



Bonneville Power Administration

**Integrated Program Review
Power's Internal Operating Costs,
Residential Exchange Program
and Transmission Acquisition Costs**

Technical Workshop

May 20, 2008



Agenda

1. Power's Internal Operating Costs
2. Residential Exchange Program
3. Transmission Acquisition Costs
4. Workshop Schedule
5. Financial Disclosure
6. Process for Commenting



Power's Internal Operating Costs



Where We Are Found on Financial Statements

- Internal Operations charged to Power Rates consist of the direct costs of managing and operating Power Services (Power Non-Generation Operations) and the Power share of Agency Services, both direct and allocated.
- An example of where these costs are displayed on the PPC report (posted monthly):

Report ID: 0060FY08	Power Services Detailed Statement of Revenues and Expenses	
Requesting BL: POWER BUSINESS UNIT	Through the Month Ended March 31, 2008	Data Source: EPM Data Warehouse
Unit of Measure: \$ Thousands (\$ 000)	Preliminary/ Unaudited	% of Year Lapsed = 50%

	B	C	D	E	F	G
	Actuals: FY 2007	Rate Case: FY 2008	Target SOY: FY 2008	Actuals: FYTD 2008	Current Forecast: QTR 2	Actuals per Forecast
Power Non-Generation Operations						
Power Services System Operations						
41 EFFICIENCIES PROGRAM	164			137		
42 INFORMATION TECHNOLOGY	5,678		5,423	2,300	5,423	42%
43 GENERATION PROJECT COORDINATION	6,025	6,031	6,293	3,440	6,534	53%
44 SLICE IMPLEMENTATION	2,217	2,303	2,124	854	1,970	43%
45 Sub-Total	14,084	8,334	13,840	6,731	13,927	48%
Power Services Scheduling						
46 OPERATIONS SCHEDULING	7,648	8,231	8,393	3,742	8,754	43%
47 OPERATIONS PLANNING	5,144	5,435	5,721	2,646	6,084	43%
48 Sub-Total	12,792	13,666	14,114	6,388	14,838	43%
Power Services Marketing and Business Support						
49 SALES & SUPPORT	14,527	14,761	16,398	7,920	17,210	46%
50 PUBLIC COMMUNICATION & TRIBAL LIAISON						
51 STRATEGY, FINANCE & RISK MGMT	10,790	10,519	14,707	5,646	14,462	39%
52 EXECUTIVE AND ADMINISTRATIVE SERVICES	2,604	1,568	2,872	911	2,939	31%
53 CONSERVATION SUPPORT	7,053	6,537	7,606	3,707	7,606	49%
54 Sub-Total	34,975	33,385	41,583	18,184	42,217	43%
55 Power Non-Generation Operations Sub-Total	61,852	55,385	69,537	31,302	70,982	44%
70 Agency Services G&A (excludes direct project support)	46,413	54,457	43,460	22,493	43,460	52%
Total Internal Operations Charged to Power Rates	108,265	109,842	112,997	53,796	114,442	47%



Power Non-Generation Operations

Power Depts. Only	Actuals FY 2007	SOY Budget FY 2008	IPR FY 2009	IPR FY 2010	IPR FY 2011
1 Personnel Compensation & Benefits	29,797,647	33,073,072	35,674,096	36,842,648	37,700,603
2 Overtime	76,254	166,230	100,000	104,020	117,020
3 Awards	589,827	617,072	644,654	676,722	683,976
4 Materials & Equipment	54,121	31,500	34,500	35,500	34,500
5 Transportation (of things)	256,304	0			
6 Travel	379,726	571,254	554,714	577,074	594,111
7 Service Contracts	2,032,360	3,406,984	4,180,619	4,581,156	4,766,175
8 Supplemental Labor Contracts	921,904	1,117,882	1,362,035	1,826,788	3,334,140
9 Agreements & Grants	1,623,278	1,545,000	2,350,000	2,355,000	2,360,000
10 Training	74,247	116,406	126,787	126,336	130,008
11 Rents/Utilities/Communications	51,622	23,672	41,500	43,416	43,818
12 Accounting Adjustments	32,323	0			
13 Internal Between Business Expenses	21,136	0			
14 Undistributed Reduction		(2,018,687)	(1,000,000)	(1,000,000)	(1,000,000)
15 Total	35,910,749	38,650,385	44,068,905	46,168,660	48,764,351
16					
17 Agency Services Direct & Allocated					
18 to Power Non-Generation Operations	25,941,019	30,886,903	33,277,080	36,624,354	37,885,200
19 Total Power Non-Generation Operations	61,851,768	69,537,288	77,345,985	82,793,014	86,649,551

The above table presents Power Service's internal operations cost. It incorporates all costs charged to Power Non-Generation Operations. Organizations external to Power, such as Legal, IT, Finance, Energy Efficiency, Customer Support Services, Human Capital and Environment, Fish and Wildlife are summarized on line 18. The total is consistent with the expense line on the Power Services income statement, as shown on Customer Collaborative and PPC reports. These numbers exclude internal operation costs for Agency Services G&A.



