

Bonneville Power Administration
Power Function Review Technical Workshop
March 10, 2005

BPA Rates Hearing Room, Portland, Oregon
Approximate Attendance: 10

Internal Operations Charged to Power

[The handouts for this meeting are available at: www.bpa.gov/power/review.]

Introduction

Michelle Manary (BPA) said the meeting was a follow-up to last week's session on internal operations, which raised a number of questions that need clarification. We have posted updated material on the website, as well as a backgrounder on the technical confirmation/innovation program, she said.

I. Internal Operations Charged to Power

Bryan Crawford (BPA) went over the changes and additions to the March 1 meeting packet. The programs designated with stars on the organizational chart on page 8 are currently involved in the Enterprise Process Improvement Project (EPIP), he said. The other functions will be involved later on – all of Corporate will go through EPIP at some point, except for General Counsel, Crawford stated.

The information on page 1 is to clarify any confusion about Corporate FTE, he continued. Crawford elaborated on the explanations provided about the changes in Corporate FTE, pointing out that 2000-2002 “was a growth period.” There was increased need to support the business lines, a security build up post September 11, a transmission infrastructure effort that required support, and we added F&W staff to enhance management and communications, he explained. Crawford detailed the additions and decreases in Corporate FTE, explaining the increase from 731 FTE in 2002 to 797 FTE in 2005.

Why isn't General Counsel going to be included in EPIP? Mark Thompson (PPC) asked. KEMA (consulting firm) did not recommend it be included, Crawford responded. Also, it is a small support staff of about 50 people, and there is not much to be gained in efficiencies there, Kathy House (BPA) added.

Terry Esvelt (BPA) said the explanations on page 12 were developed in response to several questions at the last meeting. It looked like the business lines were doing much better at holding down costs and FTE than Corporate, but when you get into the details of organizational movements from the Business Lines into Corporate over time, we look much like the rest of BPA, he said.

Crawford pointed out that changes in Corporate lag changes in the business lines. If there are reductions one year in PBL, for example, it will take until the following year for the reductions to show up in Corporate, he said. EPIP will also bring down the Corporate FTE numbers, Crawford indicated.

But you will have to set a revenue requirement for the rate case, so won't you have to make assumptions? Kevin Clark (Seattle) asked. Yes, that's correct, Crawford answered.

He moved on to page 17 and the detailed costs associated with each of the general and administrative (G&A) cost pools. He pointed out that on the newly revised spreadsheet for Corporate expenses, TBL and capital were added. This allows you to add up all of the expense associated with a particular function, Crawford said.

There were questions about the spreadsheet and how the numbers relate to those elsewhere in the packet. Crawford explained how the Corporate and Shared Services costs are allocated to the business lines. Could you post this spreadsheet in Excel? Clark asked. Manary said she would send the spreadsheet to people who are interested, but would not post it in Excel.

Page 23 explains the IT consolidation and the difference between the number on the Corporate cost chart for FY 2005 (\$58.5 million) and the baseline budget (\$67.3 million), Crawford said. The \$58.5 million dates back to the middle of last summer, he explained. The consolidation was complex, and it took a while for all of the numbers to catch up with the reassignment of FTE and functions; it took until January for everything to shake out, Crawford said.

The chief operating officer wanted the IT chief to have the whole picture before he started looking for cuts, Crawford said. IT has committed to a 25 percent reduction of capital and expense budget dollars, off the \$67.3 million baseline, over the next 18 months, he stated. We will be able to factor in new estimates by the end of April, Crawford said, adding that it will make a big difference where specific cuts are made – they could affect PBL and TBL differently and may be either in capital or expense. “It's safe to say we won't get a 25 percent reduction without substantial changes in IT operations,” he stated.

Joe Hoerner (Tacoma) asked for clarification about the baseline figures from which cuts would be made. It is \$67 million expense and \$30 million capital, Crawford responded. Our goal is to have a good feel for the numbers by the end of next month, with the distribution to PBL and TBL, he said. IT is the furthest along in EPIP, Crawford added.

II. Technology Confirmation/Innovation (TCI) Program

John Holmstrom (BPA) pointed out that the budget for the TCI program is on line 27 of the spreadsheet and starts at \$250,000 in FY 2006 and ramps to \$4.1 million in 2009. We prepared a four-page backgrounder on TCI as well, he said.

How did you come up with the funding level? Clark asked. “There isn’t a magic number we’re shooting for,” Holmstrom responded. BPA’s technology budget has been as high as 1.5 percent of revenues and as low as the current one-fifteenth of one percent, he said. The industry has been depressed in terms of the attention paid to technical innovation, and we are looking to take a more aggressive approach, Holmstrom explained. He pointed out that BPA currently has about \$5 million to \$6 million dedicated to technology-related activities within programs, including efforts at Corps of Engineers, Bureau of Reclamation, and Energy Northwest facilities. Holmstrom said the projection for TCI is to ramp up gradually to between \$9 million and \$15 million by 2011 or later.

