Bonneville Power Administration
Integrated Program Review
FY 2010-2011 Power and Transmission Program Levels

Draft Report and Scenarios
July 29, 2008

BONNEVILLE
POWER ADMINISTRATION

Section 1

Introduction and Background

Integrated Program Review Draft Report for
FY 2010-2011 Power and Transmission Program Levels

Introduction and Background

In response to customer input in the Regional Dialogue process for a single source of information about the costs that go into power and transmission rates, BPA designed its "Integrated Program Review" (IPR). This process consolidates the prior program level review processes, replacing the Capital Program Review, Power Function Review and Transmission's Programs in Review. The IPR process is designed to allow interested parties to review all of the agency's expense and capital spending level estimates in the same forum. BPA intends to hold an IPR every two years, or just prior to each rate case, allowing interested parties an opportunity to review and comment on BPA's program level estimates prior to their use in setting rates.

BPA began its first IPR process in May 2008, focusing on FY 2010 and 2011 program levels for both Power and Transmission as well as a review of proposed Power FY 2009 program levels. (Power's 2009 program levels were included because changes in the calculation of the Residential Exchange required a supplemental rate case.) In May and June, BPA conducted eight public workshops presenting the proposed spending levels for each of BPA's programs and invited discussion and response from participants. During a June 30 managerial level meeting, BPA received comments on FY 2010-2011 costs for both Power and Transmission programs. This "draft report" reflects BPA's current thinking on FY 2010-2011 Power and Transmission spending levels. A separate report addresses the 2009 Power program levels.

At the General Manager meeting on June 11, 2008, BPA received some general comments on overall spending levels for FY 2009 Power as well as for FY 2010-2011 Power and Transmission programs. In a few cases, participants also commented on the spending levels associated with specific programs.

The general comments made at the meeting can be summarized as follows:

- Participants felt overall Agency costs in FY 2010 and 2011 are too high.
- Participants expressed a desire to see the rate impact of the program costs and cited a need to begin preparing their customers for the upcoming rate increases.
- Participants were interested in how the programs and spending levels relate to the overall strategic plan – that is, how the line-item costs connect with BPA's strategy.
- Participants are concerned about access to capital and expressed a desire to start regional discussion now on potential solutions.

The General Managers who attended also requested additional information about possible alternative program levels and how these changes would affect BPA's ability to provide services. More specifically, they wanted to know what proposed increases in spending would pay for and what would not be completed if proposed spending were reduced.

BPA is not proposing at this time to change the proposed spending levels for the FY 2010-2011 period. However, customers requested optional spending levels with explanations of their effects on the specific programs and the associated risks. In response to that request we are providing scenarios for each program – one that explores the impacts of a 10 percent increase and one that explores the impacts of a 10 percent decrease in proposed program spending levels. These have been developed by the responsible program managers.

Scenarios

Section 2 is an Executive Summary of Sections 3 through 5.

Sections 3 through 5 of this document take each of the program areas identified in the workshop process and describe

- the initial IPR spending levels compared with the FY 2007-2009 rate case average,
- a short description of what is included in the associated costs and
- anticipated impact of a 10 percent increase or decrease in each of the program areas.

Section 3 addresses Power Services costs, including the Fish and Wildlife Program, the Lower Snake River Compensation Plan, and Energy Efficiency/Conservation, which are fully direct-charged to Power Services. Section 4 addresses Transmission Services costs. Section 5 addresses Agency Services costs. Direct dollar impacts are described for each individual program and do not consider the influence one program's changes may have on another. Agency service proposed spending levels are addressed separately and do not address how the distribution of agency services is affected.

Opportunities to Comment

The comment period for the IPR opens Thursday, May 15, 2008. Close of comment for is August 15, 2008 for FY 2010-2011 program levels. You have several options to provide comments to BPA:

1. Discuss your input with your Customer Account Executive, Constituent Account Executive, or Tribal Liaison.
2. Submit written comments to Bonneville Power Administration, P.O. Box 14428, Portland, OR 97293-4428.
3. Submit comments via e-mail to: comment@bpa.gov or submit on line at: http://www.bpa.gov/comment.
4. Comments can also be sent via fax to (503) 230-3285.

Section 2

Executive Summary

Executive Summary

The program levels proposed in the Integrated Program Review for FY 2010-2011 are levels that program managers believe are necessary to achieve the program goals for these years. The intent of describing the impacts of potentially reducing or increasing the levels by ten percent is to provide interested parties illustrative information about what service or value the proposed level provides, what would not be provided at the lower level, and what additional value could be provided with levels above those proposed.

Power Services

As described in the IPR workshops, the major driver of increased costs in Power Services are improvements and maintenance needed to improve reliability in the power supply, both for the hydro system and Columbia Generating Station (nuclear plant). The key impact of reducing proposed spending levels for Power programs would be to increase the risk of outages and diminish generation performance.

The costs recovered by Power rates include both direct-charged and allocated Agency Services costs in addition to the Power Services costs. These are addressed in Section 5.

Transmission Services

As described in the Transmission IPR workshops, the major drivers of increased costs in Transmission Services are:

- New mandatory requirements (reliability, environmental, tariff, etc.),
- New wind resources need access to the BPA transmission system,
- Increased demand for transmission capacity,
- Need to sustain our aging transmission assets
- Need to catch up where we have historically underinvested (control house buildings, access roads, etc.)
- Global competition for material

Reducing proposed spending levels for Transmission Services programs would likely result in difficulties meeting both reliability and commercial compliance requirements, and replacing and maintaining the aging infrastructure.

Agency Services

Agency Services includes a wide spectrum of programs, from those that meet statutory and regulatory obligations such as the Fish and Wildlife Program, Energy Efficiency, and Agency Compliance and Governance, to those that provide services that enable the business units to accomplish their missions, such as Information Technology, Office of General Counsel, Finance, Supply Chain, Human Capital Management and Public Affairs.

The impacts of reducing proposed spending levels for Agency Services is more difficult to describe because of the diversity of programs and the variety of programs they impact. The general impact would be reduced effectiveness and efficiency across the Agency.

The following tables display line items with the proposed spending levels for Power and Transmission Services, without the Agency Services direct-charged and allocated costs, and then Agency Services levels are shown separately. Agency Services is shown allocated levels to Power and Transmission, along with the total costs proposed to be recovered by Power and Transmission Rates. Because BPA's Fish and Wildlife Program, the Lower Snake River Compensation Plan, and Conservation/Energy Efficiency are direct-charged to Power Services, they are included in the Power Services costs rather than in Agency Services.

Transmission, Power and Agency Services Expenses For IPR
FY 2010 - FY 2011
Dollars in thousands

		FY 2010 Initial IPR	FY 2011 Initial IPR
1	**Power Organization Operating Expenses**	720,621	834,424
2	**Fish and Wildlife Program**	230,000	238,000
3	**Lower Snake Hatcheries**	23,600	24,480
4	**Agency Services Operating Expenses - Recovered from Power Rates**	116,009	119,167
5	**Power Operating Expenses - Total**	1,090,230	1,216,071
6	**Transmission Organization Operating Costs (including Environment)**	209,562	215,599
7	**Agency Services Operating Expenses - Recovered from Trans. Rates**	126,306	129,840
8	**Transmission Operating Expenses - Total**	335,868	345,439

Section 3

POWER SERVICES

Power Services Expenses Scenarios For IPR FY 2010 - FY 2011 Dollars in thousands	FY 2010 Initial IPR	Plus 10%	Minus 10%	FY 2011 Initial IPR	Plus 10%	Minus 10%
Operating Expenses - Power						
Columbia Generating Station	258,541	284,395	232,687	353,309	388,640	317,978
Bureau of Reclamation	87,700	96,470	78,930	98,550	108,405	88,695
Corps of Engineers	193,000	212,300	173,700	197,911	217,702	178,120
Long-term Contract Generating Projects	31,889	35,078	28,700	32,343	35,578	29,109
Renewables	36,733	40,407	33,060	37,324	41,056	33,592
Generation Conservation	66,588	73,247	59,929	66,222	72,844	59,600
Power Non-Generation Operations	46,169	50,786	41,552	48,764	53,641	43,888
Fish & Wildlife	230,000	253,000	207,000	236,000	259,600	212,400
Lower Snake River Hatcheries	23,600	25,960	21,240	24,480	26,928	22,032
Total	974,221	1,078,514	882,421	1,094,904	1,211,656	991,355

This table includes Power-only proposed spending levels, plus the proposed spending levels of the Fish and Wildlife Program and the Lower Snake River Compensation Program, which are direct-charged to Power Services.

All following amounts are dollars in millions

A. COLUMBIA GENERATING STATION O&M

Expense

FY 2010		
Initial IPR	**-10%**	**+10%**
258.5	232.7	284.4
FY 2011		
Initial IPR	**-10%**	**+10%**
353.3	318.0	388.6

Capital

FY 2010		
Initial IPR	**-10%**	**+10%**
73.6	66.2	81.0
FY 2011		
Initial IPR	**-10%**	**+10%**
99.9	89.9	109.9

BPA pays the costs of Energy Northwest’s Columbia Generating Station (CGS) nuclear power plant. EN has continued to focus on equipment obsolescence and reliability. EN management believes additional investments are necessary to improve safety and reliability. The plant’s performance indicators have been low when measured against criteria set by Institute of Nuclear Power Operations (INPO), but capacity factors have been good.

Columbia Generating Station O&M Expense and Capital Scenarios and Impacts:

Any reductions from our current plan increase the risk that Columbia Generating Station would not be able to continue to perform at the level as the last 12 months and present a higher risk for a decrease in future plant performance. This discussion will not attempt to address the specific choices that would be required if a funding reduction were approved by the Energy Northwest board of directors. It does address the general issues related to station condition and operation that would be impacted.

During the last 12 months Columbia Generating Station has sustained a capacity factor of 98.9 percent and generated 9,594 gigawatt-hours of power. This has been a result of improved equipment condition and better human performance.

Since the beginning of Fiscal year 2006 plant operators have made a concerted effort to address maintenance that was deferred for budgetary reasons in FY 2000 - 2005 and to improve the plant's material condition in general. Operations and maintenance expense (O&M) funding levels in the plant's Long Range Plan (LRP) are designed to complete maintenance that was deferred from earlier years by FY 2013 (R21). The funding planned for FY 2014 and beyond is designed to ensure the performance of maintenance required for sustained levels of reliable plant operation.

As in other industries, Energy Northwest is working hard to retain qualified staff and hire new personnel. New technical staff must complete a lengthy development process to become a fully functioning member of station staff. Energy Northwest is in the process of filling our staffing pipeline to ensure sufficient time to integrate new hires and ensure that there is an adequate transfer of knowledge from existing professionals. Our O&M funding levels reflect this effort in FY 2009, 2010, 2011 and 2012. We anticipate staffing attrition and retirements to accelerate beginning in FY 2012 due to overall higher industry demand and outside competition.

Capital spending for CGS was low from FY 2000 to FY 2006. By FY 2007 it was apparent that the reduced spending was affecting the plant's ability to reliably generate power for the region. The LRP was developed and funded to address the most critical issues the plant faced by FY 2013 (R21). This would result in the replacement or refurbishment of most critical components as the plant completed its first 30 years of operation. With major equipment replacements complete, the capital budget would shift to replacing outdated and obsolete equipment in support of the next 30 years of operation. A reduction in the planned funding would force some work to be deferred with a resulting higher risk of equipment failure and reduced performance.

The plant has ongoing efforts to improve the overall efficiency of the station in order to reduce costs and lessen the impact of attrition and retirements. The target goal for these efforts is to reduce the overall cost of station operation by 10 percent per year below the LRP. Process improvements in FY 2008 allowed the plant to come in under budget even while dealing with unanticipated storm damage. Energy Northwest expects to achieve similar improvements in future fiscal years as processes continue to be streamlined.

In the event that budgets were increased by 10 percent, work would be accelerated from future years where practical and additional scope which was eliminated due to budgetary constraints could be re-evaluated. Many large components slated for replacement, such as power transformers, could not be accelerated significantly due to procurement and production lead times.

Energy Northwest responded to the regions request for a stable, predictable budget tied to a sensible long range plan that could be used for rate planning. Introducing budget changes to those plans will expose the plant to additional risk and may result in some reduced capability based on impacts to planned maintenance, staffing and equipment upgrades or replacement.

B. CORPS AND RECLAMATION O&M

Expense

FY 2010		
Initial IPR	**-10%**	**+10%**
280.7	252.6	308.8
FY 2011		
Initial IPR	**-10%**	**+10%**
296.5	266.8	326.1

Capital

FY 2010		
Initial IPR	**-10%**	**+10%**
183.2	164.9	201.5
FY 2011		
Initial IPR	**-10%**	**+10%**
199.2	179.3	219.1

BPA works with the U.S. Army Corps of Engineers and the Bureau of Reclamation to implement funding for both operations and maintenance (O&M) activities at 31 hydro electric facilities throughout the Northwest and to ensure implementation of all regionally cost-effective system refurbishments and enhancements. BPA's Enterprise Process Improvement Project (EPIP) included a major asset management planning effort that included Federal hydro facilities. Significant drivers of change affecting Corps and Reclamation O&M include the Western Electricity Coordinating Council (WECC) and the North American Electric Reliability Council (NERC) Compliance requirements, non-routine extraordinary maintenance requirements, and Biological Opinion (BiOp) requirements. BPA expects O&M spending to rise at roughly the rate of inflation (except for non-routine extraordinary maintenance activities such as the Grand Coulee Dam Third Powerhouse rehabilitation and other items mentioned above.)

1. 10 percent <u>decrease</u> in Proposed Expense Spending:

The following table captures the impact of a 10 percent reduction in FY 2010 and FY 2011 activities and projects (excluding forced reductions in existing base labor)

PROJECTS	FY 2010 REDUCTION	FY 2011 REDUCTION	RISKS
Reclamation Non-Routine Extraordinary Maintenance: Grand Coulee Third Powerhouse Rehabilitation	$5M	$12M	Increased forced outages, reduced generating capability due to units out of service, reduced system capacity, reduced operational flexibility, potential for catastrophic failures and associated safety issues.
Corps Non-Routine Extraordinary Maintenance: CHJ Units 2 &21, Bonn 11, etc…	$10M	$10M	Increased forced outages, reduced generating capability due to units out of service, reduced system capacity, reduced operational flexibility, potential for catastrophic failures and associated safety issues.
WECC/NERC Compliance	$4M	$4M	Fines and sanctions for being non-compliant. Increased potential for catastrophic system operational event.
BIOP Compliance (Hatcheries)	$4M	$4M	Non-compliance with BiOp.
Corps Hydro Facility Drawing Upgrades	$1M	$1M	Outdated drawings pose serious risk to employee safety and operational effectiveness, and increase costs for maintaining the equipment and making capital investments.

2. 10 percent <u>increase</u> in Proposed Expense Spending*: *No scenario provided
The current plan was developed considering infrastructure and compliance needs and our federal partners' ability to adequately resource and execute these needs. Considering this, we do not believe that the Corps or Reclamation have the resources necessary to execute a plan significantly larger than what has been proposed.

3. 10 percent <u>decrease</u> in Proposed Capital Spending:
A two-step process was used to determine the impact of a 10 percent reduction in the proposed capital spending for FY 2010-2011. The first step involved identifying the high-priority investment projects from the list of new activities for the period. The cost for these new projects totals the "uncommitted," or available, spending for FY 2010-2011 once ongoing investments are funded. The second step involved identifying the projects

within this refined, high priority list that would not be pursued or could be deferred outside of FY 2010-2011 if the spending reduction were implemented. These "second tier" projects are summarized below with risks/consequences. The number of individual investment activities are noted in parentheses under the column labeled "Projects."

