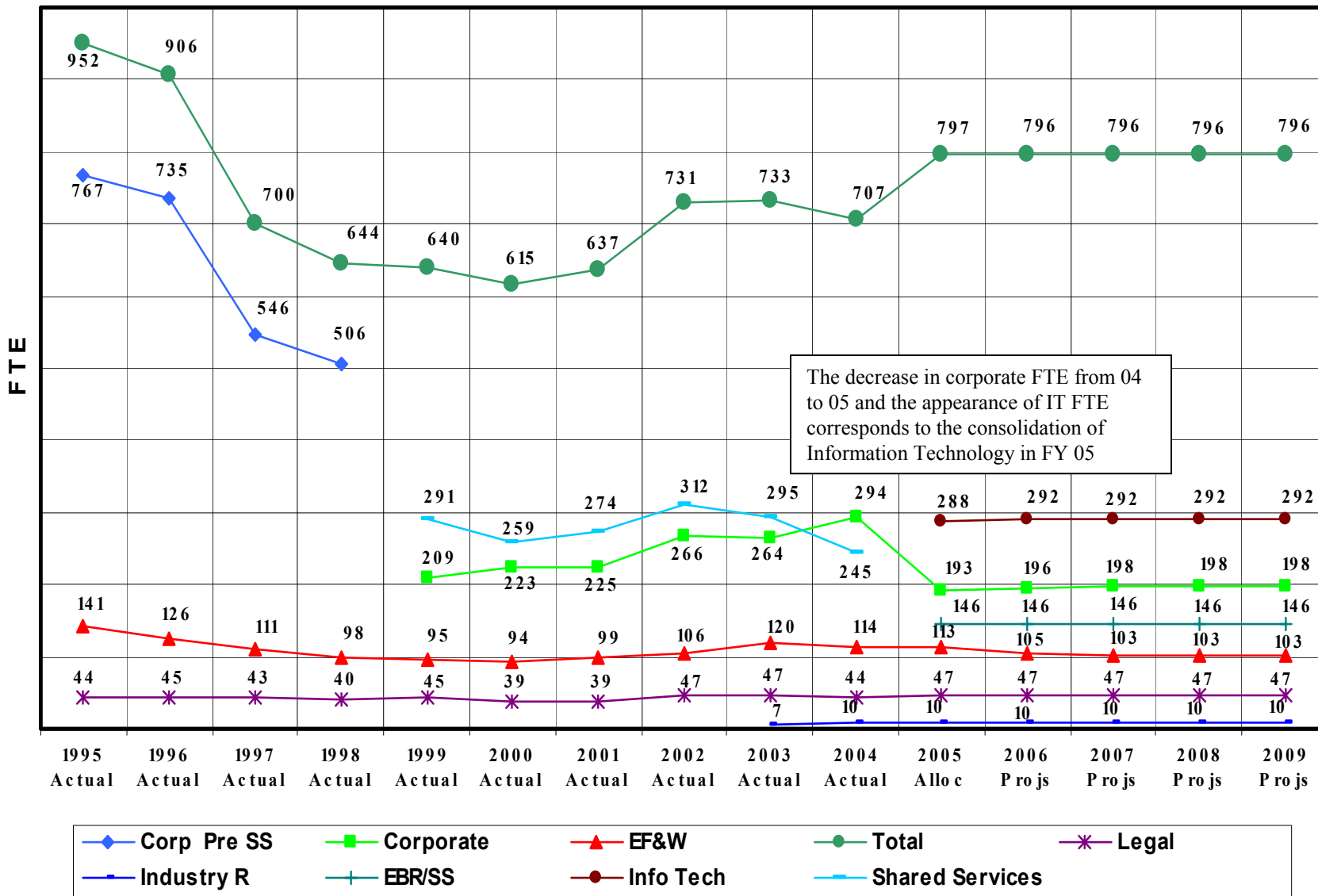


Note: Corporate/Shared Services represents about 26% of the total BPA workforce



Corporate FTE: 1995 to 2009

As of January 28, 2005





Corporate FTE: 2000 to 2005

FY 2000-2002 – Growth in Corporate FTE +116.

During this time period, Corporate FTE increased due to both the need to support an increasingly large Business Line workforce, and because of increased physical and cyber security needs post-September 11. The large infrastructure effort was also placing demands on Corporate--in areas such as the NEPA documentation that accompanies projects, legal support for land acquisitions, and safety inspectors on the many project sites. Additional F&W staff were also added to provide for better management and communication of F&W projects.

FY 2002-2005 - Reorganization and Consolidation +66

During this period, Corporate has undergone significant reorganizations and consolidations, as well as the addition of new functions. As the following table shows, a net of 98 FTE moved from PBL and TBL to corporate, offset by reductions in corporate FTE.