Internal Operations Charged to Power

\$ In Millions	Actuals		SOY	Rate Case Average	Rate Case	IPR	IPR	IPR
	FY 2006	FY 2007	FY 2008	FY 2007-09	FY 2009	FY 2009	FY 2010	FY 2011
Program Level Spending	107,585	108,265	112,997	109,385	111,566	125,030	134,609	138,857
Increase/Decrease *		680	4,732		-1,431	13,464	9,579	4,248

* for FY 2006-2008, Rate Case FY 2009, 2010 and 2011, change is from the prior year. For FY 2009 Forecast, change is calculated from "Rate Case".

Program components:

- BPA and contractor staffing costs, travel, training, consultant contracts, building leases, IT services and other related costs.

Drivers of change:

- FTE increase of 12 from original allocation due to:
 - Wind integration
 - Tiered rates
 - Resource acquisition

Drivers of Change:

- Higher National Park Foundation payment for generation output from Elwah Dam until deconstruction - \$800,000
- FTE increases above original allocation of 267 – 12 above in FY 2009

Forecast Risk:

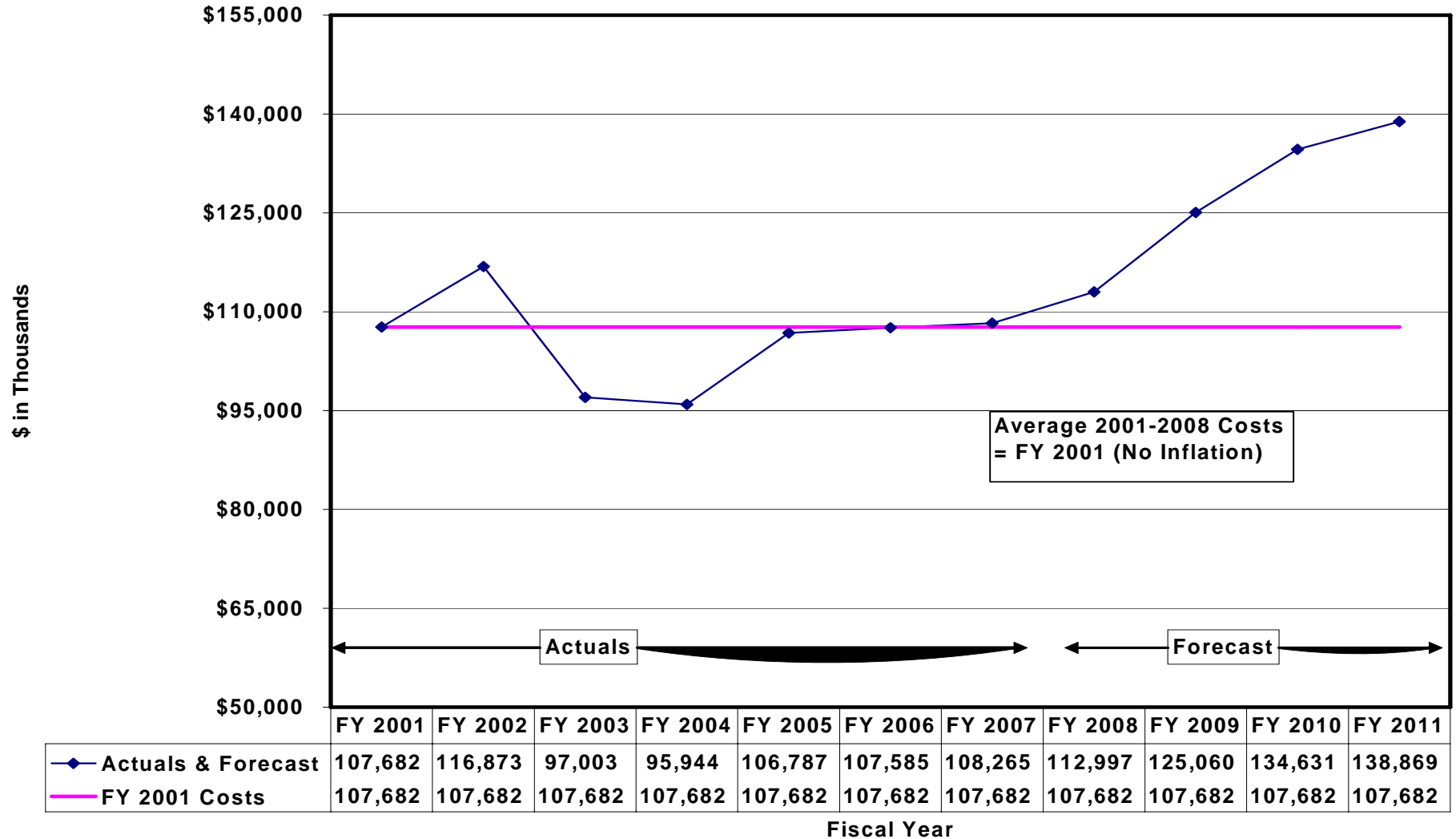
- Actual staffing levels and resources could be higher due to Regional Dialogue and associated requirements by FY 2010-2011. Personnel costs could be higher due to higher cost health benefits, higher COLAs, and increased training needs for new employees due to changing demographics.

Opportunities for Improvement:

- Staff reductions in forecast can mitigate growth rate increases in costs.