PROJECTS	FY 2010 REDUCTION	FY 2011 REDUCTION	RISKS/CONSEQUENCES
Station Service Improvements (3)	$1.0M	$1.6M	Comprised of three investment activities directed at modernizing station service components. May be deferred for a few years since components are still functional. Could result in increased forced outages and reduced generating capability due to multiple units being forced out of service, reduced operational flexibility, and the potential for catastrophic failures and associated safety issues.
Bonneville Dam Crane Refurbishment (1)	$1.1M	$0.0M	Could defer refurbishment of a gantry crane at Bonneville. This crane, however, supports the priority powerhouse at Bonneville and is used to lift fish screens. Failure would affect generation reliability and operational flexibility.
Grand Coulee Transformer Replacements (1)	$1.0M	$14.9M	Defer purchase of transformer banks for eventual replacement at Grand Coulee, units 1-9. Currently, there is a spare transformer on site, but the existing transformers warrant replacement due to their age and condition. Deferral increases the risk of forced outages and reduced generating capability, reduced operational flexibility, the potential for catastrophic failures and associated safety issues. These units need to be reliable when the overhaul of the third powerhouse units begins.
Fire-Safety Systems (3)	$0.7M	$2.4M	Comprised of three investment activities directed at improving fire safety at smaller plants, including installation of water mist systems in oil storage rooms, and installation of fire detection and protection systems. Potential safety issues or for more extreme failures or recoveries from fire incidents.

Grand Coulee Bridge Cranes Refurbishment, Third Power Plant, (1)	$2.0M	$2.0M	This investment is preliminary to Third Power Plant unit overhauls, though cranes are still functional. Risk that if a unit overhaul is begun and a crane fails that costs increase for overhaul, and return to service of the unit is delayed significantly.

PROJECTS	FY 2010	FY 2011	RISKS/CONSEQUENCES
Lower Monumental Unit 1 Repair/ Refurbishment (3)	$3.0M	$4.7M	These three investment activities are directed at refurbishing the crane (first investment)to allow for the repair of the turbine runner linkage (second investment) and to rewind the generator (third investment) concurrent with runner repair. Returns the unit to a fully functional Kaplan runner, reestablishing the original design efficiency and avoids added maintenance that the temporarily repaired, fixed blade runner requires. These investment activities represent an opportunity which may be deferred.
Black Canyon Dam New Unit (1)	$0.6M	$0.8M	This is an opportunity investment that is deferrable. Benefits, which appear positive with current assumptions, are postponed for several years.
Hills Creek Dam Runner Replacements (1)	$0.7M	$1.7M	This is an opportunity investment that is deferrable. If deferred, the positive benefits, under current assumptions, are postponed for several years. Given the condition of the runner, there is also significant risk of catastrophic failures and associated safety issues, increased forced outages and reduced generating capability and reduced operational flexibility.
Little Goose Annunciation System Replacement (1)	$0.5M	$0M	System is currently functional and replacement could be deferred.
Dworshak Exciter Replacements (1)	$0.0M	$0.2M	Equipment condition is poor. Reduced generation reliability and operational flexibility. High value plant in the system. If the Power System Stabilizer (PSS) portion of the exciter failed would have impact to WECC compliance.

***4. 10 percent <u>increase</u> in Proposed Capital Spending*:**

No Scenario Provided

- The current investment plan was developed in combination with the extensive asset planning effort of the last year. This effort considered infrastructure and compliance needs and the Corps' and Reclamation's ability to adequately resource and execute those needs. This said, we do not believe that the Corps or Reclamation have the resources available to effectively execute an investment plan larger than what was proposed for FY 2010. It may be possible to expand the program implementation in FY 2011, allowing additional investments that were deferred under current spending forecasts.

<u>Risks</u>

There is a high probability that unidentified or unanticipated investments in FY 2010-2011 will arise due to equipment failure, forced outages or equipment deterioration. These new investment needs could displace other anticipated projects, adding to the list above, or they themselves could be placed on this deferral list, depending on their priority and other evaluation factors in relation to all other currently identified investments.

In addition, these materials were developed prior to the Corps or Reclamation having an opportunity to review this list. Had they developed the list, they may have proposed new projects not included in this list that they judge to be of higher priority than the projects identified in either of the steps described above.

C. ENERGY EFFICIENCY & CONSERVATION

Expense

FY 2010		
Initial IPR	**-10%**	**+10%**
66.6	60.0	73.3
FY 2011		
Initial IPR	**-10%**	**+10%**
66.2	60.0	72.8

Note: We have removed the $20.5 million per year reimbursable expense funds from this scenario analysis since these expenses are offset by revenues and have no impact on rates (FY 2010: $87.1 - $20.5 = $66.6 million and FY 2011: $86.7 - $20.5 = $66.2 million).

Capital

FY 2010		
Initial IPR	**-10%**	**+10%**
56.0	50.4	61.6
FY 2011		
Initial IPR	**-10%**	**+10%**
59.0	50.4	61.6

BPA's conservation program (expense and capital) has a goal of delivering 52 average megawatts (aMW) of conservation savings per year for FY 2007-2009 (net of any naturally occurring conservation). This compares to an average of 44 aMW per year over the FY 2002-2006 rate period. Increases are primarily due to providing additional acquisition and load management expense funds that support the regional delivery infrastructure required to achieve accelerated conservation targets and load management work related to the 2008 Resource Plan. FY 2009 expenses are $6 million higher than the rate case forecast (net of reimbursable expenses).

Background

Energy Efficiency has been gradually reducing BPA's cost of delivering conservation savings in an attempt to meet the objective of achieving BPA's share of the Northwest Power and Conservation Council's conservation targets at the lowest cost to BPA. BPA's cost of conservation has declined as summarized in Table 1.

Table 1: BPA's Cost of Conservation[1]

Average Cost/aMW	**Time Period**
$3.3 million	1982 – 1996 period
$2.3 million	1992 – 1996 period
$1.3 million	2002 – 2006 period
$0.7 million	2007

BPA's Energy Efficiency staffing levels have also declined from approximately 230 BFTE in the mid-1990s to 60 BFTE today. While we are achieving our current rate-period targets under budget, compact fluorescent lights (CFLs) have accounted for over 50 percent of our aMW accomplishments (against a 31 percent CFL target). BPA is not achieving current targets in the commercial, industrial, agriculture and non-CFL residential sectors. We believe we have reduced our incentive levels, research and development (R&D) and program service levels to below what is needed to move the market. In addition, BPA's energy efficiency targets are expected to increase substantially in FY 2010 coinciding with the period in which we will not be able to take credit for most CFL savings. Major changes in FY 2010 that will affect our ability to meet FY 2010 and FY 2011 targets with reduced spending are shown below.

- The Council's 6th Power Plan will be published. Preliminary indications from Council staff are that BPA's conservation targets will increase to as much as 75 aMW per year. Our spending estimates assumed a 70 aMW annual target.
- The baseline market penetration of CFLs in the Council's plan will increase substantially with the result that BPA and other utilities will not be able to pay for and/or count much of the savings from CFLs starting in FY 2010. Federal legislation mandating minimum efficiency requirements for lighting will also result in CFLs being ineligible for "credit" toward conservation targets.

Given these changes, EE needs to build the market capability to achieve our current non-CFL targets and ramp up to the 33 percent increase in targets we expect in FY 2010.

[1] Source: BPA 2006 Redbook. And 2007 PTR data.

Fortunately, there are many new drivers that positively affect utility and consumer motivations for implementing energy efficiency. These drivers include those listed below.

- Reallocation and pricing of the Federal Columbia River Power System (FCRPS) in FY 2012.
- The changing regulatory environment, such as Washington state's I-937 legislation, that requires utilities over a specific size to implement all cost-effective conservation starting in 2010.
- "Green Wave" and sustainability movements that increase consumer demand for energy efficiency and renewable energy.
- Expectation of future carbon legislation.
- Constrained conventional energy supply.
- Federal legislation on energy efficiency standards and tax provisions.

While these are strong drivers, there are many existing barriers that will limit the success of utility energy efficiency programs and the effectiveness of consumer actions without market intervention. These barriers include those shown below.

- Limited utility capabilities (staffing) and knowledge (primarily small- to medium-sized utilities) to implement EE programs.
- Public utility board concerns about lost revenues and short-term rate impacts associated with energy efficiency programs.
- Trade ally confusion due to inconsistencies in EE program offerings and requirements.
- Trade ally lack of knowledge and comfort with energy efficiency measures and design principles.
- Limited consumer and business knowledge on energy efficient savings opportunities.
- Limits on regional knowledge of the savings, costs and best programmatic approaches of both new measures and of many of the energy efficiency measures identified in the Council's plan.
- Limits on local availability of energy efficient products and services, particularly in more rural areas.
- Shortage of both market and consumer data on current practices and characteristics.
- Significant and fast ramp-up in capability needed to achieve targets without CFLs (which have accounted for close to 50 percent of conservation achievements over the last 18 months).

Given BPA's policy commitments to achieve public power's share of the region's cost-effective conservation, the new drivers in the energy market and the continued presence of market barriers to achieving energy efficiency listed above, BPA's proposed spending level for the FY 2010-11 rate period allows us to put more focus on building market knowledge and capabilities. This knowledge and these capabilities will allow us to

- expand the number of deemed or deemed-calculated energy efficiency measures eligible for incentives;
- build needed data on markets, potentials and customers;

- provide technical assistance;
- enhance marketing; and
- slightly raise incentives.

We believe that providing funding for these “ground-plowing” activities will be useful no matter what direction BPA ultimately takes in energy efficiency. BPA intends to initiate a public process following the beginning of the next calendar year to determine the appropriate role and funding for BPA’s conservation efforts post- 2011.

***1. 10 percent <u>decrease</u> in Proposed Expense Spending*:**

- Reduction of Acquisition Expense spending level for activities that support but do not directly produce aMW savings (reduced $4.6 million).
  - Reduction in support of acquiring conservation savings spending level ($1.0 million). This will result in delayed development and expansion of the trade ally network and related market channel players needed to achieve higher targets and penetrate hard-to-reach markets.
  - Reduction in the number of load management pilots and technology assessments ($1.0 million**)**. BPA has engaged a consultant to assist us in developing of demand response supply curves and a load management strategy and work plan. This work is expected to be completed in the fall of 2008. At the completion of this effort, BPA will have a more detailed timeline and work plan for load management work. Decisions on need and timeline for any full scale rollout of load management are pending the completion of the BPA Resource Program (tentative completion date is August 2009). Since the region has very limited knowledge and experience with load management, it will take the region a couple of years to plan, pilot and prepare to launch load management programs to help address growing capacity shortages. The load management portion of the spending proposal reflects this challenge. This reduction will delay the timeline for launching full scale load management programs by up to a year.
  - Reduction in amount of technical support services available to utilities ($1.0 million**)**. This will result in fewer conservation savings (aMW) achieved.
  - Drop the proposed spending level for new EE and direct application renewable technologies and related program development; conduct no pilots projects instead of five; no support for nonwires efforts ($1.6 million). <u>Impact</u>: fewer new deemed or deemed calculated technologies available and no Decision Analysis & Resolution (DAR) development.
  - No flexibility to address Northwest Energy Efficiency Taskforce (NEET) recommendations.
- Market Transformation (Northwest Energy Efficiency Alliance - NEEA) spending reduction (funding reduced by $2.0 million back to $10 million/year of funding we currently provided), resulting in fewer conservation savings achieved (- 2 aMW).

***2. 10 percent <u>increase</u> in Proposed Expense Spending*:**

FY 2010

- Market Transformation (NEEA) funding increased $2 million to $14 million, resulting in an additional 2 aMW of conservation savings achieved.
- Work with the Council to revamp and expand both its energy efficiency measure database and conservation potential modeling as well as make all other input data, such as load shapes and saturation rates, for regional modeling accessible. The goal is to expand the measures and provide easier access to the measure cost and savings data and to enable utilities to identify their utility specific conservation potential from the Council's model. This will lead to enhanced regional conservation modeling capability and improved customers' ability to develop consistent Integrated Resource Pool (IRP) information ($1 million).
- Implement NEET recommendations such as funding to support efforts to build the energy efficiency workforce; market research and data collection on markets; building characteristics and consumer characteristics; energy efficiency marketing; and accelerated efforts to develop knowledge and experience with emerging technologies and innovative program approaches. The result will be that NEET recommendations are implemented in a timely manner ($3 million).
- Increase assistance and support for emerging EE technologies ($0.6 million).

FY 2011

- Increase Market Transformation (NEEA) funding $2 million to $14 million, resulting in an additional 2 aMW of conservation savings achieved.
- Continue to implement the strategy and work plan for the Council's conservation potential model and for the regional EE measure database (see above for detailed explanation) ($1 million).
- Continue to implement any appropriate NEET recommendations ($2 million).
- Increase utility engineering and related technical support ($1.6 million).

***3. 10 percent <u>decrease</u> in Proposed Capital Spending*:**

- Less conservation savings achieved (- 3 aMW).

***4. 10 percent <u>increase</u> in Proposed Capital Spending*:**

- More conservation savings achieved (+ 3 aMW)

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Summary of Impacts on Conservation Savings Target (in aMWs)

	2010			2011		
	-10%	No Change	+10%	-10%	No Change	+10%
Expense						
CRC	16	16	16	16	16	16
Market Transformation	9 (-2)	12	15 (+2)	9 (-2)	12	15 (+2)
Capital	25 (-3)	28	31 (+3)	25 (-3)	28	31 (+3)
Utility Self Funded	14	14	14	14	14	14
Total	65	70 *	75	65	70 *	75

* - EE's 2010– 2011 spending levels were built on the assumption that BPA's share of the regional conservation target would be 70 aMW/year; however, early indications from the 6th Power Plan suggests that BPA's base target is more likely to be on the order of 75 aMW/year. A 10 percent increase in our spending would position us to achieve the higher (75 aMW/year) target levels.

D. FISH AND WILDLIFE DIRECT PROGRAM

Scenarios are not being developed for the F&W program. That program will be holding a separate public process this summer.

E. US FISH AND WILDLIFE SERVICE: LOWER SNAKE RIVER FISH & WILDLIFE COMPENSATION PLAN

Expense

FY 2010		
Initial IPR	**-10%**	**+10%**
23.6	21.2	26.0
FY 2011		
Initial IPR	**-10%**	**+10%**
24.5	22.1	27.0

This program funds 11 hatcheries and 15 satellite facilities owned by the Fish and Wildlife Service (FWS) and operated by the FWS, and fisheries agencies of states of Oregon, Washington, Idaho and the Nez Perce, Shoshone-Bannock and the Confederated Tribes of the Umatilla. This program is legislatively mandated to mitigate for the existence and operation of the four lower Snake River hydroelectric dams constructed in the1970s.