731 FY 2002 FTE

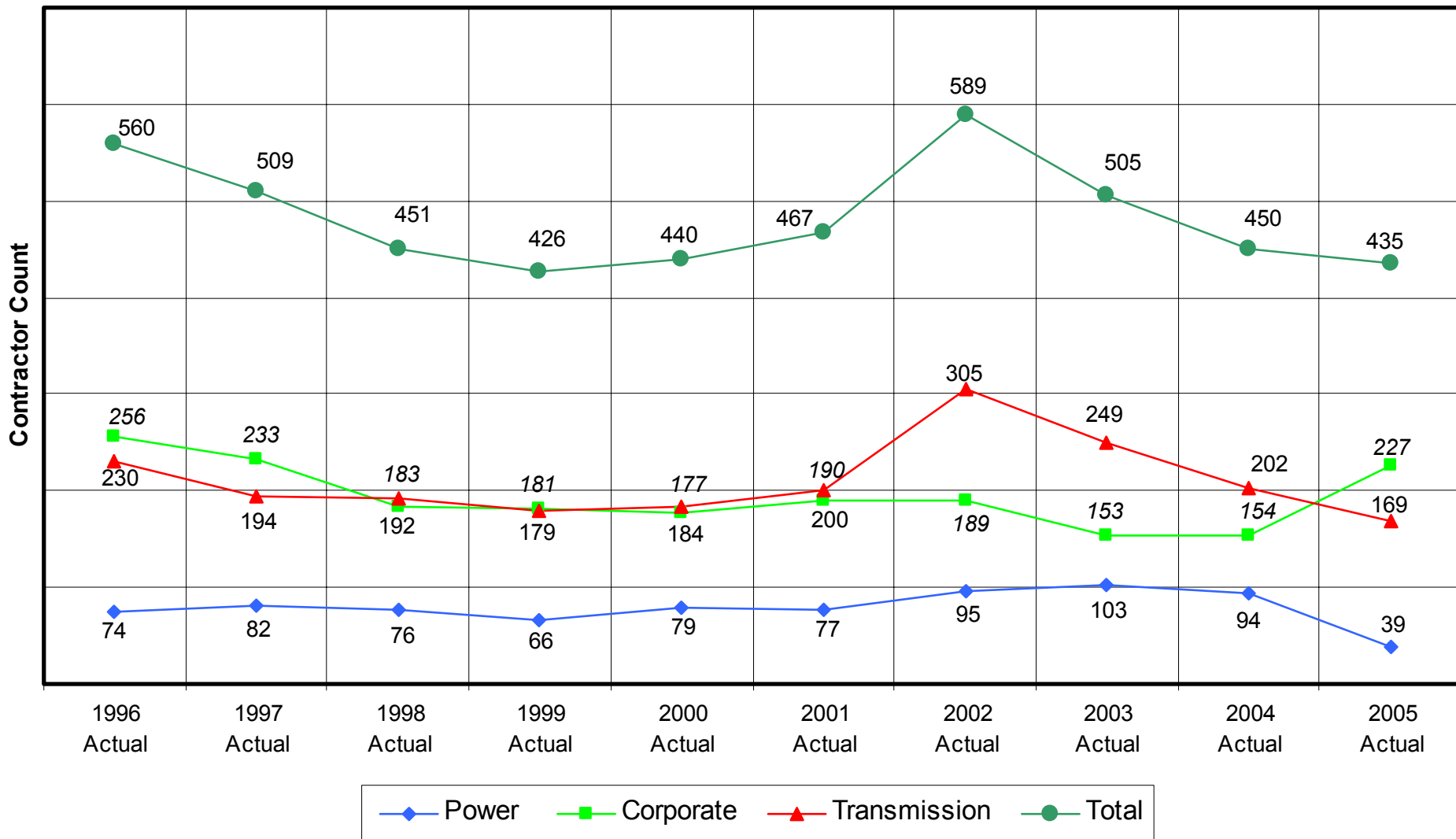
- +10 Industry Restructuring Group formed (transfer of 5 from TBL and 5 from PBL)
- +17 Chief Risk Officer Group formed (transfer of 1 from TBL, 8 from PBL, 8 new positions, and others from within corporate)
- +103 IT group reorganized (transfer of 54 from TBL and 49 from PBL, and others from within corporate)
- 24 Purchasing staff in Shared Services transferred to TBL Supply Chain Management group
- 40 Reductions in Corporate FTE

797 FY 2005 FTE



Contractors: 1996 to 2005

As of January 28, 2005





Corporate G&A Cost and Allocation Methodologies



Overview of G&A Cost Allocations

- Objectives
 - ▶ Establish guiding principles
 - ▶ Provide example methodologies
 - ▶ Shared services concept
 - ▶ General and administrative
- Guiding Principles
 - ▶ Methodologies are equitable and fair
 - ▶ Methodologies represent a causal relationship to the services provided
 - ▶ Methodologies are defensible in a rate setting environment
 - ▶ Methodologies are defensible with our external and internal auditors
 - ▶ Methodologies are implementable and cost effective
- Methodology Examples
 - ▶ Revenue Based – gross revenue, operating revenue, etc.
 - ▶ Expense Based – forecast budgets, targets, prior year actuals, etc.
 - ▶ Traditional Distribution – labor, materials, FTE, direction of effort, etc.
 - ▶ Even Allocation – costs pool spread among number of benefactors.



Overview of G&A Cost Pools

The General and Administrative cost pools are those areas that serve the general purpose of agency support functions and where the shared services concept has not been implemented.