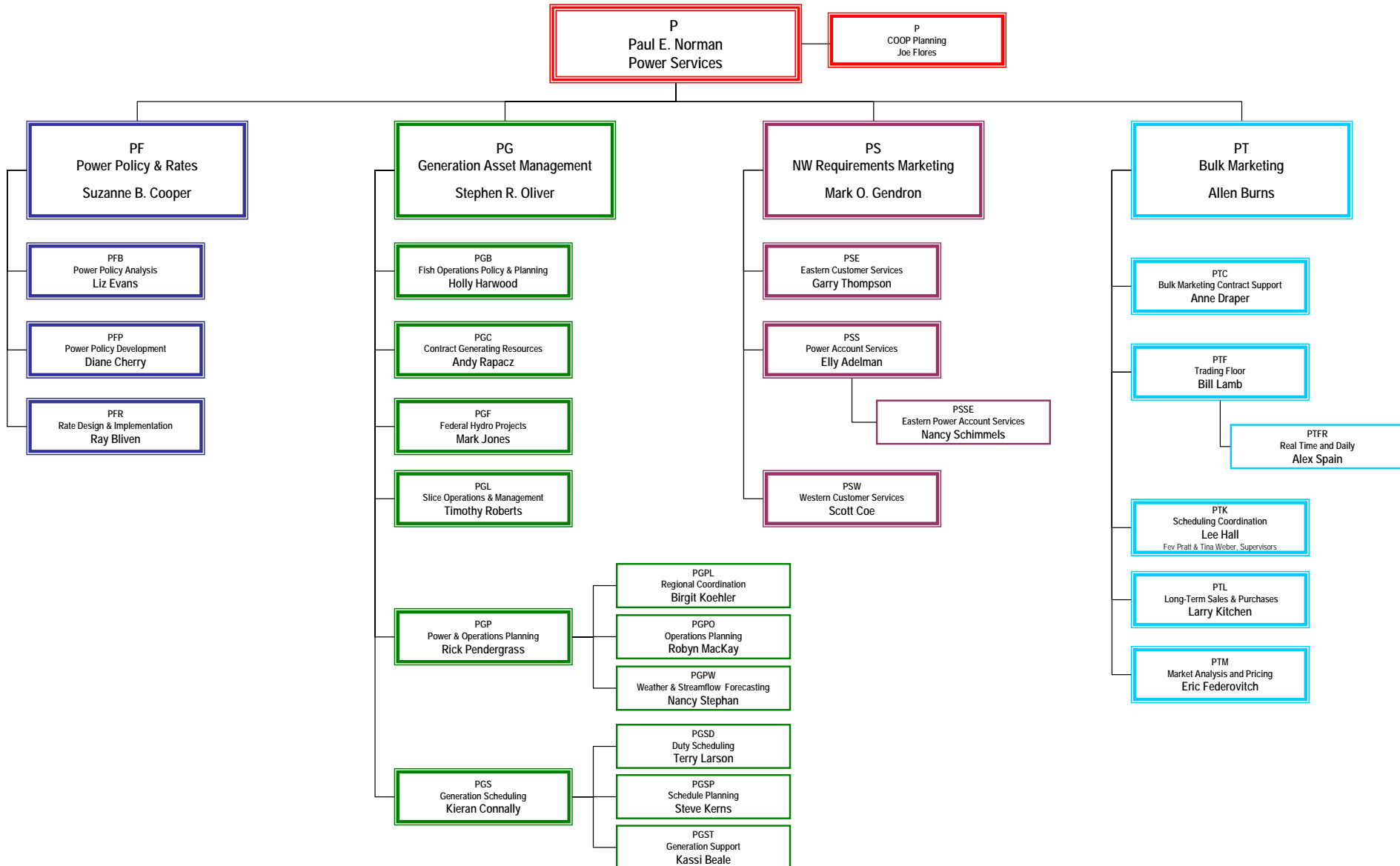


Internal Operations Charged to Power





Organizational Chart





Residential Exchange Costs



Residential Exchange Program

\$ in Thousands	Actuals		SOY	Rate Case Average	Rate Case	IPR	IPR	IPR
	FY 2006	FY 2007	FY 2008	FY 2007-09	FY 2009	FY 2009	FY 2010	FY 2011
Program Level Spending	1/ 156,167	1/ 340,247	303,000	336,960	337,320	212,985	221,426	220,445
Increase/Decrease *		184,080	(37,247)		34,320	(124,335)	8,441	(981)

* for FY 2006-2008, Rate Case FY 2009, 2010 and 2011, change is from the prior year. For FY 2009 Forecast, change is calculated from "Rate Case". 1/ FY 2006 includes only the 900 aMW portion and not the 1000 aMW or buyback and power sales.

Program Background:

- This program is driven by BPA's strategic direction that the benefits we provide ". . . To IOUs for their residential and small-farm consumers is equitable based on the Northwest Power Act."
- For the current rate period, FY 2007-2009 base on the WP-07 rate case, the program expense is a result of the Residential Exchange Program Settlement agreements with the IOUs.
- Due to a ruling from the 9th Circuit Court which found these settlements beyond BPA's authority, BPA is holding a rate case to address the ruling, including re-setting rates for FY 2009.
- Residential Exchange Benefits for FY 2009 as reflected in BPA's WP-07 Initial Supplemental Rate Proposal are calculated as follows:

Eligible Residential Exchange Benefits = \$259 million (\$250 million for Investor Owned Utilities and \$9 million for Consumer Owned Utilities)

Less any Deemer Balances = (\$9 million)

Less Lookback Amounts for IOUs = (\$39 million)

Plus additional staffing to support program - \$2 million

Net Residential Exchange Benefits in Initial Supplemental FY 2009 PF Rates = \$213 million

The actual Residential Exchange benefits will be determined in the formal rate case, not in this forum.