The proposed FY 2010 and 2011 budgets are $23.6 million and $24.5 million respectively. A 10 percent spending reduction or increase would reduce or increase requested amounts $2.36 and $2.45 million in FY 2010 and 2011 respectively. Proposed spending levels for FY 2010 and FY 2011 are as follows:

Category	FY 2010 Initial IPR	-10%	+10%	FY 2011 Initial IPR	-10%	+10%
Operations	16.1	14.5	17.7	16.8	15.1	18.5
Monitoring and Evaluation	4.3	3.9	4.7	4.5	4.1	5.0
Nonrecurring Maintenance	3.2	2.9	3.5	3.2	2.9	3.5
Total	23.6	21.2	26.0	24.5	22.1	27.0

***1. 10 percent <u>decrease</u> in Proposed Expense Spending*:**

<u>Operations</u>
Lower Snake River Compensation Plan (LSRCP) hatchery operations budgets have held relatively constant for the past several years through aggressive cost containment efforts, including waiver of United States Fish & Wildlife Service (FSFWS) overhead and USFWS direct purchase of supplies, utilities, construction and equipment to save additional overhead and sales taxes. Further reductions in requested budgets will result in fish production cuts at selected facilities. The amount of production cuts will depend on the spending level reduction. Fish production cuts would affect production commitments made in the U.S. v. Oregon harvest management agreement. ($1.6 million)

<u>Monitoring and Evaluation</u>
The LSRCP Monitoring and Evaluation (M&E) program is made up of two parts. The first part is estimating adult returns (harvest and spawning escapement) of LSRCP-produced hatchery fish. The second part is estimating impacts of hatchery released fish on wild/natural spawning populations. The first part is a required part of the LSRCP program to determine how well LSRCP is meeting the congressionally mandated goal of returning specified numbers of adult salmon and steelhead back “to the project area.” The second part is necessary to meet ESA-mandated obligations to avoid negatively impacting wild/naturally spawning populations. Budget reductions in either part would affect the precision and accuracy of hatchery adult return estimates and impacts to listed fish estimates. ($.4 million)

<u>Nonrecurring Maintenance and Equipment</u>
Inadequate funding has been available for Nonrecurring Maintenance and Equipment (NRM&E) during the current rate case period (FY 2007 – FY 2009), in an attempt to hold operations and M&E budgets flat. Continuing to defer NRM&E needs will lead to further

infrastructure deterioration leading to higher costs to repair and replace needed items. Continued deference will also lead to costlier "emergency repairs" at LSRCP facilities. Further deference of NRM&E needs will significantly increase the risk of mortality of fish, including ESA-listed fish, at LSRCP facilities. Finally, budget reductions for NRM&E needs will delay our attempts to transition our maintenance program from reactive to preventative, which is a more efficient and cost-effective way of dealing with facility maintenance issues. ($.3 million)

2. 10 percent <u>increase</u> in Proposed Expense Spending:

<u>Operations</u>
Currently, the USFWS and National Oceanic and Atmospheric Administration (NOAA) are involved in hatchery reform processes (USFWS hatchery reform and Hatchery Science Review Group (HSRG) respectively). The goal of both processes is to define hatchery program objectives, improve hatchery efficiency and reduce hatchery fish impacts on wild populations. Implementation of recommendations from these processes could increase hatchery operational costs. Increased 0perations spending could allow the implementation of more fish rearing safeguards at LSRCP facilities. ($1.6 million)

<u>Monitoring and Evaluation</u>
Additional M&E funding could be used to obtain more accurate and precise estimates of hatchery fish adult returns and would allow better determination and documentation of impacts of hatchery fish to listed species. Additional funding could be provided for more fish marking, which, in turn, could lead to better in-season management decision making. Additional M&E funding may be necessary to monitor results of hatchery reform changes, resulting from the USFWS or NOAA hatchery reform processes. ($.4 million)

<u>Nonrecurring Maintenance and Equipment</u>
Increased NRM&E funding would allow for more aggressive "catch-up" of deferred non-routine maintenance and equipment replacement, allowing us to implement a more efficient and cost-effective preventative maintenance program at LSRCP facilities. Increased funding would also facilitate a quicker implementation of facility infrastructure changes recommended for hatchery reform processes. ($.3 million)

F. RENEWABLE RESOURCES

FY 2010		
Initial IPR	**-10%**	**+10%**
4.0	3.6	4.4
FY 2011		
Initial IPR	**-10%**	**+10%**
4.0	3.6	4.4

***Rate Case Average 2007-2009. This only includes the discretionary amount which is for facilitation.** Other cost categories consist of renewable power purchase costs ($31 million per year for seven wind project contracts), support costs (about $0.5 million per year for data collection, wind monitoring, membership fees, publications, etc.), and reinvestment of green premium revenue (forecast $3.7 million per year but this will match the revenue over the rate period).

BPA's goal for renewable resources is to ensure the development of its share of all cost-effective regional renewable resources at the least possible cost to BPA ratepayers. BPA's share will be based on the public power customers' share of regional load growth (about 40 percent). Any renewables acquired by BPA for service to publics or acquired by publics themselves (with or without assistance from BPA) count toward this goal.

***1. 10 percent <u>decrease</u> in Proposed Expense Spending*:**

The only discretionary spending level in this program for FY 2010-2011 is for facilitation. The proposed spending for facilitation has already been cut substantially relative to rate case levels. We believe the remaining $4 million per year is a conservative estimate of what will be needed for facilitation to meet renewables targets and an additional $400,000 annual reduction would create some increased risk to BPA's ability to meet these targets.

***2. 10 percent <u>increase</u> in Proposed Expense Spending*:**

A $400,000 per year increase in facilitation spending would provide somewhat greater assurance of BPA's ability to meet its renewable facilitation target.

G. POWER INTERNAL COSTS

FY 2010		
Initial IPR	**-10%**	**+10%**
46.2	42.2	50.2
FY 2011		
Initial IPR	**-10%**	**+10%**
48.8	44.8	52.8

Note: Rate case levels were developed prior to re-organization involving Power functions moving to Corporate therefore the rate case number is not comparable to the IPR spending levels.

This category includes only the internal costs of the Power Services organization, not the costs of other BPA organization whose costs are recovered in power rates.

1. 10 percent <u>decrease</u> in Proposed Expense Spending

A 10 percent decrease would result in about a $4 million spending reduction for Power. The major functions covered by Power Services internal costs include rate-setting; establishment of major power policies such as the Regional Dialogue; revenue forecasting and reporting; contract administration, including Slice; customer service to power customers; weather and stream flow forecasting; planning of system operations, scheduling and after-the-fact accounting of power transactions; trading floor transactions and analysis; resource acquisitions; transmission acquisition; management of transfer service arrangements; Canadian treaty management; hydro and nuclear oversight and asset management; conservation contracting support; and fish operations analysis in support of ESA-related actions. There are other functions in Power Services but their spending requirements are relatively small.

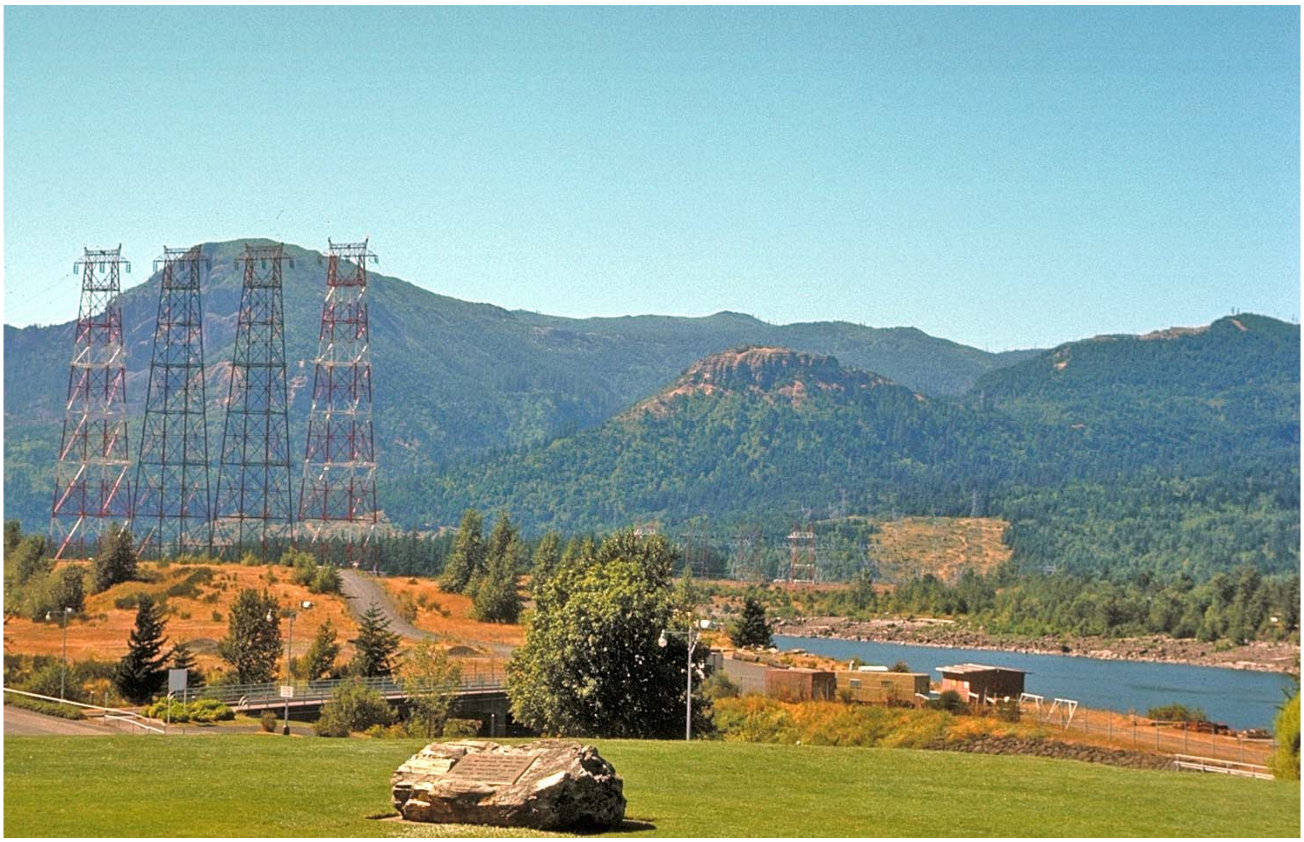
BPA examined its ability to absorb a 10 percent reduction by eliminating one or more of these functions, but concluded that none of these activities is discretionary and, as such, none would be a good candidate for elimination at the 10 percent spending reduction level. The most likely means of absorbing a 10 percent reduction would be to significantly tighten up spending across the board through reductions in or elimination of new hiring, contract support, travel, training, and employee awards. The result would be an increase in the risk of errors in the execution of one or more of the BPA functions listed above. Specifically which functions those errors would be most likely to affect is not predictable.

2. 10 percent <u>increase</u> in Proposed Expense Spending

Similar to the assessment of a budget decrease, a spending level increase would be unlikely to result in the addition of significant additional functions. The most likely use of a 10 percent increase would be to restore some spending level cuts previously made in order to reduce risks of errors in the conduct of existing functions. Although those risks are acceptable at the proposed spending level, there is room for further reduction in those risks through modest increases in staffing and contract support.

Section 3

TRANSMISSION



TRANSMISSION EXPENSES

Transmission Services Expenses Scenarios For IPR
FY 2010 - FY 2011
Dollars in thousands

Operating Expenses - Transmission Only	FY 2010 Initial IPR	Plus 10%	Minus 10%	FY 2011 Initial IPR	Plus 10%	Minus 10%
Transmission Operations	88,142	96,956	79,327	90,616	99,678	81,555
Transmission Maintenance	105,053	115,558	94,547	108,224	119,046	97,402
Transmission Engineering	16,368	18,005	14,731	16,759	18,435	15,083
Total	209,562	230,518	188,606	215,599	237,159	194,039

The information below outlines both the dollar amount and impact of a 10-percent change in Transmission program spending levels (as noted above, these estimates do not include agency service charges to transmission). Impacts to Transmission organizational expenses are addressed by program, followed by a discussion of all capital spending levels.

All following amounts are dollars in millions

Transmission Operations

Transmission Operations consists of four separate programs: Systems Operations; Transmission Scheduling; Transmission Marketing; and Business Support. Each program will be discussed separately below.

In total, the FY 2010 proposed spending level for Transmission Operations is $88.1 million. A 10 percent increase or reduction changes this estimate by $8.8 million up or down. The FY 2011 IPR proposed spending level is $90.6 million, and a 10 percent increase or decrease would be $9.1 million.

A. System Operations

Expense

FY 2010		
Initial IPR	**-10%**	**+10%**
50.2	45.2	55.0
FY 2011		
Initial IPR	**-10%**	**+10%**
51.2	46.1	56.1

System Operations include technical operations, substation operations, control center support, and power system dispatching.

1. ***10 percent <u>decrease</u> in Proposed Expense Spending*:**
   - Decreased ability to meet core workload due to reduction of contract staff.
   - Reduced support for reliability compliance responsibilities for this program (i.e. existing standards and emerging cyber security standards). Increased risks of violations and sanctions.
   - Decreased ability to address operational power system issues driven by the amount of renewable generation integration and congestion management initiatives.
   - Delay in the retirement of the Real Time Operations Dispatch and Scheduling System (RODS) system. RODS is an agency legacy IT application that supports Power Services, Transmission scheduling and dispatch and no longer meets the agency business needs. It also increases the risk of system failure due to the fragile and thin nature of existing technical support and aging infrastructure.
   - Delay in the maintenance replacement of critical infrastructure hardware used to support the Control Centers.
   - Reduced training and travel, both within BPA and external, resulting in not maintaining technical expertise required to support core functions and not staying current with emerging technologies and trends,
   - Less strategic thinking and more reactive responses to issues.
   - Delays in succession planning for critical positions impacting ability to meet core workload.

2. ***10 percent <u>increase</u> in Proposed Expense Spending*:**
   - Ensure success in meeting core workload.
   - Ability to proactively managing reliability compliance responsibilities minimizing violation risks.
   - Increased ability to address challenges raised by renewable generation integration and congestion management.
   - Ability to move forward with the retirement of key agency legacy systems.
   - Ability to replace key critical infrastructure hardware on a cycle that minimizes hardware failures reducing operational risks
   - Ability to stay current with training requirements and prepared to address new technologies before they are deployed within the environment.
   - Time for strategic thinking to proactively get ahead of issues.
   - Ability to ensure critical documentation is updated and maintained.
   - Improved succession planning - additional staff hired and trained to minimize the risks of retirements in understaffed, hard to fill positions.

Note: Because this program is driven primarily by BPA and contract staff, an increase in funding would be effective only if it represented a long-term commitment. BPA has only a limited ability to make short-term staffing increases or decreases.

B. Scheduling

Expense

FY 2010		
Initial IPR	**-10%**	**+10%**
10.3	9.3	11.0
FY 2011		
Initial IPR	**-10%**	**+10%**
10.8	10.6	11.9

The scheduling program includes expenses for reservations, pre-scheduling, real-time scheduling, scheduling after-the fact (ATF), and technical support.

***1. 10 percent <u>decrease</u> in Proposed Expense Spending*:**

- Reduction in the focused and in-depth training needed for the commercial automation initiatives coming on line over the next several years. With responsibility for mandatory compliance requirements, schedulers are highly encouraged to take WECC scheduler's one and two training sessions. WECC and NERC mandatory training has been waived for BPA Transmission Services right now. With a reduction in spending levels, those that want to become certified and be more knowledgeable of system operations would not have the opportunity. The lack of system automation knowledge by the schedulers may increase the possibility of being unable to troubleshoot customer issues and compliance may be compromised.
- Less focused and in-depth knowledge of changing ATF methods and the necessary implementation of the new methods in a real-time scheduling environment. This would affect reliability issues and reduce dedicated support for RODS retirement issues/implications to scheduling.
- Reduced dedicated support for RODS retirement issues/implications to scheduling. If the systems break between RODS and Open Access Technology International (OATI) it could impact our customers from scheduling and also all the downstream process (ATF and billing) causing checkout, billing etc
- Fewer resources available for reliability compliance oversight to meet increased reporting requirements by WECC, and DOE, as well as increased demand for documentation (A123).

***2. 10 percent <u>increase</u> in Proposed Expense Spending*:**

- Increased resources dedicated to documentation of desk procedures and operating practices;
- Implementation of comprehensive training strategies and opportunities for scheduling teams;
- Increased up-front representation during the early stages of transmission policy development; and

- Increased representation at industry and regional scheduling forums. BPA would have improved ability to represent the region and influence business practice rules. Key issues for example, include the Friday three-3-day pre-schedule versus a two-day pre-schedule and WEB Security Automated Service (a tool for unscheduled flow assessments) – reliability participation in current reliability issues that BPA has to monitor and address. In addition, it is important that rules and practices created meet BPA tariff requirements.

C. Marketing

Expense

FY 2010		
Initial IPR	**-10%**	**+10%**
12.8	11.5	14.1
FY 2011		
Initial IPR	**-10%**	**+10%**
13.4	12.0	14.7

The marketing program contains expenses for transmission sales, contract management, and marketing business strategy and assessment.