- Typically, functions performed do not have a consistent, measurable method of assigning support costs directly to the benefactor, or the measure is stable with relatively no change over time.
- Typically, functions are general in nature and do not change relative to changes in traditional alternatives (i.e. FTE levels, etc.)
- Precision in alternative measures result in cost prohibitive accumulation of costs associated with the activity.
- Lack of causal relationship to benefactors prevents a clear distinction for assigning those costs.



Bonneville Cost Allocations: G&A

<u>FY 05*</u>	The current General and Administrative cost pools are as follows:
\$2,034	<ul style="list-style-type: none">• <u>Safety Allocation</u> – administering safety program, safety training, accident investigation, etc.<ul style="list-style-type: none">➢ Allocation base – Direction of Effort 7% Corporate, 5% PBL, 88% TBL
\$5,670	<ul style="list-style-type: none">• <u>Security Allocation</u> – building security, emergency services, crime witness program<ul style="list-style-type: none">➢ Allocation base – Direction of Effort - FTE – 21.4% Corporate, 17.6% PBL, 61% TBL
\$5,325	<ul style="list-style-type: none">• <u>Industry Restructuring</u> – GridWest development<ul style="list-style-type: none">➢ Allocation base – Direction of Effort – 40% to PBL and 60% to TBL
\$3,677	<ul style="list-style-type: none">• <u>Risk Management</u> – risk analysis and management services for both PBL & TBL<ul style="list-style-type: none">➢ Allocation base – Direction of Effort – 73% to PBL and 27% to TBL
\$33,084	<ul style="list-style-type: none">• <u>Corporate Cost Pool</u> – Executive Office, Employee and Business Resources, Chief Financial Officer, Legal, Audit, Strategic Planning<ul style="list-style-type: none">➢ Allocation base – Even Allocation – 50% PBL, 50% TBL
\$3,084	<ul style="list-style-type: none">• <u>G&A IT Administration</u> – Executive administration of Agency-wide IT<ul style="list-style-type: none">➢ Allocation base – Even Allocation – 50% PBL, 50% TBL
\$24,154	<ul style="list-style-type: none">• <u>G&A IT Infrastructure</u> – Desktop support, Server Support, Telecommunications, etc.<ul style="list-style-type: none">➢ Allocation base – Direction of Effort – 38% PBL, 62% TBL
\$6,699	<ul style="list-style-type: none">• <u>G&A BES Allocation</u> – Business Enterprise solution, Bonneville’s Enterprise Resources Planning System<ul style="list-style-type: none">➢ Allocation base – Direction of Effort – analysis of use – 30% to PBL and 70% to TBL
\$28,265	<ul style="list-style-type: none">• <u>G&A Dedicated IT Projects</u> – Direct support of business line specific IT projects<ul style="list-style-type: none">➢ Allocation base – Project specific work-orders – 100% PBL, 100% TBL

* FY 05 pool totals, including shared services allocations to corporate cost pools. \$ in thousands.



Cost Allocations Exceptions: Direct Charging

Although the costs of the offices performing G&A type functions are allocated, we have exceptions to the general rule due to more causal relationship with the activities performed. Examples include:

- ▶ Legal – Rates Attorneys assigned specifically to BL's, etc.
- ▶ Slice Audit – direct reimbursement of 100% costs incurred.
- ▶ Risk Management's "Back Office" – function directly related to Power Sale transactions.
- ▶ WNP-3 Settlement Exchange Agreement – contract administration and O&M exhibits results directly associated with the PBL.



Corporate G&A Costs – 2001-2009



FY 2001-09 Corporate Costs

All Corporate except for Shared Services and EF&W

*See separate Handout for
updated table*



Corporate G&A Observations

- Program components of \$125M/year annual expense for FY07-09:
 - 76% Employee Compensation – Personnel compensation and overtime for BPA staff and compensation for contract labor
 - 15% Service Contracts – Includes IT support, GridWest, KEMA, financial management support, risk expert assistance, legal services, customer/constituent surveys, D.C. office support, etc.
 - 9% Other – Travel, training, materials & supplies, rents & utilities, and miscellaneous
- The large increase in G&A from 04-05 is driven primarily by the IT consolidation, which added over \$50M to Corporate, with corresponding decreases in Shared Service, Power and Transmission.
- As a direct result of the additional FTE from IT consolidation, the Shared Services budget charged to Corporate G&A also increased by over \$3M from 04 to 05 and beyond.
- Removing the impact of the IT consolidation and increases in the Shared Services allocation, the 04 to 05 increase in G&A is approximately \$7.6M. This increase is due to the following factors:
 - Increased GridWest costs in Industry Restructuring as critical decision points are passed and GridWest ramps up to operations (\$2.1M, treated as a deferred debit)
 - Funding for consulting services to support the Enterprise Process Improvement Project (\$1.7M)
 - Increase funding for contract support in Financial Management (\$0.7M)
 - Increased funding for contract support of Risk Management (\$0.6M)
 - Increases due to COLA and other miscellaneous factors (\$2.5M)
- G&A costs increases from 05 to 09 are driven, with few exceptions, by COLA's and other cost of living factors. Corporate FTE is projected to remain flat for the FY 05- 07 period.