Using FY 2009 as a basis for the forecast, benefits forecast for FY 2010-2011 are calculated Eligible Residential Exchange Benefits = \$259 million (\$250 million for Investor Owned Utilities and \$9 million for Consumer Owned Utilities)

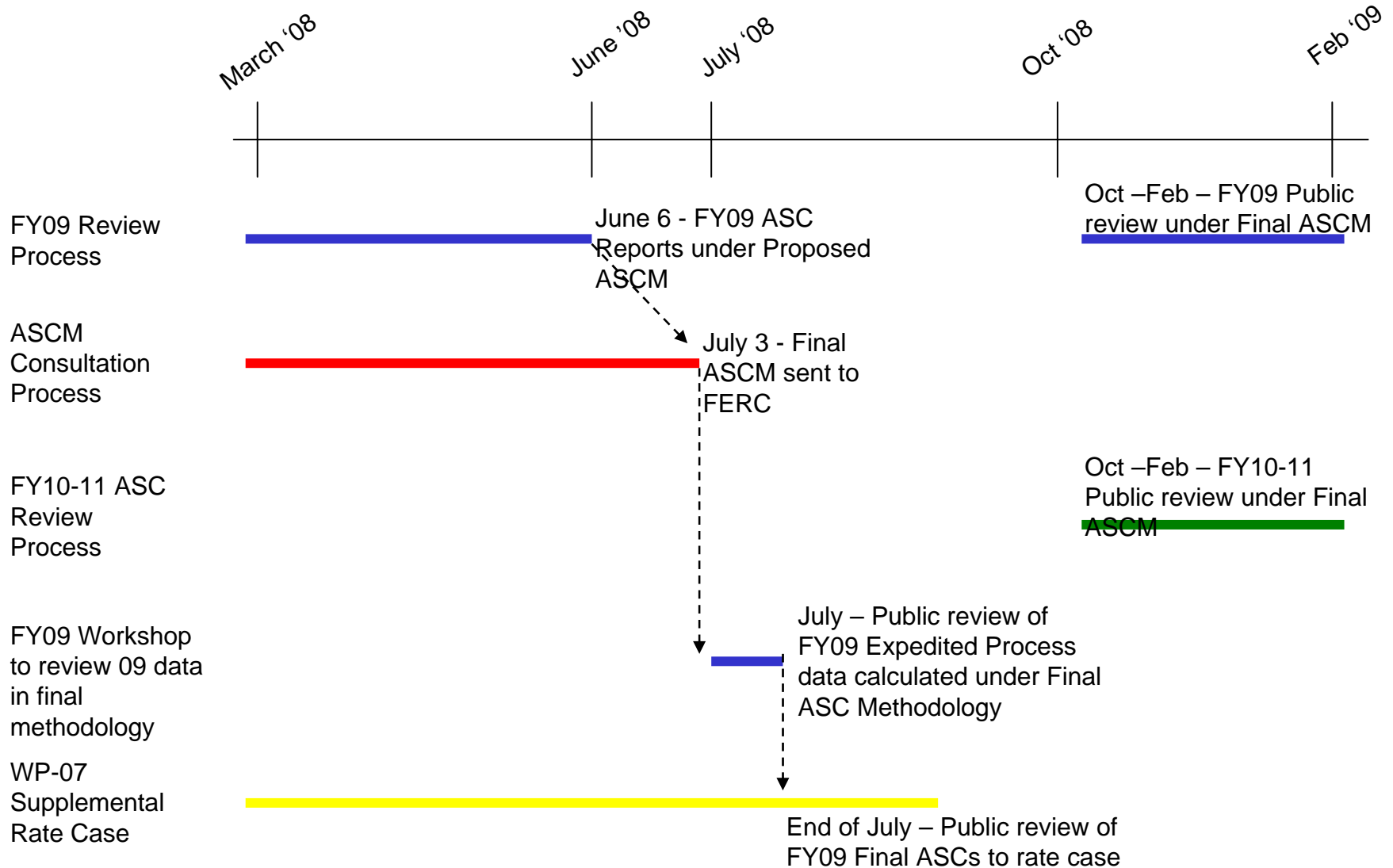
Less Lookback Amounts for IOUs = (\$39 million)

Plus additional staffing to support program - \$1.5 million

Net Residential Exchange Benefits in Initial Supplemental FY 2010-2011 PF Rates = \$221 million