***1. 10 percent <u>decrease</u> in Proposed Expense Spending*:**

- Slower or less effective implementation of the Network Open Season (continuing analysis, preparation for annual NOS offerings, communication support, proactive policy engagement);
- Less robust advancement of revenue forecasting sophistication;
- Less ability to engage in industry initiatives to seize opportunities that influence/shape the regulatory environment; and
- Reduced responsiveness to Wind Integration challenges. Wind integration is rich with new, complicated policy issues. With our existing proposed program levels, we would be providing for additional staff to dedicate to manage the increasing number of integration requests and resulting policy considerations, to allow (1) increased responsiveness to developer requests; (2) dedicated account executive time to participate in wind policy discussions to bring "on-the-ground" intelligence and experience into the policy development on a routine basis; and (3) dedicated focus of a policy staff member to wind issues to become expert on industry culture and wind issue nuances on other aspects of our commercial business. With a decrease in funding customer/developer/issue relationships we would expect to continue to tread water with wind integration instead of beginning a more proactive mode.
- Less opportunity to build customer capital/collaborative relationships through our goal of increasing direct customer interaction (face-to-face time).

While base load work would still be covered at a 10 percent reduction, this level of funding would impair our ability to employ critical thought and strategic planning as a part of our normal course of business. This work is heavily staff driven. In addition to

BPA staff, we have leveraged high-value CFTE to accomplish high-visible initiatives. This strategy, which is inherent in our FY 2010 and FY 2011 proposed funding levels, would be in jeopardy.

***2. 10 percent <u>increase</u> in Proposed Expense Spending*:**

- Increased Open Access Transmission Tariff (OATT) compliance analysis and strategy for routine internal reviews, audit, and testing;
- Funding for a holistic assessment of commercial data systems-of-record and data integrity to develop clear accountability;
- Development of a comprehensive contract review process to check contract language/policy against implementation using a team project concept (as opposed to the one-by-one process currently being done by account and contract specialists);

- Could simultaneously implement required automation as opposed to sequentially. We have over 2 dozen automation requirements to realize the full potential of OASIS and to support our commercial policy. Many of these are to facilitate customer interactions with us (simultaneous windows; portfolio manager to help customers view the compilation of their requests over various time periods; conditional firm, etc.) Additional resources would allow for us to focus on "batches" of automation to bring on together, instead of one at a time. Absent an increase, we will continue with strategic internal prioritization and high-touch management of customer expectations for when the functionality will be available.
- Increased focus and dedication to wind integration issues, allowing much more proactive involvement with developers. They have many issues, want to express support/concerns personally, understand our policies, etc. An increase in funding would allow for this to occur on a more regular basis.
- Enhanced succession planning--additional staff could be hired and trained to minimize the risks of retirements in understaffed, hard to fill positions

D. Business Support

Expense

FY 2010		
Initial IPR	**-10%**	**+10%**
14.8	13.3	16.3
FY 2011		
Initial IPR	**-10%**	**+10%**
15.3	13.8	16.8

Business support includes expenses for logistics services, aircraft services, legal services, internal general & administrative services, and executive and administrative services.

***1. 10 percent <u>decrease</u> in Proposed Expense Spending*:**

- Reduced staffing and materials needed to support the general shops that modify and construct parts that cannot be purchased outside of BPA. This is important

because the BPA shops are able to respond to system emergencies on custom parts more quickly than if relying on contracting out, and often at lower cost.
- Reduced executive and administrative support for all of transmissions operations, maintenance and engineering programs,
- Reduce the student training program. The Business Support program holds all of the funding for the student training programs for succession planning. 95 percent of these student positions are in the engineering area. This program helps address the 30 percent workforce retirement eligibility in FY 2009-2011.

***2. 10 percent <u>increase</u> in Proposed Expense Spending*:**
- Improve program delivery through enhanced executive and administrative support for all of transmissions operations, maintenance and engineering programs.
- Additional opportunities for training and pay-for-performance for all transmission staff.
- Expand the student training program for succession planning.

SYSTEM MAINTENANCE WITH ENVIRONMENTAL OPERATIONS

Expense

FY 2010		
Initial IPR	**-10%**	**+10%**
105.1	94.6	115.6
FY 2011		
Initial IPR	**-10%**	**+10%**
108.2	97.4	119.0

System maintenance consists of technical training, heavy mobile equipment maintenance, maintenance costs for system management, joint cost, power system control, system protection control, transmission line and substation.

***1. 10 percent <u>decrease</u> in Proposed Expense Spending*:**
Note: A 10 percent reduction in the Maintenance program would bring the program total below the FY 2008 level for the Transmission Organization.

FY 2010 and 2011: A 10 percent decrease in the Transmission Maintenance program would require reducing the aggressive apprentice and craft trainee programs for succession planning which could cause critical shortfalls in the hourly crafts resulting in longer response time to system emergencies. This reduction would also impair the ability of work planners/schedulers to schedule and accomplish work to maximize resource availability. This would reduce both efficiency and system reliability. (For example; under reduced funding, BPA would not have been able to meet the directive for our current ROW emergency).

Items which were reviewed for possible reductions, but removed from consideration include:
- Joint Cost program: this is a contractual commitment.

- Creating barehanding crews in the Transmission Line Maintenance program under reduced funding would require that BPA not fill lineman positions in existing crews. This would result in crews smaller than the proper emergency crew size.
- Right of Way (ROW) program cannot be decreased. Past reductions are requiring extraordinary efforts this year to comply with reliability requirements.
- Reducing the Substation Maintenance program would require that we lower our standards: i.e. we would inspect and maintain equipment less for the routine diagnostics, and we would extend intervals on overhauls, etc. This reduction would result in higher costs in the future (due to deferral catch-up) and greater risk of critical equipment failure.
- The System Protection Control Maintenance (SPC) program is already under-staffed to accomplish WECC compliance. Qualified contractors or individuals who do this work are scarce, requiring that we train and grow our own staff for this type of work.
- Cuts in the Power System Control (PSC) program would greatly increase the risk of critical communication systems, reducing system reliability and leading to compliance failures.

***2. 10 percent <u>increase</u> in Proposed Expense Spending*:**

FY 2010 and 2011: A 10 percent increase in the Transmission Maintenance program would have a positive impact on the work planned. An increase in funding, however, would be supported only it if represented a long-term commitment to increased staffing. BPA has only a limited ability to make short-term staffing changes.

The areas that would benefit from the increase are:

- Increased funding would help the Right of Way program implement a Quality Assurance/Quality Control program for vegetation management. It would provide for additional contract danger tree crews, as well as funds for brush and blackberry maintenance contracts.
- Increased funding would allow contracts for our control cable and station service maintenance with the substation maintenance program. This would ensure reliable substation equipment operations.

SYSTEM ENGINEERING

Expense

FY 2010		
Initial IPR	**-10%**	**+10%**
16.4	14.8	18.0
FY 2011		
Initial IPR	**-10%**	**+10%**
16.8	15.1	18.5

System engineering consists of: the research and development program; transmission system planning and analysis; region association fees and costs associated with cancelled capital projects and inventory adjustments.

***1. 10 percent <u>decrease</u> in Proposed Expense Spending*:**

FY 2010 and 2011: A 10 percent decrease in the Transmission Engineering program would adversely impact system replacements. The majority of these replacements are expense rather than capital costs. Only major property unit replacements are funded with capital.

In addition, the Transmission Engineering program funds preliminary engineering costs—planning and analysis—that are related to the replacement program but are expensed. A reduction in these funds would require us to reduce our Transmission Asset Sustain Program (i.e., cable splices, hardware replacements, etc.)

***2. 10 percent <u>increase</u> in Proposed Expense Spending*:**

FY 2010 and 2011: A 10 percent increase in the Transmission Engineering program would have a positive impact on work achievement, as long as it represented a long-term commitment. Added funds would strengthen succession planning efforts - additional staff could be hired and trained to replace our aging workforce. A $1.5 million increase would be equivalent of 12-13 FTE.

H. ENVIRONMENTAL PROGRAM

Expense	**2010**				**2011**		
Transmission:	**-10%**	**IPR**	**+10%**		**-10%**	**IPR**	**+10%**
PP&A	$3.27	$3.64	$4.00		$3.45	$3.83	$4.13
Environmental Analysis(1071)	$0.14	$0.16	$0.18		$0.15	$0.17	$0.18
Total	$3.42	$3.80	$4.12		$3.60	$4.00	$4.40

Capital	**2010**				**2011**		
Transmission:	**-10%**	**IPR**	**+10%**		**-10%**	**IPR**	**+10%**
Misc. Environmental Projects	$4.98	$5.53	$6.08		$5.17	$5.75	$6.32

1. 10 percent <u>decrease</u> in Proposed Expense Spending

FY 2010:
A 10 percent reduction in Environmental Expense Program would increase BPA's risk under environmental compliance regulations. Pollution Prevention & Abatement (PP&A)

initiatives in addressing issues and cleanups associated with leaking oil filled equipment would be impacted.

FY 2011:
Same as FY 2010

2. 10 percent <u>increase</u> in Proposed Expense Spending

FY 2010:
A 10 percent increase in the Environmental Expense Program would strengthen BPA's liability and regulatory risk position. Program initiatives associated with leaking oil filled equipment, protection water of resources and other pollution prevention measures would be increased.

FY 2011:
Same as FY 2010

3. 10 percent <u>decrease</u> in Proposed Capital Spending

A 10 percent reduction in the Environmental Capital Program would increase BPA's liability and regulatory risks associated with Polychlorinated Biphenyls (PCB). The program to replace regulated PCB equipment would be slowed down to meet the 10% reduction.

FY 2011:
Same as FY 2010

4. 10 percent <u>increase</u> in Proposed Capital Spending

FY 2010:
A 10 percent increase in the Environmental Capital Program would strengthen BPA's liability and regulatory risk position associated with PCB and protecting water resources. More would be done in BPA's Environmental program areas of reducing PCB and retrofitting and upgrading drainage and water treatment systems.

FY 2011:
Same as FY 2010

TRANSMISSION CAPITAL

FY 2010		
Initial IPR	**-10%**	**+10%**
494.6	445.1	544.1
FY 2011		
Initial IPR	**-10%**	**+10%**
605.3	544.8	665.8

Note: AFUDC and Corporate Overheads excluded.

Transmission capital is in four categories: Main Grid, Area and Customer Service, Upgrades and Additions, and Environment. Main Grid consists of major network reinforcements including McNary-John Day, Big Eddy and I-5 corridor. Area and Customer Service Projects assure that Bonneville meet's reliability standards and contractual obligations to our customers for serving load. Upgrades & Addition projects assure that Bonneville meet's reliability standards and contractual obligations to our customers for serving load. The Capital Environment program addresses regulatory and liability issues at facilities likely to adversely affect water and environmental resources.

***1. 10 percent <u>decrease</u> in Proposed Capital Spending*:**

a) Main Grid Reactive Facilities: $2 million reduction in both FY 2010 and 2011 (50 percent of the $4 million proposed spending in each year, for a two-year total of $4 million.
   - Reactive power is often an alternative to building new lines. If load growth continues at the current pace, system reliability would be impaired by a reduction in the reactive program and the new line construction program. The impact may not be felt immediate but would become an issue as other factors further reduce system reliability.
   - Current studies are most likely to understate the amount of growth capital required. A long-term transmission study will address some of the uncertainties and magnitude of transmission related costs associated with new generation resources.
   - Reduced funding would require that Transmission defer reactive facility project siting using a prioritization scheme that would minimize the impact on the system. Under these reductions, the best scenario is that the system runs at higher utilization rate; the worst scenario results in load shedding, leading to reliability criteria violations. The reduction in reliability would only be known after studies are done once specific sites have been identified.
   - The system reliability index would be further eroded by the compounding impact of spending reductions in both years. The exact value of the change is not available at this time. We do not have a quantifiable correlation between system investment and system reliability index, but one can infer some reduction in system reliability with these cuts.
   - There would be increased risk on generation equipment, system reliability, and system capacity reserves
   - There would be some loss in flexibility on generation dispatch

- We would lose the benefit that reinforcement on one part of the system can have on other parts of the system.
- Transmission use is one indicator that could result in new or modified rate design
- This reduction would increase the need for probabilistic analysis as part of the growth planning process.

b) Main Grid Non-Wires program: eliminate all FY 2010 and FY 2011 funding: $3 million per year for a $6 million total reduction over the two year period.
   - This will likely cause BPA to not meet the Non-Wires Round Table agreement and targets.

c) Area Service Reactive and Customer Service additions: Reduce FY 2010 proposed spending by roughly 50 percent or $3 million. Eliminate FY 2011 proposed spending, for a reduction of $6.3 million. Total savings for both years would be $9.1 million.

   Resulting risks include:
   - Increased potential reliability criteria violations. The impact would be measured through studies once specific sites have been identified.
   - Decrease in availability of transmission capacity to serve the local area loads especially remote areas.
   - Potential negative impact to customers' equipment due to voltage fluctuation due to wind integration in to weaker part of transmission system.
   - Reduced flexibility to handle the shift in loadings caused by the maintenance of transmission equipment, the forced outages of such equipment, and a wide range of other system variable conditions, such as construction delays, higher than expected customer demands.
   - Reduced ability for customers to move loads between delivery points especially for customers' transmission and distribution system outages. Ability shift loads between delivery points will enable both BPA and customer to fully utilize capabilities of existing transformers there by delaying the investment for new transformation.
   - Transmission may have increased difficulty in addressing third-party requested projects and facilitating opportunities for independent power producers. Therefore there could be an impact for wind generators (Green power) to connect to BPA system through customer's system.

d) Upgrades and Additions: Reduce FY 2010 proposed spending by 56 percent yielding a $19 million reduction from the IPR proposed spending level of $34 million. This would be spread across system controls, communication and control systems, fiber optics, and substation additions. Continue this reduction in FY 2011, lowering spending estimates by 47 percent or $17 million from the IPR proposed spending level of $36 million. Total savings for the two year period would be $36 million.

- Deferred projects from previous years are now at critical stage so other projects are bumped out. This reduction would be achieved by prioritizing the upgrade program based on asset health to determine which equipments can be deferred. These upgrades and additions will be delayed, increasing future capital expenditures.
- In addition, there would likely be an increase in O&M from the reduced capital spending assumption. Additional challenges include difficulty finding replacement components for repair as the system becomes more obsolete.
- This delay slows down the system modernization effort. Technical experts would need to make sure with this degree of reduction; the program is still above the critical level so as to not have an obsolete and incompatible system.
- A multi year spending reduction will dampen the system modernization effort. More careful review will be needed to ensure the program is still above the critical level so as to not have an obsolete and incompatible system. Deterioration could take many years and additional funding to reverse. Future efforts would be to develop a way to link expenditure with asset health and system reliability.

e) System Replacements: Reduce FY 2010 proposed spending by 36 percent, or $22.5 million from the IPR spending estimate of $62 million. Impacts would be on transmission line, wood pole, spacer damper, substation, system protection, power system control, and tools and equipment. Reduce FY 2011 proposed spending by 31 percent or $21 million from the IPR spending estimate of $68 million. Total savings $45 million for the two year period.
   - This reduction would result in a shift away from a predictive/preventive maintenance model to a reactive model, with replacement only upon failure. With Transmission's aging assets, we would reach a point where we have more failures than spending, materials, personnel can accommodate. In addition, there would likely be an increase in O&M from the reduced capital spending.
   - It increases the risk of unplanned outages as Transmission moves away from the predictive maintenance model. Delayed project criteria will most likely be based on technical criteria not cost efficiency.
   - The full impact of this reduction would not be known until Transmission completes the Asset Health Baseline Study and develops the asset health index. A reduction in the replacement program would reduce the asset health index. Overall Transmission will have deteriorating asset health and performance.
   - The total costs for materials and services would be more than the planned investment amount reflected in the IPR proposed levels once inflation and expediting replacement due to failure are factored in. These replacements would be delayed, increasing future capital expenditures.
   - While Transmission is currently unable to quantitatively link global Sustaining Capital expenditures to its reliability indices, we believe that

trends in transmission asset health justify an increase in Sustaining Capital expenditures.

f) Non-Borrowing Authority Generator Interconnection: Reduce FY 2011 proposed spending by 22 percent, or $11.2 million from and IPR spending estimate of $51 million.
   - Transmission may have increased difficulty in addressing third-party requested projects and facilitating opportunities for independent power producers.
   - Possible violation of FERC 890 Order for open access transmission requirements.