Note: See BPA's Financial Disclosure Information Page



Forecasted Budget - Cost Exposure and Opportunities for Savings

Enhanced Initiative:

Technology Confirmation/Innovation Program (TCIP)

- Adapts, develops and confirms the potential of emerging technologies that will benefit BPA's performance
- Operates across many functional areas (.e.g., hydro, transmission, security, energy efficiency)
- Results will inform subsequent capital decisions to deploy new technologies

Cost Exposures

- TCIP costs of identifying, adapting, and confirming beneficial new technologies beyond prior commitments.
- Security costs
- Federal Government Mandates
- Financial disclosure-GAAP requirements

Opportunity for Savings

- TCIP - Improved system performance and One-BPA coordination across functional areas
 - IT consolidation savings
 - EPIP efficiencies
 - One Bonneville
 - Improved system performance with new technologies
- Many of the functions performed by Corporate either are, or will be, reviewed as part of the Enterprise Process Improvement Project. This project will seek substantial cost reductions in these area. However, as the majority of corporate costs are driven by staff level, achieving the cost savings identified by the EPIP review will depend on BPA's ability to reduce staffing levels based on attrition and incentives such as VSI/VERA.



Key Support to the Power Business: Chief Operating Officer

Information Technology - Chief Information Officer

Breakdown of FY05 IT Costs Transferred to Corporate From Other BPA Organizations (dollars in thousands)

Corporate Costs from CIO & BES	\$ 8,300.0
Shared Services IT Costs	\$23,800.0
Power IT Costs	\$12,700.0
Transmission IT Costs	\$12,300.0
Various Other Corporate Costs Consolidated in IT	\$ 1,400.0
Total From Corporate Cost Chart - Line 22	\$58,500.0

Cost Drivers: 01-04 costs are for the two IT functions (Office of the CIO and Business Enterprise System) that were part of Corporate before the IT consolidation in 05. 05-09 budgets are for the reorganized agency IT group, consolidating IT from corporate, shared services and both business lines. The budget figures shown were the preliminary consolidation as of August 2004. These costs included an undistributed reduction in 05-06 of close to \$6M below anticipated budgets based on cost reductions exercises to meet SNCRAC levels committed to by BPA. This reduction was not shown in 07-09 budgets. Since August, the IT group has focused on completing the consolidation of IT functions and determining the baseline budget for those functions. For 05, the baseline budget for IT expenses is \$67.3M, with much of the increase over previous estimates due to additional functions and costs being consolidated into the new group. The IT organization has committed to a 25% reduction of capital and expense budget dollars over the next 20 months off the baseline FY 05 budget. This will require a major re-engineering of IT processes, which is currently underway. As the results of these effort become available, the budget reductions will be reflected in FY06 and out-year budgets.

Note: See BPA's Financial Disclosure Information Page



Shared Services Costs to Power Business Line

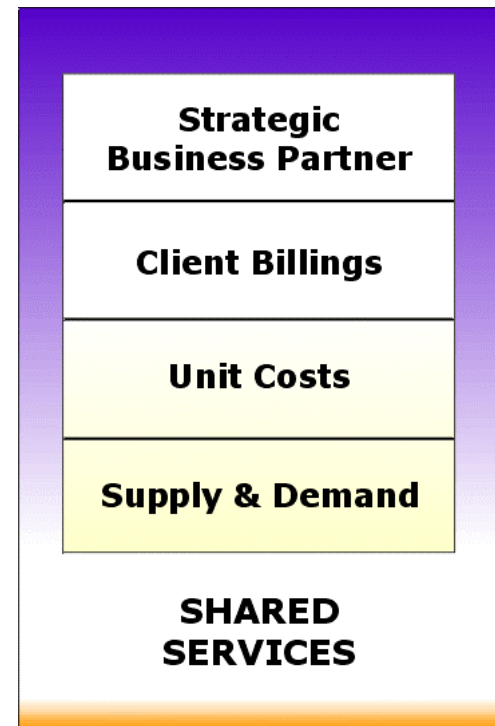


The Shared Services Business Model

BPA adopted the shared services model in 1998 as a means to more effectively manage certain internal operating costs.

The shared services concepts support BPA's vision and goals by:

- Ensuring support services are aligned with internal operational priorities, and agency and business line strategic direction;
- Centering expertise and volume transactions (economies of scale).
- Gaining efficiencies and reducing costs through common and standard service delivery processes.





Products/Services Offered by Shared Services in 2005

Workplace Services provides:

- building leases, building management and upgrades/maintenance
- space planning and office moves
- mail distribution and printing services
- office equipment and supplies