FY 2009-2011 Average System Cost Process Schedule





ASCM Consultation Schedule

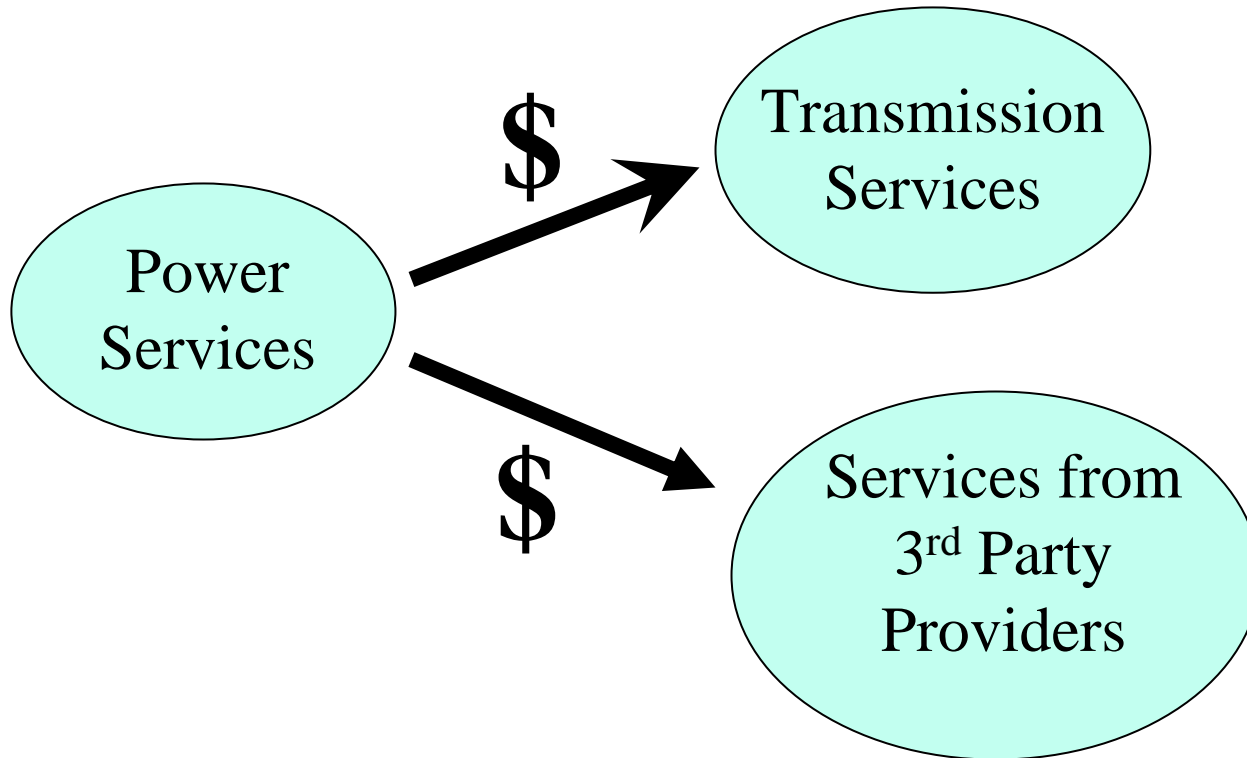
May 2, 2008	Close of comment period on ASC Methodology
May 7, 2008	Revised Expedited Process template only due
May 9, 2008	Revised Expedited Process resources due
May 14, 2008	Out for review - Expedited Process updated utility filing templates data, resource additions and ASC Forecast Model results
May 19, 2008	Expedited Process 2nd Issues list due
May 23, 2008	<u>Workshop – Expedited Process Issues Lists</u>
May 23, 2008	Draft ASC Methodology ROD out for comment
June 6, 2008	Close of comment on draft ASC Methodology ROD
June 6, 2008	Draft FY09 Expedited Process ASC Reports out for comment (There will be a separate report for each utility)
June 20, 2008	Close of comment on draft FY09 Expedited Process ASC Reports
June 27, 2008	Final ASC Methodology ROD published
June 30, 2008	Expedited Process Results conformed to final ASCM out for review
June 30, 2008	Start of comment period on Conforming Expedited Process ASC Reports to Final ASC Methodology for WP-07 Supplemental Rate Case
July 3, 2008	ASC Methodology FERC filing
July 8, 2008	<u>Workshop - Expedited Process ASC calculation to final ASC Reports</u>
July 11, 2008	Close of comment on conforming Expedited Process ASC Report to final ASC Methodology for WP-07 Supplemental Rate Case
August 4, 2008	Final Rate Case (WP-07) ASC Reports Published
September 2008	Interim approval by FERC
October 1, 2008	FY2009, FY2010 and FY2011 Official ASC Filings Due



Transmission Acquisition Costs



Transmission Acquisition Program





Transmission Acquisition Program

The Transmission Acquisition Program represents costs associated with:

- Services necessary to deliver energy from resources to markets and loads: transmission, ancillary services, real power losses.
- Generation integration costs associated with the U.S. Army Corps of Engineers and Bureau of Reclamation transmission facilities.
- Metering and communication requirements.