<u>Overall impacts</u>— A reduction in transmission capital investments would adversely impact implementation of asset plans as scheduled. The decreased capital expenditure would likely result in less than a one percent rate decrease near term. It would also likely required rate increases in later years, depending on how deferrals are factored into capital investments in FY 2012 and beyond.

***2. 10 percent <u>increase</u> in Proposed Capital Spending*:**

- As mentioned in IPR workshops, several additional projects may be required based on the outcome of Network Open Season. These include Harney County and Little Goose (pending the outcome of some policy issues). In FY 2010 and 2011 work on these projects would include environmental impact studies and potential land purchases. In addition to these two projects, there will be some sub-grid area reinforcements needed. In FY 2010 and 2011 work on these smaller projects would include design and construction.
- Increasing FY 2010 Main Grid proposed investments to $155 million would be accomplished by accelerating the schedule of identified projects. This would also be used to increase FY 2011 investments to $221 million.
- Upgrades and Additions and System Replacements would be increased as follows: FY 2010 Upgrade and Additions investments would increase to $91 million, with FY 2011 investments increasing to $107 million. FY 2010 System Replacement investments would increase to $135 million and FY 2011 increasing to $138 million.

The risks in this ramp-up over an already sizable capital program include Transmission inability to complete the work due to difficulty in finding skilled workers, limited material availability, and extended delivery times.

Several steps would need to be taken to accomplish the increased workload:

- Strategic sourcing and Alliance contracts would be needed to prepare for the increase workload.
- Implement standardized design and contracting strategies to respond to workloads.
- Succession planning and FTE addition would be needed to replace people retiring (capturing knowledge) and to increase the workforce (execution). We would need

to ensure that necessary resources are in place given the magnitude and number of projects that are underway or in the planning stages.

- Management, administrative and support staff would be needed to manage and support the proposed increased volume of work.

Once the infrastructure is in place as noted in these steps, there would be several benefits from a ramp-up in sustaining capital and acceleration of main grid projects. These include:

- Some economy of scale gained from buying in bulk, reusing design, minimizing construction mobilizing, etc. resulting in cost savings.
- Specific benefits of an accelerated plan in Upgrades and Additions and System Replacements would include:
  - Support for the system modernization objectives.
  - Support for the strategy and comprehensive plan to address the end of life replacement wave that appears to be on the horizon.
  - Chipping away at the aging infrastructure problem.
  - Increasing reliability, capacity, replacement parts, and respond time.
  - Avoidance of increased costs due to the age of assets and inflation that will cause current projected expenditures to continue to increase.
  - More operational efficiency in predictive mode than in reactive mode.
  - The ability to develop a program to extend the life of assets while maintaining or improving asset reliability.
  - Allow upgrades to the existing technology systems. The applications will give Transmission customers faster access and improved services.
  - We don’t know the full impact until we complete the Asset Health Baseline Study and develop asset health index

Overall impacts— The increased capital expenditure may result in a little less than a one percent rate increase near term, but possible rate decrease later depending on the shaping of out year capital in Upgrades and Additions and System Replacements.

Section 4
AGENCY SERVICES

AGENCY SERVICES

Agency Services Dollars in Thousands	FY 2010	FY 2010 + 10%	FY 2010 - 10%	FY 2011	FY 2011 + 10%	FY 2011 - 10%
Executive Office	1,114	1,225	1,003	1,161	1,277	1,045
Deputy Administrator	289	318	261	301	331	271
Chief Risk Officer	6,581	7,239	5,923	6,798	7,477	6,118
Technology Innovation & Confirmation	11,990	13,189	10,791	14,134	15,547	12,720
Chief Public Affairs Office	18,064	19,871	16,258	18,589	20,448	16,730
Internal Audit	2,354	2,589	2,118	2,355	2,590	2,119
Finance	17,265	18,991	15,538	16,734	18,408	15,061
Corporate Strategy	317	348	285	331	364	297
Supply Chain Policy & Gov.	696	766	627	726	799	654
Regulatory Affairs	2,426	2,669	2,184	2,530	2,783	2,277
Strategic Planning	2,076	2,284	1,869	2,143	2,357	1,928
Strategy Integration	7,876	8,664	7,089	8,340	9,174	7,506
Security & Emergency Mgmt	7,455	8,201	6,710	7,657	8,423	6,891
General Counsel	9,643	10,607	8,679	9,968	10,965	8,971
Chief Operating Officer	3,531	3,885	3,178	1,556	1,711	1,400
Customer Support Services	10,498	11,548	9,448	10,687	11,756	9,619
Internal Business Services	595	655	536	2,149	2,364	1,934
Business and Process Mgmt	406	447	366	410	451	369
Civil Rights	758	834	682	792	871	713
Safety	2,393	2,632	2,154	2,497	2,746	2,247
Human Capital Management	16,843	18,528	15,159	16,336	17,970	14,703
Supply Chain Services	21,120	23,231	19,008	20,887	22,975	18,798
Workplace Services	44,806	49,286	40,325	47,261	51,987	42,535
Information Technology	68,381	75,220	61,543	68,000	74,800	61,200
Totals	**257,480**	**283,228**	**231,732**	**262,340**	**288,574**	**236,106**

All following amounts are dollars in millions

A. CHIEF RISK OFFICER (RISK MANAGEMENT)

FY 2010		
Initial IPR	-10%	+10%
6.6	5.9	7.2
FY 2011		
Initial IPR	-10%	+10%
6.8	6.1	7.5

1. 10 percent decrease in Proposed Expense Spending

FY 2010 – FY 2011: The primary driver of proposed spending increases in Risk Management is the implementation of the Business Continuity program. All other costs reflect FY 2009 staffing levels and associated costs, and insurance premiums.

There are two areas in which spending decreases could be delivered. The level of Risk Management FTE could be reduced. Transaction and credit risk management demands are increasing as the agency implements tiered rates and pursues new resource acquisitions. To achieve this level of reduction, development of transmission and Treasury risk policies and procedures would need to be postponed. This would also require us to reduce the scope of enterprise risk management activity, effectively reducing the number of identified top-tier risks that could be assessed during this time frame.

A robust risk management program is standard business practice in the energy industry, given the significant price volatility and growing operational complexity of energy related resources, transactions and operations. Risk management program quality has been a key factor in rating agency reviews for many years. Next year, Standard & Poor's is expanding its review to include consideration of a business's Enterprise Risk Management program. Reducing the agency's risk management capabilities would be inconsistent with sound business practice.

The remaining alternative for achieving this level of potential spending reduction is to cut consulting support for the Business Continuity program. This coordinated program is in its early stages of implementation at the agency. The goal for FY 2010 and FY 2011 is to implement the elements of an integrated continuity program (emergency response, infrastructure restoration, continuity of operations and crisis management) as well as the supporting physical infrastructure. Cutting the spending would result in a slower pace of implementation for the program.

As the region's largest energy supplier, the agency must be able to anticipate, withstand and effectively respond to disruptive events affecting it and its partners in the Pacific Northwest. Federal directives and the agency's important contributions to the region require that the agency maintain critical operations in the face of unplanned disruptive events. The Business Continuity program is the treatment developed through the agency's enterprise risk management process that will ensure the agency meets these requirements.

2. 10 percent increase in Proposed Expense Spending

FY 2010 – FY2011: A spending increase would allow us to increase the pace of Business Continuity program development and implementation.

B. TECHNOLOGY INNOVATION

FY 2010		
Initial IPR	-10%	+10%
12.0	10.8	13.2
FY 2011		
Initial IPR	-10%	+10%
14.1	12.8	15.6

As a new start in July 2005, the Technology Innovation program is continuing to develop critical internal capabilities.

In the past three years we've gone from no system to the accomplishments listed below.

- Defined the key elements of the program.
- Created a Technology Confirmation / Innovation Council.
- Adopted a Research Portfolio concept and our annual recruitment process.
- Created BPA's research agenda through an initial set of technology roadmaps – Transmission, Energy Efficiency, Renewable Energy and Physical Security – and in this fiscal year expanded the roadmaps to include Hydro. A Climate Change technology roadmap is in preparation.
- Implemented three increasingly sophisticated cycles recruiting BPA's Research Portfolio, conducted mid-year portfolio reviews and successfully integrated a balanced cross-agency multiyear portfolio, including stopping projects, diverting projects into corrective action schemes and merging piecemeal projects into coherent projects.
- Re-established links with the major international research collaboratives, and bilateral partnerships with several utility and government laboratories.

We have significant work ahead on internal alignment, project management skill building, driving projects to application within BPA and building a Pacific Northwest research agenda. We could not allow a 10 percent decrease or increase to affect this foundational capability building (developing the internal capacity for a well-managed research agenda). Rather, it will increase or decrease the number of projects supported in FY 2010-2011.

1. 10 percent <u>decrease</u> in Proposed Expense Spending

FY 2010: The FY 2010 Research Portfolio would be reduced approximately 15 percent. Technology Innovation would reach the intended target of 0.5 percent of revenues at a later date, FY 2014 instead of FY 2013.

FY 2011: The FY 2011 Research Portfolio would be reduced approximately 15 percent. Technology Innovation would reach the intended target of 0.5 percent of revenues at a later date, FY 2014 instead of FY 2013.

2. 10 percent <u>increase</u> in Proposed Expense Spending

FY 2010: The FY 2010 Research Portfolio would be increased approximately 15 percent. Technology Innovation would reach the intended target of 0.5 percent of revenues at an earlier date FY 2012 instead of FY 2013.

FY 2011: The FY 2011 Research Portfolio would be increased approximately 15 percent. Technology Innovation would reach the intended target of 0.5 percent of revenues at an earlier date, FY 2012 instead of FY 2013.

C. PUBLIC AFFAIRS

FY 2010		
Initial IPR	-10%	+10%
18.1	16.3	19.9
FY 2011		
Initial IPR	-10%	+10%
18.6	16.7	20.5

1. 10 percent <u>decrease</u> in Proposed Expense Spending

FY 2010

- Reduce community outreach grants from $500,000 to $100,000 which could potentially damage relationships and reduce outreach to students, Northwest community groups/forums and small businesses ($400,000).
- Eliminate contract administrative support, one CFTE, in each of the three groups. This would eliminate all contract administrative support for Public Affairs in Headquarters. Would require the realignment of existing BFTE administrative personnel from individual Tier 2 organizations. Positions would support more than one Public Affairs Tier 2 organizations ($191,204).
- Eliminate consultants and contract support ($117,500).
- Reduce Community Relations sponsorships approximately 33 percent. This would eliminate funding for Forum for Business & Environmental Services, Oregon Robotics, Power Your Future ($6,500).
- Eliminate rents and utilities. *<u>This represents a cost shift</u>*. Charge rents and utilities

for public meetings to appropriate program office (PS, TS, EFW, etc) (total savings $11,109).

- Reduce materials spending. These funds are used to purchase broadcast spots, misc. administrative supplies, advertising placements, etc. ($51,010).
- Eliminate one BFTE that provides news clipping service for PNW newspapers ($50,000).
- Reduce travel spending by 10 percent across the board, resulting in more telecom/email conferences ($33,234).
- Reduce graphics contract support by 50 percent, resulting in fewer graphics services being available ($15,000).
- Eliminate administrative and/or consultant contract support by 50 percent, requiring BFTE to provide these services ($56,000).
- Reduce Northwest Power and Conservation Council funding by 10 percent ($968,300). Council would be unable to carry out its mandate under the Northwest Power Act. Council budget is within range established by formula in the Northwest Power Act. After an extensive comment period, Council adopted its FY2009 -2010 budget.

FY 2011

- Reduce community outreach grants from $500,000 to $100,000. This could potentially damage relationships and reduce outreach to students, Northwest Community groups/forums and small businesses ($400,000).
- Eliminate contract administrative support, one CFTE, in each of the three groups. This would eliminate all contract administrative support for Public Affairs in Headquarters. Would require the realignment of existing BFTE administrative personnel from individual Tier 2 organizations. Positions would support more than one Public Affairs Tier 2 org ($196,904).
- Reduce Community Relations sponsorships approximately 33 percent, eliminating funding for Forum for Business & Environmental Services, Oregon Robotics, Power Your Future ($6,500).
- Eliminate rents and utilities. *This represents a cost shift*. Charge rents and utilities for public meetings to appropriate program office (PS, TS, EFW, etc) ($11,450).
- Reduce materials spending, used to purchase broadcast spots, administrative supplies, advertising placements, etc ($52,540).
- Eliminate one BFTE that provides news clipping service for Pacific Northwest newspapers ($51,500).
- Eliminate strategic consultant and analytical contract support $120,500).
- Reduce travel budgets by 10 percent across the board, potentially resulting in more telecom/e-mail conferences ($34,228).
- Reduce graphics contract support by 50 percent, reducing available graphics services ($15,450).
- Eliminate administrative and/or consultant contract support by 50 percent which could require BFTE to provide these services ($57,000).
- Reduce Northwest Power and Conservation Council funding by 10 percent ($994,300). Council would be unable to carry out its mandate under the Northwest Power Act. Council budget is within range established by formula in the Act.

2. 10 percent <u>increase</u> in Proposed Expense Spending

- Increase one BFTE (writer) to allow for production of more written materials for external audiences, including customers. Allow for greater and more consistent outreach to and closer relationships with Northwest media assigned to relevant energy and environmental issues. Implement Public Affairs succession planning ($175,000).
- Increase Regional Relations travel budget 10 percent which could allow attendance at critical Western energy and environmental initiatives, including Western Climate Initiative (climate change strategies) and Western Governors Association (climate change, Renewable Energy Zone (REZ) initiative) ($196,904)
- Add a permanent Tribal Account Executive trainee position, improving Agency's ability to ensure timely interaction with Northwest Tribes ($150,000).
- Enhance Community Relations program by 25 percent, increasing presence in NW communities thru sponsorships, employee participation in local events, etc ($25,000).
- Begin External Web redesign (funding represents costs shared between Public Affairs and Information Technology, improving access to Agency documents ($1,000,000)
- Add one BFTE to National Relations for succession planning ($175,000).
- Add one BFTE to Communications for internal/external Web development and maintenance ($150,000)
- Additional Northwest Power and Conservation Council funding could: help update and enhance models the Council uses, benefiting Council planning efforts, and producing products that Bonneville also relies on; potentially enable the models to be made more readily available to utility customers for use in their own integrated resource planning; enable gathering of more recent primary data in a range of end-use sectors to enhance the region's ability to estimate potential energy efficiency savings; expand the work of the Independent Economic Advisory Board; and verify savings from energy efficiency programs, to assure the Council and the region that funds are being spent effectively.

D. INTERNAL AUDIT

FY 2010		
Initial IPR	-10%	+10%
2.4	2.1	2.6
FY 2011		
Initial IPR	-10%	+10%
2.4	2.1	2.6

1. 10 percent <u>decrease</u> in Proposed Expense Spending

FY 2010: Internal Audit would not replace the next two people who separate from the office. These are expected to be senior auditors who currently provide about 20 percent of the staff capability for managing internal control reviews. Internal Audit would work with the Audit and Internal Controls Committee and business unit clients to identify the 20 percent of planned projects with lowest priority that would not be completed. Loss of these projects would reduce BPA's assurance about the adequacy of its internal control over business and compliance objectives in the business processes and IT systems that are not reviewed.