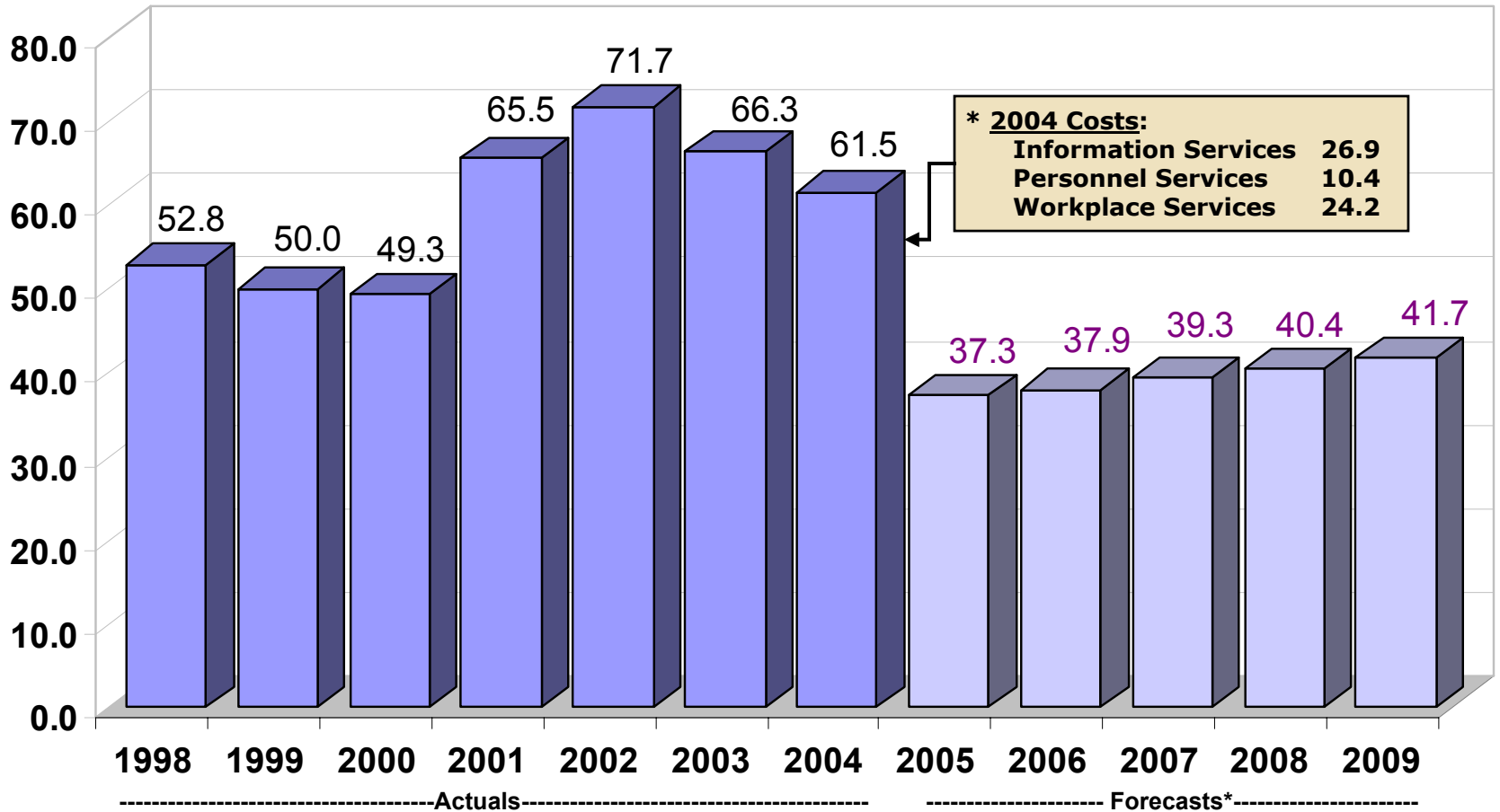
Personnel Services provides a full suite of HR services including:

- recruiting and staffing services
- benefits and processing
- performance management and employee training
- harassment-free work environment

** Notes: Purchasing Services was reorganized for 2004. Information Systems was reorganized for 2005.*



Total Shared Services Costs



Notes: These are total Shared Services costs
 See BPA's Financial Disclosure Information Page
 Purchasing Services reorganized into Supply Chain, FY 2004
 Information Services is consolidated into Corporate, FY 2005



Shared Services Historical FTE, 2001-2004:

	Actuals			
	2001	2002	2003	2004
SS BFTE	274	312	295	241
SS Contractors	123	135	131	111
Total SS BFTE & Contractors	397	447	426	352