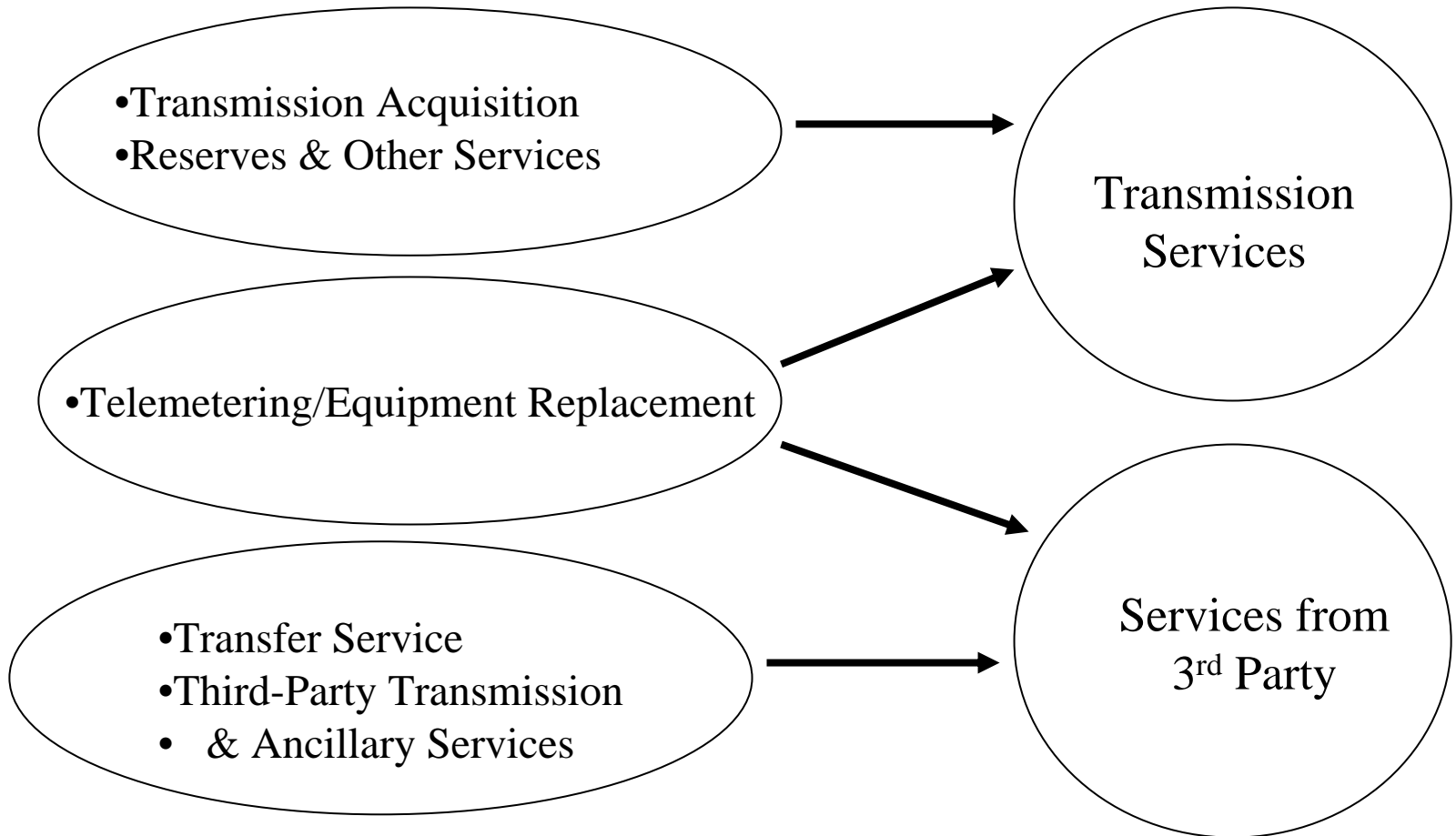
Transmission Acquisition Program

The program's primary goals are to:

- Be good stewards of our transmission expenses by determining the least-cost mixture of long-term and short-term transmission products that can meet the needs of Power Services' secondary energy marketing strategy.
- Meet the Agency's transfer service obligation, while attempting to meet specific customer desires by having open communications between our customers regarding plans of services, metering needs, and long-term forecasts.