FY 2011: Internal Audit would continue to not fill behind the two senior auditors who separate in 2009-2010. Internal Audit would work with the Audit and Internal Controls Committee and business unit clients to identify the 20 percent of planned internal control reviews with lowest priority that would not be completed. Loss of these projects would reduce BPA's assurance about the adequacy of its internal control over business and compliance objectives in the business processes and IT systems that are not reviewed.

2. 10 percent increase in Proposed Expense Spending

FY 2010: Internal Audit would add two senior auditors and increase by about 20 percent its ability to complete internal control reviews in major business processes and IT systems. This would increase BPA's assurance about the adequacy of its internal control over business and compliance objectives in the additional business processes and systems that are reviewed.

FY 2011: Internal Audit would continue to staff with two additional senior auditors and maintain an increase of about 20 percent its ability to complete internal control reviews in major business processes and IT systems. This would raise BPAs assurance about the adequacy of its internal control over business and compliance objectives in the additional business processes and systems that are reviewed.

E. FINANCE

FY 2010		
Initial IPR	-10%	+10%
17.2	15.5	19.0
FY 2011		
Initial IPR	-10%	+10%
16.7	15.1	18.4

Finance is largely an FTE-driven organization. About $1.4 million of the $17 million proposed spending is associated with contracts for an outside auditor, information services, rating agency reviews, and a project to restructure financial data to accommodate tiered rates.

The functions that Finance performs include those listed below:

- General accounting and financial reporting, consistent with both Federal and commercial Generally Accepted Accounting Principles (GAAP) requirements and for management purposes.
- Cash management, including investments.

- Treasury and third- party financing.
- Accounts payable and receivable services, including payroll, travel and collections.
- Rate case revenue requirement development and support.
- Financial planning.
- Agency budget development and support.
- Agency cost management support.

1. 10 percent <u>decrease</u> in Proposed Expense Spending

This would force the elimination of the financial data restructuring project for a reduction of $250,000 per year. This could make the tracking of cost data under tiered rates problematic. In addition, the only other source of reductions would be in staffing costs of about $1.5 million or about 14 FTE. Few, if any functions would cease but the ability to meet deadlines, requirements and expectations for several Finance functions could be jeopardized. Efforts at risk would include

- further effort on the Financial Plan;
- cash flow analytics in support of assessing the adequacy of liquidity tools (such as the new Treasury agreement and the flexible PF program);
- maximizing the value of the new Treasury agreement generally (both borrowing and investment activities);
- meeting tight required deadlines for annual Federal financial reports to the Department of Energy and the publication of BPA's annual report within 45 days of fiscal year end;
- ongoing support to other Agency organizations for budget development, tracking and cost management (a function consolidated into Finance for efficiency);
- meeting annual requirement under OMB Circular A-123 Appendix A for documenting, testing and attesting to the adequacy of controls around financial reporting; and
- providing effective and meaningful forums for public input on financial issues and efforts, such as the Integrated Program Review (IPR), the Quarterly Business Reviews (QBR), and the Financial Plan.

These efforts tend to be at risk because they are either lower priority, new functions or deadline constrained.

2. 10 percent <u>increase</u> in Proposed Expense Spending

The major area for additional expenditures would be toward investments to create future efficiencies or prevent losses in productivity.

Investments for future efficiencies would include

- expanded use and enhancement of the Business Enterprise System (BES) and more comprehensive restructuring of financial data;
- effective integration of new systems, such as billing and contract administration systems;

- more dedicated support for customer and public processes, such as Integrated Program Review, Quality Business Review and the Financial Plan; and
- increased financial analysis support for business units;

Investments to prevent losses in productivity would include

- succession planning in areas such as accounting and Finance organization management;
- increased efforts on interest rate and commodity risk management; and
- increased analytical support for investment and capital access management

F. CORPORATE STRATEGY

FY 2010		
Initial IPR	-10%	+10%
10.3	9.2	11.3
FY 2011		
Initial IPR	-10%	+10%
10.8	9.7	11.9

The base spending assumes service contracts (outside independent expertise) to provide analyses and recommendations to support (1) continuous improvement in asset management processes, policies and practices for optimizing investment decisions in transmission, hydro, Information Technology, and facilities; and (2) development of a systematic market fundamentals capability for monitoring, tracking and analyzing trends and informing scenario and strategy development. This level of spending reduction would still allow for some, but reduced, outside expertise to support these efforts and a somewhat slower, longer start-up period than desired relative to the base case.

ColumbiaGrid was created to promote regional transmission planning in response to Federal Energy Regulatory Commission (FERC) Order 890. A reduction in ColumbiaGrid projected funding may have a direct impact on the work ColumbiaGrid is capable of performing in FY 2010 and FY 2011. ColumbiaGrid is a relatively new organization that, because BPA is its largest member, is heavily dependent on BPA. If BPA reduces its funding, it may constrain ColumbiaGrid's ability to provide the benefits that BPA envisioned when it decided to become a charter member in 2006. However, projections of ColumbiaGrid's funding requirements in FY 2010 and FY 2011 are not precise, so reductions in the amounts forecast for management and administration, OASIS activities and reliability seem reasonable at this time.

BPA's ability would also be reduced to fund analytical work in support of BPA's involvement in regional and national resource adequacy assessment activities and in support of a strategic examination of the region's future infrastructure needs, and BPA would not be able to call on the services of two specific contractors who have provided professional services to all ColumbiaGrid members, including BPA.

1. 10 percent <u>decrease</u> in Proposed Expense Spending

Estimated Decreases to Corporate Strategy Executive Support:
No Impact
Estimated Decreases to Strategic Planning:

FY 2010:	Service Contracts	$155,000
FY 2011:	Service Contracts	$ 41,000

Estimated Decreases to Strategy Integration:

FY 2010:	ColumbiaGrid: Overall Funding Agreement	$350,000
	ColumbiaGrid: Common OASIS	$100,000
	ColumbiaGrid: Reliability Agreement	$100,000
	Resource Adequacy	$100,000
	Coordinate Infrastructure Planning	$100,000
	Supplemental Labor Contracts	$90,000
FY 2011:	ColumbiaGrid: Funding Agreement	$450,000
	ColumbiaGrid: Common OASIS	$100,000
	ColumbiaGrid: Reliability Agreement	$100,000
	Resource Adequacy	$100,000
	Coordinate Infrastructure Planning	$120,000
	Supplemental Labor Contracts	$137,800

2. 10 percent <u>increase</u> in Proposed Expense Spending
Note: Identified increases are less than 10%
Estimate Increases to Corporate Strategy Executive Support:
No Impact
Estimated Increases to Strategic Planning:

FY 2010	$330,000
FY 2011	$340,000

Add two Positions

(1) Senior policy strategist position. This position would be responsible for leading and coordinating scenario development across BPA and for leading the analysis used to translate substantive implications into recommendations for improving BPA's strategy.
(2) Asset strategist position. This position would serve as a technical expert on implementation of BPA's asset management program, would assist in the continuous improvement in BPA's asset management program across all asset categories and would conduct analytical reviews of business cases to ensure consistency with BPA asset management strategy and policy, and would provide authoritative recommendations to the Capital Asset Board (CAB).

Estimated Increases to Strategy Integration:

FY 2010	$215,000
FY 2011	$220,000

Add two Positions

(1) Program analyst position. This position would be responsible for assuring data bases are updated to reflect latest scenarios developed by Strategic Planning and

to assure consistency with forecasts and data maintained by WECC, Council, ColumbiaGrid and others; for tracking the data and analytical flows among BPA offices; and for preparing special reports as needed by BPA management and senior analysts/strategists.

(2) Policy analyst position. This position would be responsible for conducting special analyses that require special data assembly and the application of originative analytical approaches to assess unique policy options.

G. SUPPLY CHAIN POLICY & GOVERNANCE

	FY 2010	
Initial IPR	-10%	+10%
.6	.5	.7
	FY 2011	
Initial IPR	-10%	+10%
.7	.8	.7

1. 10 percent decrease in Proposed Expense Spending

FY 2010: This reduction would represent approximately $60,000, which would erode travel, training, materials and supplemental labor and also require a $20,000 reduction in someone's salary.

FY 2011: Same impact for FY 2011 as for FY 2010 above.

2. 10 percent increase in Proposed Expense Spending

FY 2010: Hire an additional position to assist in compliance audits.
FY 2011: Same as impact stated in FY 2010.

F. AGENCY COMPLIANCE & GOVERNANCE (FORMERLY REGULATORY AFFAIRS)

	FY 2010	
Initial IPR	-10%	+10%
2.3	2.2	2.5
	FY 2011	
Initial IPR	-10%	+10%
2.5	2.3	2.8

1. 10 percent decrease in Proposed Expense Spending

FY 2010: Reduced ability to perform compliance governance functions as delineated in the governance, risk and compliance methodology established in FY 2007. Reduced compliance monitoring would reduce ability to attest to operational functions compliance with both purchasing and property policy.

FY 2011: This would primarily impact Compliance FTE targeted for FY 2010. There would likely be decreases in key reliability and internal controls training and in the ability to perform monitoring and independent auditing procedures. Such a reduction would increase the risk of costly compliance violations and/or vulnerability to financial reporting errors that could result in rate increases as well as reputation damage.

2. 10 percent <u>increase</u> in Proposed Expense Spending

FY 2010: This would primarily impact Compliance FTE and programmatic efforts targeted for FY 2010. There likely would be an increased ability to perform key reliability and internal controls training and ability to perform monitoring and independent auditing procedures that are, for example, direct components of a new vegetation management compliance strategy. Such an increase would allow hiring of the requisite number of staff and would decrease the risk of costly compliance violations and/or vulnerability to financial reporting errors that could result in rate increases as well as reputation damage.

FY 2011: This would primarily impact Compliance FTE and programmatic efforts targeted for FY 2010. There would be an increased ability to perform key reliability and internal controls training and ability to perform monitoring and independent auditing procedures that are, for example, direct components of a new vegetation management compliance strategy. Such an increase would allow hiring of the requisite number of staff and would decrease the risk of costly compliance violations and/ or vulnerability to financial reporting errors that could result in rate increases as well as reputation damage.

H. SECURITY AND EMERGENCY RESPONSE

Expense

FY 2010		
Initial IPR	-10%	+10%
7.5	6.7	8.2
FY 2011		
Initial IPR	-10%	+10%
7.7	6.9	8.4

Capital

FY 2010		
Initial IPR	-10%	+10%
5.1	4.6	5.6
FY 2011		
Initial IPR	-10%	+10%
5.8	5.2	6.4

The Security and Emergency Response program is designed to ensure the protection of BPA's workforce, physical and electronic assets and support the reliability of BPA's operations and services to the Pacific Northwest. Assessment of threats and mitigation of risks to BPA's infrastructure are key roles of the Security and Emergency Response program. The key regulatory drivers of Security and Emergency Response proposed spending are Executive Agency (Department of Energy) requirements, other requirements and guidelines set forth under North American Electric Reliability-Critical Infrastructure Protection Standards (NERC-CIP), and Presidential Security Directives codified under Homeland Security. The proposed spending level is intended to prevent not only threats posed by criminal adversaries, but to also improve the overall security program consistent with NERC-CIP Standards, thus avoiding costly penalties posed by the NERC-CIP audit compliance process.

1. 10 percent <u>decrease</u> in Proposed Expense Spending

FY 2010 – 2011:

Loss of all current supplemental labor to include the following:

HSPD-12 (Presidential Directive) Program: Loss of three supplemental labor/CFTE whose efforts are critical for compliance with Homeland Security Presidential Decision Directive (HSPD)12, a federal-wide mandate issued by the President and designed to provide heightened security for human capital, national critical infrastructure, resources and assets. In accordance with HSPD-12, all federal employees and contractors are to be issued a standardized identification credential. As a perquisite to obtaining the new ID, each employee and contractor requiring unescorted access to BPA's facilities must undergo a criminal background check, complete with a fingerprint & identity verification process. Currently, BPA is on track to be in compliance within prescribed timelines. However, a reduction in funding would seriously jeopardize BPA's ability to reach compliance with this key Presidential directive. *Impact: Failure to comply with a Presidential Directive mandating government-wide transition to a standard ID badge in addition to requirements for criminal background checks and personal identity verification.*

NERC CIP Program (Federal Regulatory Requirement): Loss of one (1) supplemental labor/CFTE that is critical to BPA compliance with North American Electric Reliability (NERC) standards for critical infrastructure protection. Loss of this position would seriously undermine our NERC CIP program. Detriments to this program may jeopardize existing efforts to develop revised risk and mitigation methodology made mandatory by NERC requirements, such as Personnel Risk Assessments (NERC CIP 004 - Personnel and Training), Identification of Critical Cyber Assets (NERC CIP002 - Identification of Critical Cyber Assets -CIP006, and Physical Security of Critical Cyber Assets) as well as similar NERC standards. As a result BPA would be at heightened risk of multiple violations of NERC standards, and consequently greater likelihood of monetary sanctions as a result of non-compliance. *Impact: Failure to comply with a federal regulatory* *requirement, resulting in heightened exposure to risk of unprogrammed monetary sanctions by WECC.*

FEDERAL CRIME WITNESS PROGRAM: Loss of one supplemental labor/CFTE position for our Federal Crime Witness Program (FCWP), our intra-agency incentive based crime mitigation program that relies on providing education and awareness to the public regarding crimes committed against BPA or our partnering federal agency, the Bureau of Reclamation. As part of a joint anti-crime effort, BPA and our partnering agency the BOR split costs required to maintain this joint-agency program. Since its inception in the early 90's, the FCWP has resulted in hundreds of tips and useful information from ratepayers interested in taking a proactive responsibility for minimizing higher electricity costs by reporting suspicious and criminal activities like metal theft, arson, and vandalism. Loss of this important position would greatly degrade the effectiveness of the program. As a result, the BOR would likely terminate their joint agency agreement, and our Crime Witness program would see its effectiveness decline by more than 50 percent or more overall, with respect to calls, rewards, and education and awareness efforts. *Impact: Inability to sustain a vital crime mitigation program with a proven track record of reducing crimes at field facilities, resulting in greater exposure of risk for BPA, with lessened ability to mitigate crime via education and awareness efforts aimed at recruiting the public's assistance in minimizing criminal acts against the agency and our partnering federal agency, the Bureau of Reclamation.*

BPA'S SECURITY SERVICES CONTRACT (Protection of Critical Infrastructure): An overall 10 percent reduction in the budget of Security & Emergency Response would require draconian reductions in staffing, training, equipment, and resources associated with BPA's incumbent security provider contract. Currently, as a result of rigorous studies and efforts conducted during previous years aimed at gaining economies of scale, and improved operation via revision or elimination of security posts, BPA's security contract has been optimized for peak efficiency wherein elimination of any additional posts will result in seriously degraded ability to provide security patrols of key BPA facilities, including lessened ability to provide response to security incidents and alarms, and to properly control access at BPA facilities. We would be forced to cut posts, eliminate services at several key points, and defer essential program-related elements such as training and acquisition of necessary replacement equipment. *Impact: Greatly reduced ability to provide adequate security at BPA key facilities, resulting in greater exposure of risk to BPA's critical infrastructure, employees and contractors, and facilities and assets. Greater likelihood of incidents due to a degraded security posture which in turn affects the security and safety of our BPA employees, contractors, visitors, assets, and facilities.*

ADDITIONAL

- A reduction of $800,000 in spending would also greatly effect our ability to implement and install physical security measures to comply with emerging regulatory standards (NERC CIP) and deter theft, sabotage, vandalism, and other criminal

activities at our key electrical facilities in the field, resulting in heightened vulnerability of national critical infrastructure.
- Our Emergency Response program would be seriously impacted, wherein our ability to provide vital support to our field sites in the form of emergency drills and exercises would be impeded, resulting in greater risk to our employees, facilities, and resources.
- Our ability to secure supplies, equipment, and training that is essential to Security & Emergency Response's operation would be seriously affected, resulting in deficiencies related to lack of these needed items such as First Responder and Building Warden supplies and equipment, and First Aid and CPR training classes.