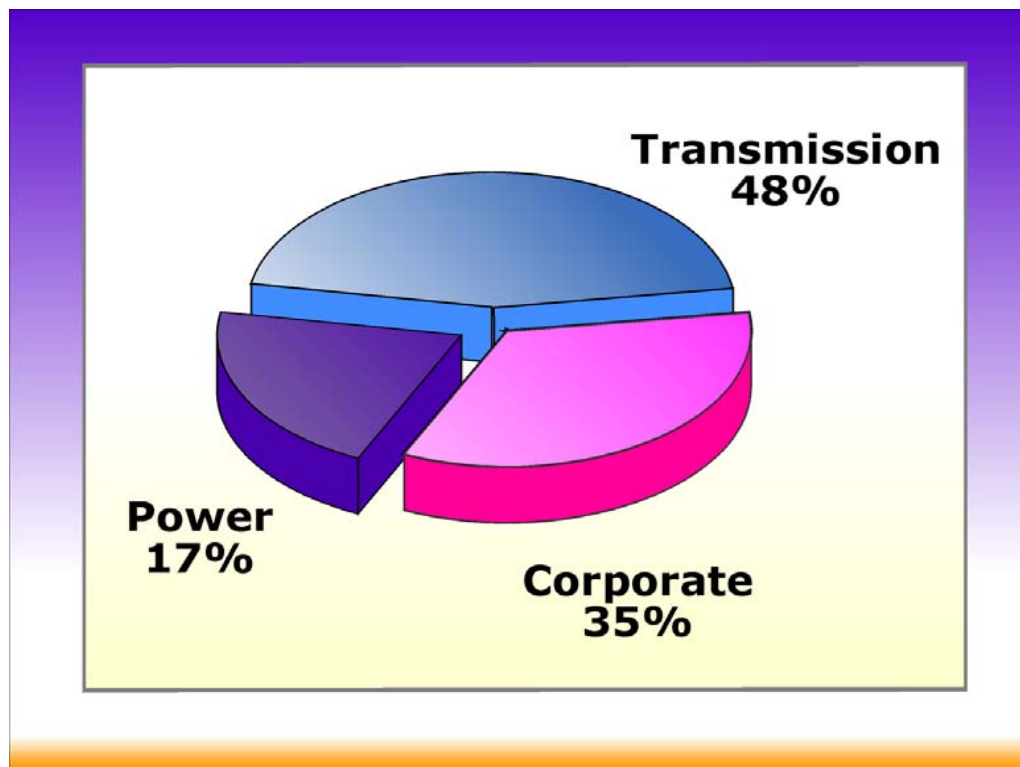
*Notes: From 2005-2009, SS FTE is included in Corporate forecasts
 BFTE = Bonneville employee Full Time Equivalents
 Purchasing Services reorganized into Supply Chain, FY 2004
 Information Systems reorganized into Corporate, FY 2005*



Departments Served by Shared Services in 2005:

Shared Services serves all elements of BPA.

The following represents the FY 2005 distribution of service costs to BPA's Business Lines and Corporate:



*Notes: Shared Services charges to Corporate are distributed back to the Transmission (50%) and Power (50%) Business Lines.
Corporate share has increased due to IT consolidation in FY 2005*

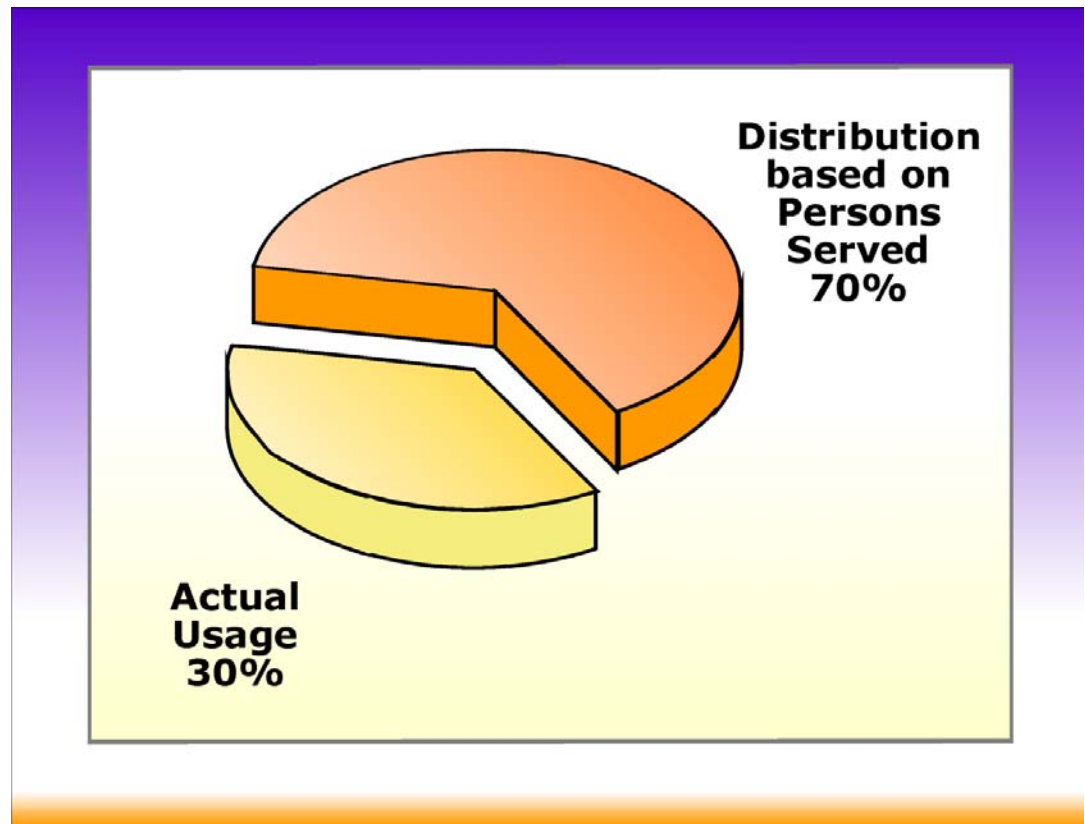


How Shared Services Applies its Costs in 2005:

Shared Services costs are distributed to the Business Lines using a combination of:

- Distributions based upon the number of persons (BFTE and Contractors) served
- Actual usage of services