Where do we see those dollars now? Stephany Watson (Krogh and Leonard) asked. They are part of O&M budgets, Manary answered. Why the new line item? Watson asked. These activities have been a source of arbitrary cuts in programs and relegated to the background, Holmstrom replied. Management wants a more focused effort, he said. This won’t be a stand-alone, independent operation – it will be networked with other programs, Holmstrom added.

Is there a demonstration of cost-effectiveness with these efforts? Thompson asked. Yes, on a portfolio basis, Holmstrom responded. “Not every project will pan out,” but overall we expect successes will overcome any losses, he said. BPA has not been good about reporting the value and results of this type of expenditure, Holmstrom added. He pointed to accomplishments listed in the backgrounder and how they have contributed to agency savings and eased regulatory restrictions.

What is the proposed allocation of funds between PBL and TBL? Clark asked. It will probably be an even split, but will vary from year to year, Holmstrom replied. The proposal is to have a split with truing up later on to assign costs appropriately, he said. The idea is that we would have requests for proposals, and once we have a technology road map, we can target projects to particular areas, Holmstrom explained.

It looks like the power rate impact is about \$1.4 million annually in the next rate period, Clark observed. That looks about right, Holmstrom answered. He acknowledged that it is difficult to identify ahead of time where expenditures will be made. Opportunities can present themselves that we know nothing about today, Holmstrom wrapped up.

III. Shared Services

Laura White (BPA) presented the Shared Services costs to PBL, saying the function considers itself to be a strategic business partner to the business lines. We try not just to provide service, but also to advise on ways to increase efficiency and reduce costs, she stated.

What Shared Services provides to the agency falls into two categories, White explained: workplace services, such as building leases, space planning, mail distribution, printing, and office equipment and supplies; and personnel services, such as recruiting, benefits, performance management and training, and harassment-free work environment. She

went over the costs for the services from 1998 to forecasts through 2009, and noted that “the huge drop” between the high in 2002 and the low in 2005 reflects the migration of the purchasing function and the IT transfer.

White’s presentation included a historical look at FTE and the distribution of costs to the business lines. In 2005, the split is forecast to be Transmission, 48 percent; Power, 17 percent; and Corporate 35 percent – the increase for Corporate over previous years is offset by decreases in the business lines, she noted. White explained that the distribution of costs is based both on the number of people served and by actual usage of services. She went over the history of Shared Services costs to PBL by functional area and the volumes of services provided.

The forecast costs to PBL through 2009 reflect “very small incremental changes” primarily due to inflation, White stated. We are a small part of PBL costs, she added. A pie chart detailed the 2005 forecast of \$6.6 million to PBL, the biggest piece of which is rents and leases, White noted.

Esvelt pointed out that Shared Services expects to decrease the outlay for rents and leases. When TBL moved its workforce to Vancouver, it left vacant space in the headquarters building here in Portland, he said. The plan is to fill this building back up by moving people from Vancouver, Esvelt stated. We will be utilizing the space better, he said. The expense for TBL will go down with less space leased in Vancouver, and the expense for PBL will go down since TBL staff will share the lease here, Esvelt explained.

White went over lists of reductions and ways Shared Services has provided services at lower costs, along with reductions that have been made in services offered to clients. She detailed the risks Shared Services has in meeting its forecast budget, as well as opportunities for savings. Hoerner asked when moving costs would be incurred, and Esvelt said the moving costs would be in 2006, with rent/lease savings reflected in 2007.

Clark asked for more detailed information on the total Shared Services costs. Could you give us the total breakdown – we only see \$11 million here, he stated. We’d also like to see the federal cost of living adjustment (COLA) figures, Clark requested. David Steele (BPA) listed the COLAs from 2000 (5.01 percent) to 2005 (3.61 percent) and said that Corporate used 3.0 percent in its forecasts of future years.

In summary, Shared Services’ costs and FTE are flat, except for inflation, White stated. We work closely with PBL to manage costs, she said, listing examples of recent process improvements that have saved the agency money, including online distribution of publications.

The meeting adjourned at 10:30 a.m.

Follow-up questions and information requests:

Responses to questions and requests for information received throughout this process will

be posted on the Power Function Review Web site on an ongoing basis. The Web address is www.bpa.gov/power/review.

1. Provide more detailed information on the total Shared Services costs. Including the total breakdown.