2. 10 percent <u>increase</u> in Proposed Expense Spending

FY 2010 – FY2011: If this spending level were increased by 10 percent, BPA would be able to improve its security and emergency response services as follows:
- An increase of $800,000 in Security and Emergency Response would allow the acceleration of security measure installation at seven of BPA's key electrical substations.
- Develop a more comprehensive metals theft program across the BPA territory working with law enforcement and customers to include acquisition of automated tools to use in mitigating theft such as CCTV, alarm sensors, additional card readers, and motion sensors.
- Allow for additional training and development on emerging HSPD-12, NERC CIP, as well as similar security-related issues, especially in areas that are emerging verses the more reactive position taken today.

3. 10 percent <u>decrease</u> in Proposed Capital Spending

FY 2010 and FY 2011: The capital funding is dedicated to security enhancements of BPA's critical infrastructure substations that require protection based on security risk assessments, Presidential Security Directives, including its critical cyber assets that require protection under NERC-CIP Standards. NERC audit findings could be costly to BPA if found to be in non-compliance for areas that should have reasonable protection strategies applied, such as the critical substations. These substations also directly support BPA's reliability posture with its customers and are integral to viability of the FCRPS. A reduction of funding would not signal prudent security strategies to an objective party.

Security risk assessments mandate that those facilities receive security enhancements at protection Level 2 (e.g., alarms, cameras, digital recorders, reporting systems, access controls, 24-hour monitoring by security, etc.). BPA has afforded capital enhancements of those critical assets on a prioritized schedule that should result in completion of the necessary upgrades within a few years. A reduction in the funding level by 10 percent ($1.09 million) during FY 2010 and 2011 would expose BPA to security risks for a longer period of time and extend the necessary upgrades of some facilities into the next year. Should a security incident occur during the extended year, without the necessary upgrades, BPA would meet some significant political challenges and potentially lose customer and workforce confidence in its security and reliability of its infrastructure.

4. 10 percent <u>increase</u> in Proposed Capital Spending

FY 2010 and FY 2011: If the IPR capital spending level for 2010-2011 were increased by 10 percent ($1.09M), BPA would reduce its risks faster for the critical facilities and more readily prevent criminal acts against its facilities through integrated detection, assessment, reporting and deterrence systems. The potential for NERC-CIP audit findings for non-compliance will also be minimized.

I. OFFICE OF GENERAL COUNSEL

FY 2010		
Initial IPR	-10%	+10%
9.6	8.6	10.6
FY 2011		
Initial IPR	-10%	+10%
10.0	9.0	11.0

1. 10 percent <u>decrease</u> in Proposed Expense Spending

FY 2010: Legal would not replace the next three people who separate from the office for savings of $480,000 and would attempt to cover the balance through a combination of Voluntary Separation Incentives, Voluntary Early Retirement and cuts in contract service support for savings of $484,000. Legal would work with its clients to establish priorities as to what work does and does not get done. Legal would anticipate that given the size of the reductions, Legal would cover less work in the areas of fish and wildlife, personnel, Energy Northwest, resource acquisition, tariff implementation, Standards of Conduct, master lease and rate establishment.

FY 2011: Legal would not replace the next three people who separate from the office for savings of $496,000 and would attempt to cover the balance through a combination of VSI/VERA and cuts in contract service support for savings of $501,000. Legal would work with its clients to establish priorities as to what work does and does not get done. Legal would anticipate that given the size of the reductions, Legal would cover less work in the areas of fish and wildlife, personnel, Energy Northwest, resource acquisition, tariff implementation, Standards of Conduct, master lease and rate establishment.

2. 10 percent <u>increase</u> in Proposed Expense Spending

FY 2010: Legal would add three people to meet increasing workload and succession planning needs at a cost of $480,000 and would add contract service support at a cost of $484,000, principally to improve its ability to preserve, search and retrieve documents electronically.

FY 2011: Legal would add three people to meet increasing workload and succession planning needs at a cost of $496,000 and would add contract service support at a cost of

$501,000, principally to improve its ability to preserve, search and retrieve documents electronically

J. CUSTOMER SUPPORT SERVICES

FY 2010		
Initial IPR	-10%	+10%
10.5	9.5	11.6
FY 2011		
Initial IPR	-10%	+10%
10.7	9.6	11.8

1. 10 percent decrease in Proposed Expense Spending

A 10 percent spending reduction to Customer Support Services would put at risk its ability to deliver on a mission designed to improve customer service while increasing efficiency of internal customer operations, as well as establishing much needed internal controls. Customer Support Service functions – Customer Billing, Contract Management and Administration, Metering Services, and Load Forecasting – are integral to the Power and Transmission customer service experience.

Customer Support Services' ability to deliver on its strategic role established through the M&S EPIP and approved by FERC would be significantly hindered (i.e., November 2006 "No Action Letter," approving a consolidated shared back office organization.) The long-term core commercial business value chain, within which Customer Support Services performs a key role, would be disrupted if not jeopardized with a 10 percent spending reduction.

The 10 percent reduction could increase the risks of:

1. Negative revenue or rate impacts – contracts, billing, metering and load forecasting problems stemming from errors, process hand-off break-downs, customer disputes, litigation, settlements, etc. which all contribute to negative financial impact to the agency.
2. Contract implementation and credibility problems – especially for implementing annual contract updates, billing for TRM, load forecasts for Net Requirements, etc., - for the highly complex Regional Dialogue power contracts - could generate increased scrutiny of finances and controls, which could damage BPA's credibility as a regional steward that can equitably and competently manages its assets.

Specific program risks if the IPR spending level for FY 2010 and FY 2011 were reduced by 10 percent:

- The spending for Customer Support Services is driven by FTE. A 10 percent reduction in spending translates into a decrease of 9-10 FTE per year.
- The ratio of customer billing accounts per FTE is 19/1. A 10 percent reduction would increase this ratio to 34 billing accounts/FTE. The ratios for customer contract administration are 21 accounts/FTE for Power contracts, and 42 accounts/FTE for

Transmission contracts. A 10 percent reduction would increase these ratios to 59 accounts/FTE for Power contracts and 118 accounts/FTE for Transmission contracts. The resulting increase in account workload would impact quality control and oversight for both customer contract and billing deliverables.
- Participation on BPA Account Executive Customer Account Teams (CATs) by all Customer Support Services functions would be reduced to focusing on large revenue customers rather than all customers. Smaller revenue customer AE CAT participation will be addressed on as "as needed" or reactive basis.
- Customer Contract Implementation Plans (CIPs), a new key internal control, will be prepared for highest revenue risk customers only. Expansion of planned customer contract process improvements, including development of new contract templates, would be slowed down or eliminated.
- Meter verification and management activities may be delayed up to five business days for "lower priority work" or requests. This may expose BPA to increases in Energy Imbalance (EI) charges for GTA customers. Data and modeling improvements made in the last two years have reduced imbalance charges by over $400,000 dollars annually.
- Load forecast information would be prepared annually instead of quarterly. Quarterly forecasts are prepared in order to maintain mid-term (1-3 years ahead) accuracy levels. Each 1% decrease in annual accuracy results in about $23 million of additional power purchase costs at a market price of 45 mills putting upward pressure on customer rates.
- Eliminate the customer support system data stewardship program (a program that ensures data integrity and data updated and integrated in commercial software – billing system, load forecasting system, contracts system and metering system.)

2. 10 percent <u>increase</u> in Proposed Expense Spending

- A 10 percent spending increase would allow Customer Support Services to accelerate the preparation and implementation of standardized customer contract templates and business processes, and develop more efficient and effective customer contract work tools to sustain efficiency gains in the workforce.

K. INTERNAL BUSINESS SERVICES' EXECUTIVE OFFICE AND BUSINESS PROCESS ANALYSIS

FY 2010		
Initial IPR	-10%	+10%
1.0	.9	1.1
FY 2011		
Initial IPR	-10%	+10%
2.6	2.3	2.9

1. 10 percent <u>decrease</u> in Proposed Expense Spending

A 10 percent reduction in FY 2010 and FY 2011 would result in delaying the "stand-up" of BPA's Business Process Analysis function. This function is envisioned to embed business and process analysis expertise at BPA in support of a continuous improvement culture. It is the follow-on to the Enterprise Process Improvement Program projects. The consequence of delaying the formation of this centralizes group will be that process improvement across the agency will likely continue but in an ad hoc manner and without an enterprise approach. The risk is that in the face of competing urgent and mission-critical priorities, BPA's process improvement will abate. An additional risk is that the business units will simply hire consultants to help with process improvements if they don't have a BPA resource or work group to turn to which would result in a cost shift..

2. 10 percent <u>increase</u> in Proposed Expense Spending

At this time, a 10 percent increase in the overall spending is not needed at the executive office level of Internal Business Services or for the Business Process Analysis work group. However, if we had an additional 10 percent, we would either put more resources into succession planning (create overlaps in key positions within IBS) and/or strengthen the Business Process Analysis with additional consulting services.

L. CIVIL RIGHTS, EEO AND CONFLICT RESOLUTION

	FY 2010	
Initial IPR	-10%	+10%
.8	.7	.9
	FY 2011	
Initial IPR	-10%	+10%
.8	.7	.9

1. 10 percent <u>decrease</u> in Proposed Expense Spending

FY 2010: This function is currently estimated to be under-funded in critical areas. This function covers the travel, training and related expenses for EEO Counselors. We are planning an outreach effort to our BPA service area using EEO counselors. This communication effort would not be able to be launched. We also are estimated to be under-funded for "partnership initiatives" with the Human Capital Management (HCM) organization, thus impacting our ability to support future workforce initiatives linked to community involvement. Currently, we are only minimally able to support our mission related mandates of community outreach and college/university relationships to benefit our EEO workforce.

FY 2011: These same issues apply to this budget out-year. The Special Emphasis Program activities would certainly be negatively impacted. Additional impacts to our Conflict Resolution Services would prevent us from continuing the successes we have had in proactive prevention of harassment and initiatives that support respect and inclusion.

2. 10 percent increase in Proposed Expense Spending

FY 2010: A spending increase would allow us to be pro-active in supporting partnerships vital to our future workforce. Our primary goal is workforce barrier identification and removal, resulting in greater workforce diversity. This connects directly to our long-term succession planning strategies. Re-establishing our college relations initiative is crucial to recruiting more qualified students to our workforce.

FY 2011: A spending increase in this out year would allow this function to have more success in connecting with the community, influence recruitment and hiring and afford expansion of the college relations effort; and continue to meet the requirements of our conflict resolution services.

M. SAFETY

FY 2010		
Initial IPR	-10%	+10%
2.4	2.2	2.6
FY 2011		
Initial IPR	-10%	+10%
2.5	2.3	2.8

1. 10 percent decrease in Proposed Expense Spending

BPA's Safety program would have to reduce one FTE which equates to $180,000; reduce materials and equipment by $20,000; and reduce service contracts by $32,000, with the balance coming from training and transportation.

The reduction of one FTE would mean that the current workload would have to be redistributed to other staff which would likely result in delays of accident/incident investigations and would have a negative impact to our proactive response to preventing future accidents. This negative impact would likely increase costs in other areas such as The Office of Worker's Compensation Program (OWCP) costs and loss of resources in Transmission Services. The cost of one serious injury will typically exceed the 10 percent reduction that would be taken from the Safety proposed spending. A reduction in one FTE would also increase travel expenses as it increases the service territory of one or more of our safety managers. The reduction in material and equipment would not be detrimental in any single year but would be if carried over a period of more than two years in a row. A reduction to service contracts would also be required, which could impact the implementation of the barehanding program which would directly impact system reliability for Transmission.

2. 10 percent <u>increase</u> in Proposed Expense Spending

A 10 percent increase in the overall spending estimate is not needed at this time. However, if the Safety Program had 10 percent more funding, we would increase training and succession planning efforts.

N. HUMAN CAPITAL MANAGEMENT (HCM)

FY 2010		
Initial IPR	-10%	+10%
16.8	15.2	18.5
FY 2011		
Initial IPR	-10%	+10%
16.3	14.7	18.0

HCMs proposed spending is driven by three main items:

- Personnel compensation
- The Office of Worker's Compensation Program (OWCP)
- Contracts, which include service contracts and supplemental labor contracts to help deliver the full range of HCM activities.

In the face of either a 10 percent spending increase or decrease, HCM would keep its FTE levels (federal and non-federal) in line with the current forecasts in order to realize the expected efficiencies of the Human Resources/Staff management (HR/SM) EPIP. These FTE levels are intended to execute BPA's new HCM service delivery model which supports the full range of HCM activities from labor and employee relations to training to recruiting, etc. Therefore, adjustments in spending would be concentrated in support contracts.

1. 10 percent <u>decrease</u> in Proposed Expense Spending

HCM would absorb decreased funding primarily from the training program (needs assessment, design, development and delivery). Reductions here would increase the likelihood that the workforce skill gaps, identified as part of BPA Workforce Plan, would be ineffectively addressed and would reduce BPA's overall effectiveness as new demands are place on its workforce. It is likely that various organizations, now planning and executing their training requirements in a centralized fashion, would strike out on their own with the result that training would be less efficient and less effective. In the end, this would put more pressure on the budgets of business units to address their critical skill needs.

2. 10 percent <u>increase</u> in Proposed Expense Spending

HCM would use increased funding in two primary ways that are intended to increase the probability that we effectively address the considerable risk associated with our workforce skill gaps. First, additional skill building in areas of change management, leadership development, diversity management and critical/strategic thinking, among others, would be added. Within HCM, we would focus on accelerated skill development in the expert service areas. The second major focus would be in the development of

BPA's talent management plan. While resources are being dedicated to effort beginning in FY 2009, it is highly likely that we could effectively expand our effort with additional resources.

O. SUPPLY CHAIN SERVICES

FY 2010		
Initial IPR	-10%	+10%
21.1	19.0	23.2
FY 2011		
Initial IPR	-10%	+10%
20.9	18.8	23.0

Supply Chain's spending is driven by the programmatic levels of Transmission O&M and construction, Fish andWildlife, Energy Efficiency, Technology Innovation, and Workplace Services (non-electric facilities build, repair and maintenance), and the agency's supplemental labor force and contract services requirements. For Supply Chain, the FY 2010 and FY 2011 proposed spending estimates have fully incorporated the efficiency savings from the Supply Chain and Plan-Design-Build EPIPs resulting from the Work Planning and Scheduling System and the "80 percent stable work plan" for transmission. Conversely, several significant agency-level programs, outlined below, were not fully reflected in Supply Chains IPR proposed spending levels therefore, we expect Supply Chain's spending to already be tight for FY 2010 and FY 2011.

1. 10 percent <u>decrease</u> in Proposed Expense Spending

1. A 10 percent reduction would equate to approximately 20 positions (BFTE or CFTE) in the area of purchasing FTE that currently support complex contracts; warehouse FTE that would support increased material flow; receiving inspection, material coordination; and various FTE to support Master Lease. This reduction would take Supply Chain to the funding level approved for FY 2008 and would provide no additional staff to accommodate planned stakeholder program growth.
2. Stakeholder program growth has increased since April 2008 when IPR proposed spending levels were submitted. The Supply Chain proposed spending did not anticipate this additional growth.
    a. Response to BPA's Network Open Season (NOS) significantly exceeded expectations. The additional infrastructure needed to accommodate the requests may increase the Transmission capital program by as much as 60 percent over previous expectations. The Supply Chain IPR spending proposal was based on the expected NOS response of 3000 megawatts rather than the 6410 megawatts actual response. It is expected that 90 percent of the 6410 megawatts requested will require some infrastructure additions.
    b. The Facilities Asset Management plan was developed and executive direction given to plan for implementation starting in FY 2010. This program would be at least four times the historical spend on facility projects. As BPA does not have the in-house facilities related staff to execute a program of this size, approximately 80 percent of these projects would be contracted out. The Supply Chain IPR

spending level did not contemplate any increase over historical levels of facilities maintenance support.

c. While funding levels are not finally determined yet, early indications are that the needed for staff increases would likely be met by service contracts and supplemental labor.