An estimate of the distribution of these recovery methods is shown in this chart





Shared Services Historical Costs to PBL: *Detail by Functional Area*

----- \$'s millions, rounded -----

		2001	2002	2003	2004
FORECAST	Personnel Services	2.5	2.6	1.3	1.1
	Information Systems	6.1	6.6	6.3	6.3
	Workplace Services	4.6	6.6	7.0	6.7
	Purchasing Services	.4	.4	.7	n/a
	TOTAL	\$ 13.6	\$ 16.2	\$ 15.3	\$ 14.1
BILLINGS	Personnel Services	2.0	2.3	1.3	1.2
	Information Systems	5.8	6.4	6.8	5.9
	Workplace Services	4.8	6.5	6.3	6.3
	Purchasing Services	.3	.4	.5	n/a
	TOTAL	\$ 12.9	\$ 15.6	\$ 14.9	\$ 13.4

*Notes: See BPA's Financial Disclosure Information Page
Numbers are rounded. FY 2005 and beyond: Information Systems is reflected in Corporate costs.*



Shared Services Historical Volumes, 2001-2004: At the BPA Level; Representative Detail by Functional Area

	2001	2002	2003	2004	Δ Volume Change '03 to '04
Personnel Services					
Applications processed	6,000	11,800	6,200	6,270	↑ 1%
Personnel actions	25,700	29,000	19,649	10,272	↓ 48%
Training hours provided by outside vendors	46,584	32,186	24,794	38,534	↑ 55%
Training hours provided by BPA staff	88,083	99,751	76,410	92,071	↑ 20%
Information Systems					
HELP Desk requests	57,419	85,530	78,667	44,169	↓ 44%
Calls to BPA operators	150,000	153,852	143,539	130,810	↓ 9%
Servers supported	337	470	469	559	↑ 19%
Desktops/Laptops supported	N/A	4,896	5,956	7,023	↑ 18%
Workplace Services					
Mail Services: pieces processed	2.6 M	2.0 M	1.9 M	1.81 M	↓ 5%
Printing Services: engineering drawings	8,441	20,636	59,960	73,310	↑ 22%
Space Management: sq. ft. office space	625.4 k	766.2 k	770.5 k	786.9 k	↑ 2%

Client Satisfaction		
2001	2002	2003
88%	92%	98%
95%	91%	89%
95%	94%	94%

Notes: These are overall Shared Services volumes.
In 2004, Client Satisfaction was measured using Transactional Feedback.



Shared Services Forecasted Costs to PBL, 2005-2009:

Detail by Functional Area (approximate)

FORECAST (\$'s in Millions)

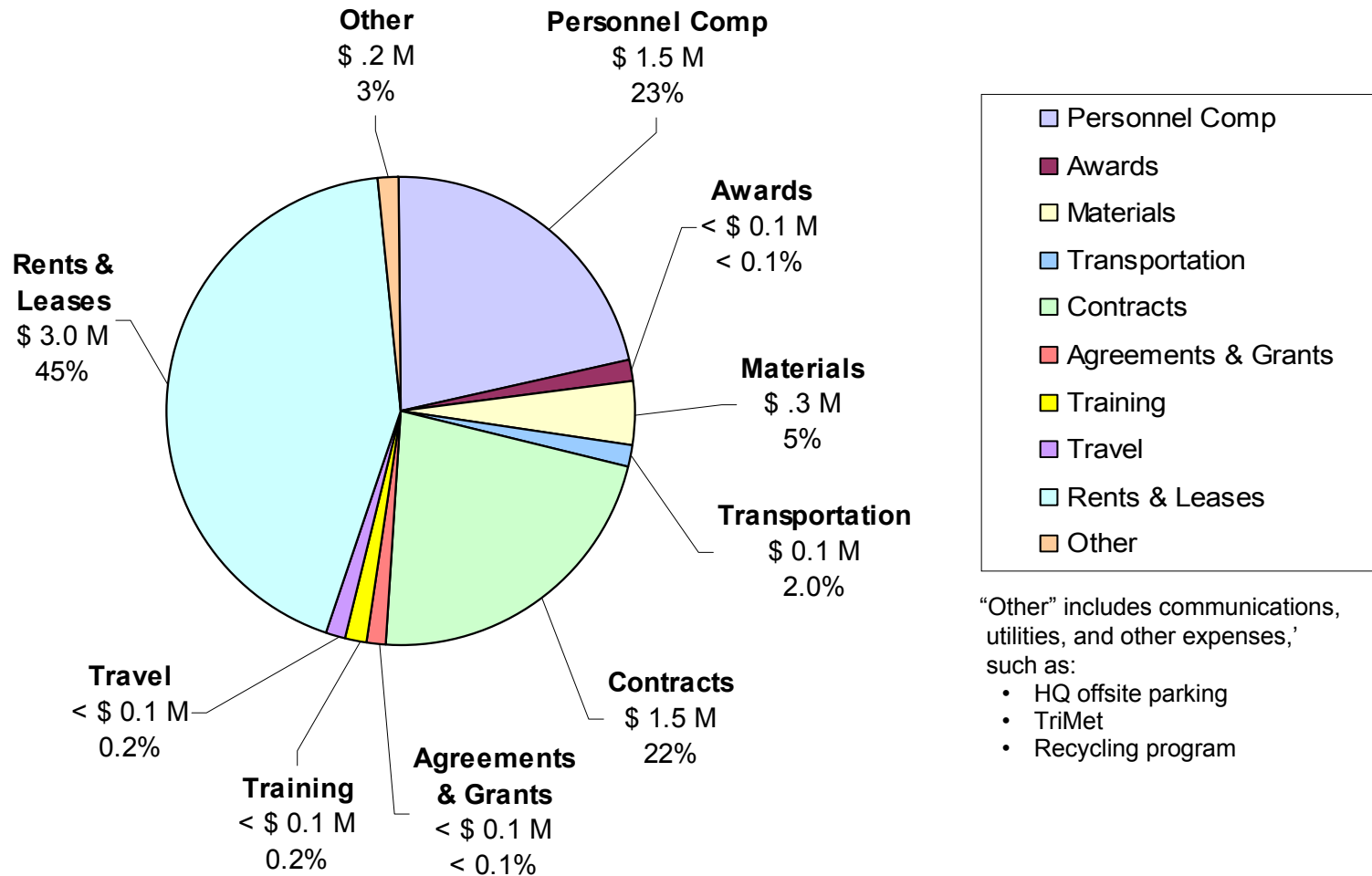
	2005	2006	2007	2008	2009
Personnel Services	\$ 1.20	\$ 1.23	\$ 1.26	\$ 1.30	\$ 1.35
Acquiring & Positioning	.32	.32	.33	.35	.36
Work Environment	.26	.27	.28	.28	.29
Learning Environment	.46	.48	.49	.50	.52
Benefits & Processing	.16	.16	.16	.17	.18
Workplace Services	\$ 5.41	\$ 5.42	\$ 5.59	\$ 5.75	\$ 5.92
Facilities Management	1.72	1.72	1.78	1.83	1.88
Office Services	.37	.37	.38	.39	.40
Mail Services	.15	.15	.16	.16	.16
Printing Services	.20	.20	.20	.21	.22
Office Supplies	.17	.17	.18	.19	.19
Space Management	.27	.27	.28	.28	.29
Lease Management	2.53	2.54	2.61	2.69	2.78
TOTAL	\$ 6.61	\$ 6.65	\$ 6.85	\$ 7.05	\$ 7.27