3. Assuming a 10 percent reduction and a requirement to first and foremost deliver on Agency planned program accomplishments (including Master Lease implementation), Supply Chain would cause the following reductions, delays, or elimination of the following work:
   a. Cancel implementation of the Supplemental Labor Management Office (EPIP) and re-assign employees. The estimated $4 million in savings per year through better management of BPA's supplemental labor would not be realized.
   b. Stop all efforts toward reduction of inventory to optimal inventory levels (EPIP) in order to re-direct staff toward higher priority efforts (like Transmission infrastructure). The effect of this would be upward pressure on the Supply Chain spending forecasts EPIP savings of $1.6 million over FY 2009-2011 was already included in the Supply Chain IPR spending level because of an anticipated reduction in staff needed to manage inventory. Supply Chain would still need to safeguard the inventory, ensure usability, and count the inventory to protect the asset. Also, a one-time write off of $12M (Transmission) in inventory (amount in excess of optimal) would not be realized.
   c. Stop establishing and staffing field material yards for contracted capital projects. This would reduce two FTE in Supply Chain. However, this will put spending pressure on the planning and project management process in Transmission and could result in construction projects being delayed. As the two-year work plan gets implemented (full implementation not expected until FY 2011) designs should be complete at least 60 days prior to construction start allowing time for construction contractors to establish their own material yard. The risk would be if designs were not complete early enough, this will be problematic for successful completion of the Transmission line construction program.
   d. Stop implementation of technology applications – specifically, Supplemental Labor Information Management system (SLIM) and eCommerce but continue upgrade of bar-coding effort. Elimination of SLIM would result in the same impact as identified in 3.a above – significant agency-wide savings would not be realized. Elimination of eCommerce would delay or eliminate efficiencies planned to help achieve $1.6m reduction identified in 3.b above. Other efficiencies planned as a hedge against increasing staff to increased contracting workload would not be realized with the result that approximately one additional FTE would have to be added to the purchasing group. Elimination of Radio-Frequency Identification (RFID) – savings have not been quantified on this EPIP recommendation yet, but already we are seeing significant benefits from RFID in easing the tracking requirements of third-party financed inventory (Master Lease). This and other financial benefits yet to be identified would not be realized.
   e. Strategic Sourcing initiative would be stopped. Recently hired program manager would be reassigned to a critical position in the buying organization. Managers would be freed up from responsibility of facilitating team process and developing

sourcing strategy – cumulative savings roughly three FTE in Supply Chain. The result would be the EPIP estimated Agency-wide savings of $19.5M per year would not be realized. Additionally, hedging opportunities for levelizing product costs in current market conditions would be reduced with the likely result that the Agency would see no offset to rising material and labor costs.

f. Purchase Card program support would be cut by one FTE. The elimination of this position would increase Agency risk of Purchase Card usage. Position planned to support Purchase Card manager in completing monthly reviews of Purchase Card transactions.
g. Eliminate/postpone process improvements to contracting process aimed at reducing Agency contract risk. Specifically, contract reviews, preparation and approval of pre-negotiation strategies, contract closeouts, market research, market intelligence, etc.). Cumulative savings of two FTE. The Supply Chain EPIP focused on the contracting process as a result of several high visibility contract issues that were occurring across the Agency. Many of the actions taken to date are with the goal of producing better contracts and reducing Agency contract risk. Delay or elimination of these improvements would have the potential for increased contract risk across the Agency.

All of these actions would reduce staffing by 16 FTE. An additional undistributed savings of $400,000 would be accommodated through delayed filling of positions, resulting in potential slower transaction processing within Supply Chain.

2. 10 percent <u>increase</u> in Proposed Expense Spending

1. The response to BPA's Network Open Season (NOS) significantly exceeded expectations. The additional infrastructure needed to accommodate the requests may increase the Transmission Capital program by as much as 60 percent over previous expectations. Supply Chain is roughly 70 percent of every direct capital dollar that supports the Transmission System. Roughly 80 percent of Supply Chain Workforce supports the Transmission System. Workload impacts are for the purchase, inventory management, coordination, handling and transportation of materials as well as for the negotiation and administration of complex service and construction contracts. The IPR proposed spending was formulated prior to the close of the NOS based on the expected NOS response of 3,000 megawatts. Supply Chain funding necessary to support an additional capital program growth of up to 60 percent is not reflected in the initial FY 2010 IPR request. Staffing required to develop and implement contract strategies in FY 2009 to support future ordering has already been limited to lower levels due to staffing and reductions in spending assumptions in FY 2009. This would impact the FY 2010 program accomplishment. An estimated seven people would be added to Supply Chain to accommodate this growth.
2. Funding the additional capital program through Master Lease is a very resource-intense initiative requiring new processes, new internal controls and increased compliance requirements. Staff levels required to develop processes, internal controls and implement Master Lease in FY 2009 has already been assumed to be limited to lower levels due to staffing and assumed spending cuts in FY 2009. This increases Supply Chain risk of compliance with Master Lease requirements in FY 2010 and

beyond. An additional two FTE would be added to Supply Chain to further ensure compliance with Master Lease requirements.

3. The Facilities Asset Management plan was developed to specify a program of addressing the deferred maintenance on BPA's non-electric facilities. As a result of recent condition assessments, a long-term plan has been proposed to address issues and deficiencies at our facilities. We propose to implement an aggressive program starting in FY 2010 and 2011. This program would be at least four times the historical spending on facility projects. As BPA does not have the in-house facilities related staff to execute a program of this size, approximately 80 percent of these projects would be contracted out. This contract workload would significantly impact Supply Chain contracting staff. The IPR spending was formulated prior to the development of the facilities asset plan and the intent to implement this plan was not reflected in the initial Supply Chain 2010 IPR request. An additional FTE would be added to the purchasing organization to accommodate this growth.
4. Programs are continuing to feel pressure since the initial IPR requests. Since April we have begun to recognize the growth mentioned above in Transmission capital and facilities maintenance. We need to develop contracting strategies that will ensure accomplishment of the Fish and Wildlife and the Transmission programs with minimal impact on existing Supply Chain resources. The 2010 IPR request was based on staffing utilized during the most recent transmission build program. Not knowing the specific projects, it is difficult to know that the same staffing strategy will successfully accomplish the stakeholder programs. Based on today’s information, we anticipate that the Supply Chain staffing levels requested in the 2010 IPR and beyond will not be adequate to accomplish the actual Agency-wide program growth. Part of an additional 105 increase would be to add another FTE to the purchasing organization to accommodate this growth.

   In summary, a spending increase of 10 percent (for Supply Chain, but no additional increase for BPA’s programs) would allow Supply Chain to adequately staff for the planned program levels and successfully implement the Master Lease program while continuing to develop/improve and implement process improvements, new technologies, develop employees, and hire new talent for succession planning purposes by adding an additional 11 positions to Supply Chain.

P. WORKPLACE SERVICES

FY 2010		
Initial IPR	-10%	+10%
44.8	40.3	49.3
FY 2011		
Initial IPR	-10%	+10%
47.3	42.5	52.0

1. 10 percent <u>decrease</u> in Proposed Expense Spending

Due to the proposed increase in BPA's programs, Workplace Services lease costs are expected to increase to accommodate additional staff across the agency. Lease costs are considered a fixed cost and account for approximately 48 percent of the Workplace Services base spending. As a result, Workplace Services base spending would stay at the same level as planned. The reduction would be eliminated from the Facilities Asset Management program by potentially pushing projects out two years and spreading the workload across the eight- year planning horizon. The impact would be to continue deferring maintenance on critical facility systems. The impacts would be varied affecting building reliability, building efficiency and work environment, but would not significantly affect the overall accomplishment of the organization's objective to increase stakeholder value through cost effective life-cycle management of facilities assets. Emergency situations would be managed through re-prioritization of projects as they occur.

2. 10 percent <u>increase</u> in Proposed Expense Spending
Based on BPA's business needs projected for 2010-2011, Workplace Services would need to deliver the requirements and provide the stakeholder value through 2011 with current spending projections and does not have critical need for an additional 10 percent in expense funding. If we did receive a 10 percent increase, some funding would be applied to covering the increase in lease costs needed to support BPA's program growth. The remaining funds would be applied to remodel or upgrade buildings and systems to improve building efficiency and improve work environment. These funds would be applied to facilities projects that have been identified, but not funded previously due to higher priorities.

3. 10 percent <u>decrease</u> in Proposed Capital Spending
The majority of facilities-related work requires expense funding. As a result, the capital program contains fewer projects at a higher cost per project. Reducing each project by 10 percent would negatively impact the ability to meet the business needs.

Two large capital projects include new buildings at Tri-Cities and the Ross Complex Dittmer Annex (in decision process) totaling approximately $42 million in FY 2010. The remaining proposed spending consists of approximately $5 million for critical facility needs such as critical emergency backup power systems and $13 million as a placeholder for business continuity. All of these projects are critical to BPA's business. Business continuity is a FY 2009 key agency target area identifying facility requirements, with plans to start implementing the facilities-related requirements in FY 2010. A decision could be made to defer one or two of these capital projects to the out years based on their criticality to the business.

The FY 2011 proposed spending consists of approximately $5 million for critical facility needs such as critical emergency backup power systems and $18 million as a placeholder for business continuity. All of these projects are critical to BPA's business. Business continuity requirements will be defined in FY 2009, with plans to continue implementing the facilities-related requirements in FY 2010 and FY 2011. If all projects are approved, a decision would be made to defer one or two of the capital projects to the out years based on their criticality to the business.

4. 10 percent <u>increase</u> in Proposed Capital Spending

The results of the FY 2009 Business Continuity planning effort may require additional facility-related funding to meet the business continuity needs. In addition, additional funding would be used to remodel or upgrade buildings to improve building efficiency and improve work environment. These funds would be applied to facilities projects that have been identified, but not funded previously due to higher priorities.

Q. INFORMATION TECHNOLOGY

Expense

FY 2010		
Initial IPR	-10%	+10%
68.4	61.5	75.2
FY 2011		
Initial IPR	-10%	+10%
68.0	61.2	74.8

Capital

FY 2010		
Initial IPR	-10%	+10%
21.4	19.2	23.5
FY 2011		
Initial IPR	-10%	+10%
21.4	19.2	23.5

1. 10 percent <u>decrease</u> in Proposed Expense Spending

The IT expense spending has been held fixed since FY 2005 at $58.3 million with IT absorbing both inflation and the expense increase (O&M, license fees, etc.) resulting from new capital projects. This has placed IT in a position where its expense spending is already extremely constrained. A 10 percent spending cut would translate to a $6.8 million reduction in expense funding. IT has two areas to reduce expense spending which would be reducing supplemental labor and deferring planned hardware refreshes. IT would reduce supplemental labor by $5.8 million (which translates into approximately 43 staff positions) and defer $1 million in planned hardware refreshes. The likely impacts of these actions are detailed below.

A reduction of $5.8 million would be felt across all systems supported by IT by curtailing all planned system enhancements for both FY 2010 and FY 2011. Examples of the impacts include stopping all system enhancements for Pisces which provides an external and transparent project selection capability for submission, selection and performance tracking of Fish and Wildlife projects that are approved by the Northwest Power and Conservation Council. This would impact BPA's ability to oversee and effectively manage its environmental obligations. Upgrades to the Financial and Human Resources systems would likely be postponed as well, forcing these systems to lag behind vendor patches and releases, thereby increasing costs in the out years to catch up to current versions. Foregoing systems enhancements would delay new automation functionality resulting in manual work being performed by the business units. This manual work would in effect shift the costs from IT to the business units.

The curtailment of systems enhancements would also extend to hosted solutions. Examples of hosted solutions are transmission scheduling, power scheduling, and eCommerce. Mandated regulatory requirements for the scheduling systems would have to be handled manually, again shifting costs to the business units. Postponing eCommerce would result in both Supply Chain and Transmission falling short in achieving their pledged EPIP objectives.

The labor reduction would not only impact systems enhancements but also new projects and projects still in the analysis phase. Projects that would be impacted include:

- **RODS Replacement**, 29 organizations at BPA rely on RODS or data from RODS. Downstream consequences could include curtailment of power sales to ensure system reliability, causing a substantial loss of revenue.
- **Regional Dialogue and Requirements Marketing** processes associated with these areas would have to be implemented manually instead of being automated. This would shift costs from IT to the business units.
- **Master Lease,** delaying this effort would defer automation of managing and tracking of third-party financing and, in fact, could put the overall capital funding program in jeopardy.
- **Transmission EPIPs**, (Work Planning Scheduling System, Transmission Asset System, Supplemental Labor etc.) new process would have to be implemented manually, with business units incurring the costs instead of IT (cost transfer).
- **Field Connectivity,** deferring this project would result in the field offices continued use of T-1 lines which are not meeting emerging bandwidth requirements and do not have redundant backup.

Projects planned in 2011 that will be in jeopardy due to lack of resources to perform analysis and planning include

- Projects postponed from FY 2010
- Network Refresh, replacement of out-of-cycle network routers, switches, firewalls, and load balancers
- Datacenter modernization, consolidation and reduction of servers using virtualization
- IT Asset Management, automation of the management of IT asset portfolios to include office automation, datacenter, networks, and application portfolios

The reduction of $1 million in planned hardware replacements would increase the risk of hardware failures due to obsolescence. This would result in increased outages and increased support labor costs to restore failed devices. By FY 2011, more than 80 percent of devices will be beyond their scheduled replacement dates.

2. 10 percent <u>increase</u> in Proposed Expense Spending

IT could move forward with its Office Automation Revitalization plans. This includes conference room upgrades to provide dedicated room projectors, electronic white boards, wireless access points and video conferencing. In addition, IT could accelerate the replacement of aging devices (re-establish refresh rate of three years for laptops, four years for workstations, five years for network printers,) moving to 80 percent workstations, 20 percent laptops, upgrade desktop operating system, and implement remote desktop management (to reduce future labor costs). IT would also have the opportunity to upgrade BPA's aging phone system.

3. 10 percent <u>decrease</u> in Proposed Capital Spending

Reduce the number of projects that could be executed. A prioritization effort would take place to identify which projects could be cut to achieve the ~$2 million reduction. Projects likely to be cut under this scenario would be the second phase of Service Connection and the Customer Portal Application. The Service Connection project provides improved automation for the on boarding of new employees and movement of existing employees, as well as other process improvements. By delaying this project, the current inefficient, non-transparent processes would continue, which puts upward pressure on FTE and costs within Power, Transmission, and other Corporate units. The Customer Portal Application would provide an externally-facing Web interface for improved communication between BPA and customers. Billing statements and other customer-specific information would be made available to the customer in a secured, personalized environment. Cutting this project would postpone the benefits of improved communications with the customers.

4. 10 percent <u>increase</u> in Proposed Capital Spending

Increasing the capital spending would allow IT to execute the Prowatch Project, providing enhanced security service for corporate and field offices. This project would allow high-definition camera monitoring of entry points and other secured areas. IT would also be able to execute the Network Hardware Refresh project to replace routers, switches, load balancers and firewalls approaching end-of-life dates.

Opportunities to Comment

The comment period for the IPR opens Thursday, May 15, 2008. Close of comment for is August 15, 2008 for FY 2010-2011 program levels. You have several options to provide comments to BPA:

1. Discuss your input with your Customer Account Executive, Constituent Account Executive, or Tribal Liaison.
2. Submit written comments to Bonneville Power Administration, P.O. Box 14428, Portland, OR 97293-4428.
3. Submit comments via e-mail to: comment@bpa.gov or submit on line at: http://www.bpa.gov/comment or via facsimile to (503) 230-3285.