Notes: Numbers are rounded. See BPA's Financial Disclosure Information Page FY 2005 and beyond: Information Systems is reflected in Corporate costs.



Shared Services Forecasted Costs to PBL, 2005: \$6.6M

Detail by Category (approximate)



Note: See BPA’s Financial Disclosure Information Page



Shared Services Cost-Reduction Activities:

Shared Services has continued to deliver services at or below the agreed to target

This was accomplished by following a 2-pronged approach:

Reduced cost of delivering service by:

- ✓ Reduced planning/analysis/clerical support staff
- ✓ Reduced training, travel, supplies/equipment
- ✓ Reduced contracts
- ✓ Instituted a hiring freeze/restricted hiring
- ✓ Reduced awards

Reduced services provided to clients,

e.g.:

- ✓ Longer response time (computer help response).
- ✓ Reduced help desk support hours
- ✓ Reduced recruitment
- ✓ Limited outside training
- ✓ Reduced supplies/equipment/subscriptions
- ✓ Limited moves/office reconfigurations/furniture
- ✓ Reduced mailing/printing services
- ✓ Building upgrades eliminated/significantly reduced
- ✓ Reduced upgrades/support to enterprise system

*Notes: Purchasing Services was reorganized for 2004.
Information Services is reorganized for 2005.*



Shared Services Forecasted Budget: Drivers Determining Cost Levels

Shared Services costs are influenced by two major business drivers

- Number of persons served (Bonneville and contractor employees)
- Specific service requests of the Bonneville clients

	Personnel Services	Workplace Services
<i>Risks to meeting the forecasted budget target</i>	<ul style="list-style-type: none"> ➤ Directives from DOE, OPM, and other federal requirements ➤ Hiring or recruiting requirements ➤ Automation or system requirements for process changes 	<ul style="list-style-type: none"> ➤ Un-anticipated building failure or facilities requirements ➤ Major moves based on agency reorganizations ➤ Increases up front to realize savings over time (e.g., move costs resulting from consolidations)
<i>Opportunities for savings (continual focus on efficiencies and process improvement)</i>	<ul style="list-style-type: none"> ➤ HR Efficiency Study (no specifics on PBL impacts at this time) 	<ul style="list-style-type: none"> ➤ HQ/Van Mall consolidation (no specifics on PBL impacts at this time)



Shared Services Costs to PBL: Conclusions

- Shared Services costs and FTE are flat - except for inflation.
- Shared Services costs are dependent on client requirements.
- Shared Services and PBL work closely to manage the costs together:
 - Standard reporting monthly to clients;
 - Monthly meetings with clients on business requirements, projects, and costs;
 - Estimate costs for new work, negotiate what can be shifted or eliminated;
 - Process improvements internal to Shared Services to deliver services for lower cost;
 - Proactive innovation in delivering services.