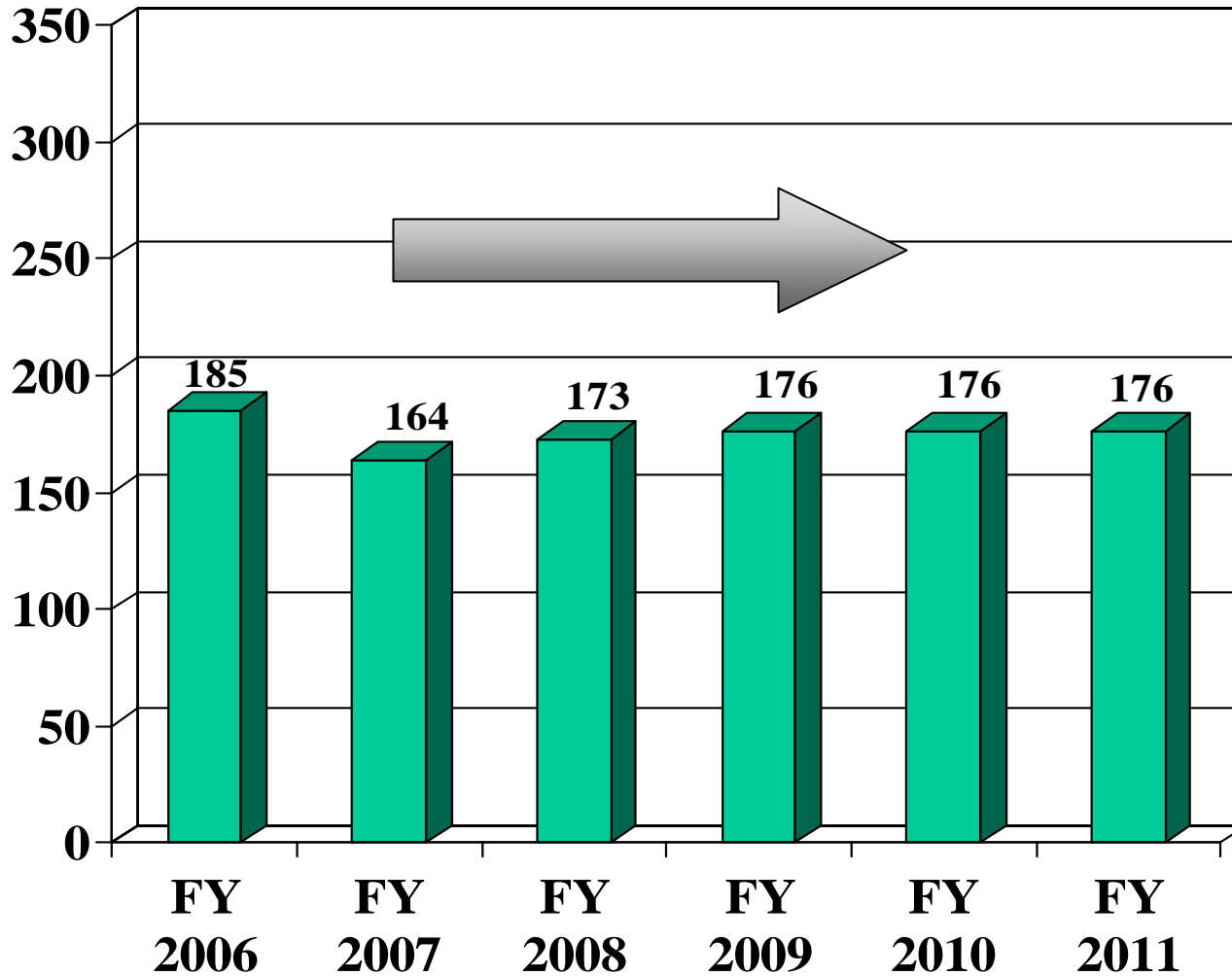


Transmission Acquisition Program





Transmission Acquisition Program Level

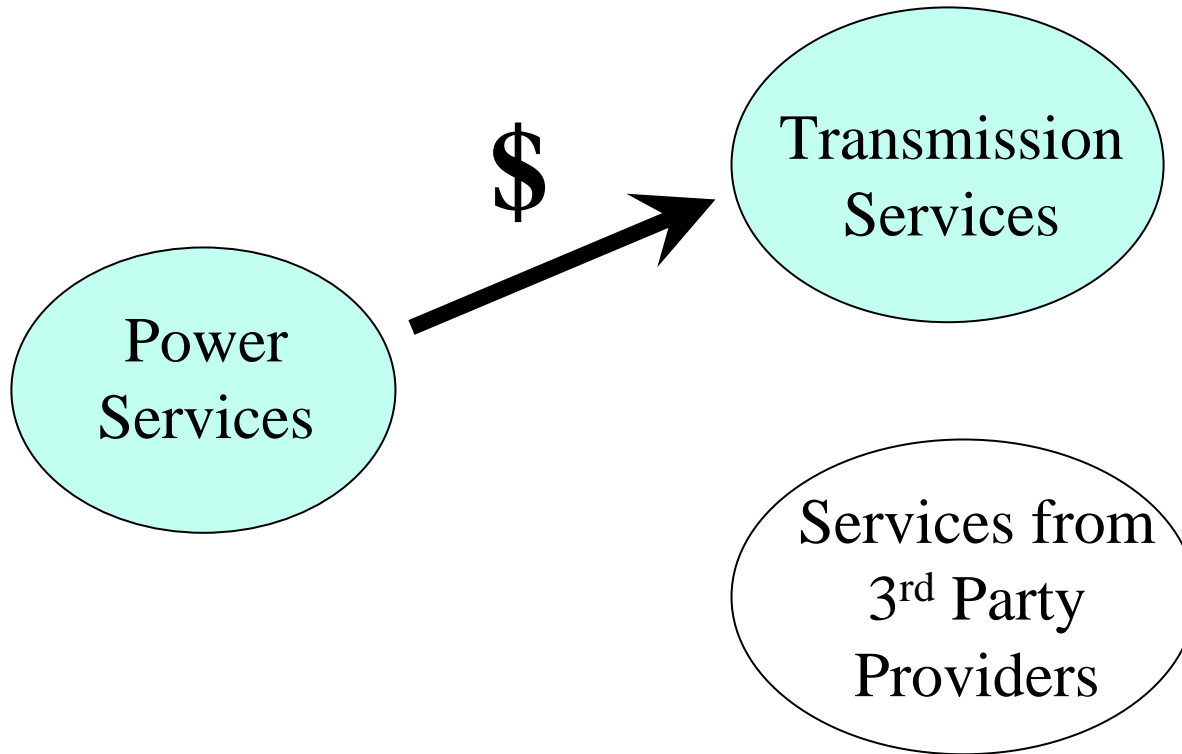


Million \$



Transmission Acquisition Program

Transmission and Ancillary Services Component





Transmission Acquisition Program

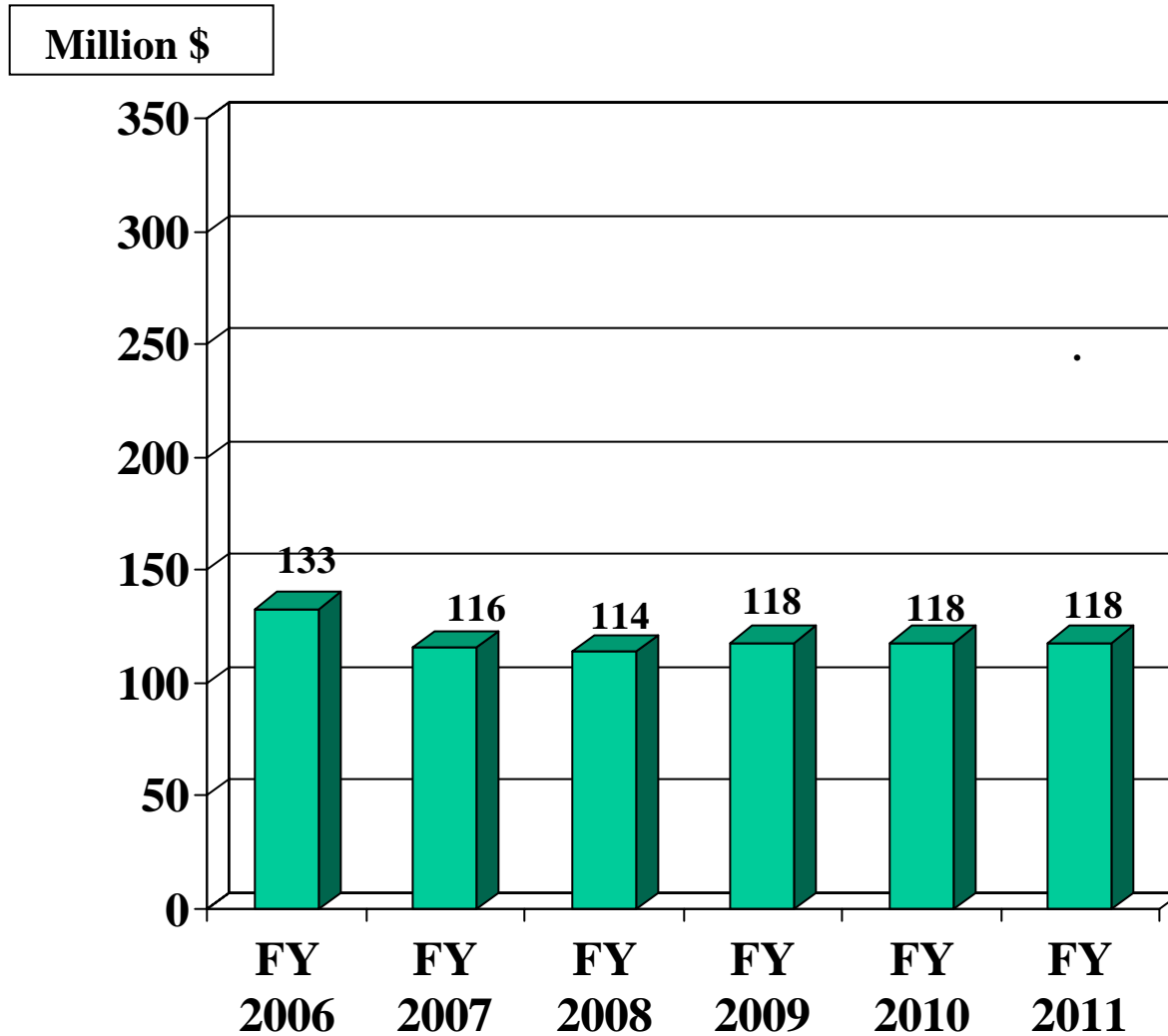
Transmission and Ancillary Services Component

- The Transmission and Ancillary Service Component represents costs associated with payments to BPA's Transmission Services for transmission and ancillary services associated with secondary energy sales.
- The goal of the BPA Power Services' transmission strategy is to determine the least-cost mixture of long-term and short-term transmission products that can meet the needs of Power Services' secondary energy marketing strategy.



Transmission Acquisition Program

Transmission and Ancillary Services Component





Transmission Acquisition Program

Transmission and Ancillary Services Component

Risks for FY09-11

- Surplus levels and shape
- Changes in transmission rates
- Congestion costs associated with transmission constraints due to line outages, generation patterns, and level of transmission usage.
- Limited access to transmission – being forced to more expensive transmission products.
- Changes in Transmission Business Practices.
- Acquiring Resources to meet Resource Adequacy.



Transmission Acquisition Program

Transmission and Ancillary Services Component

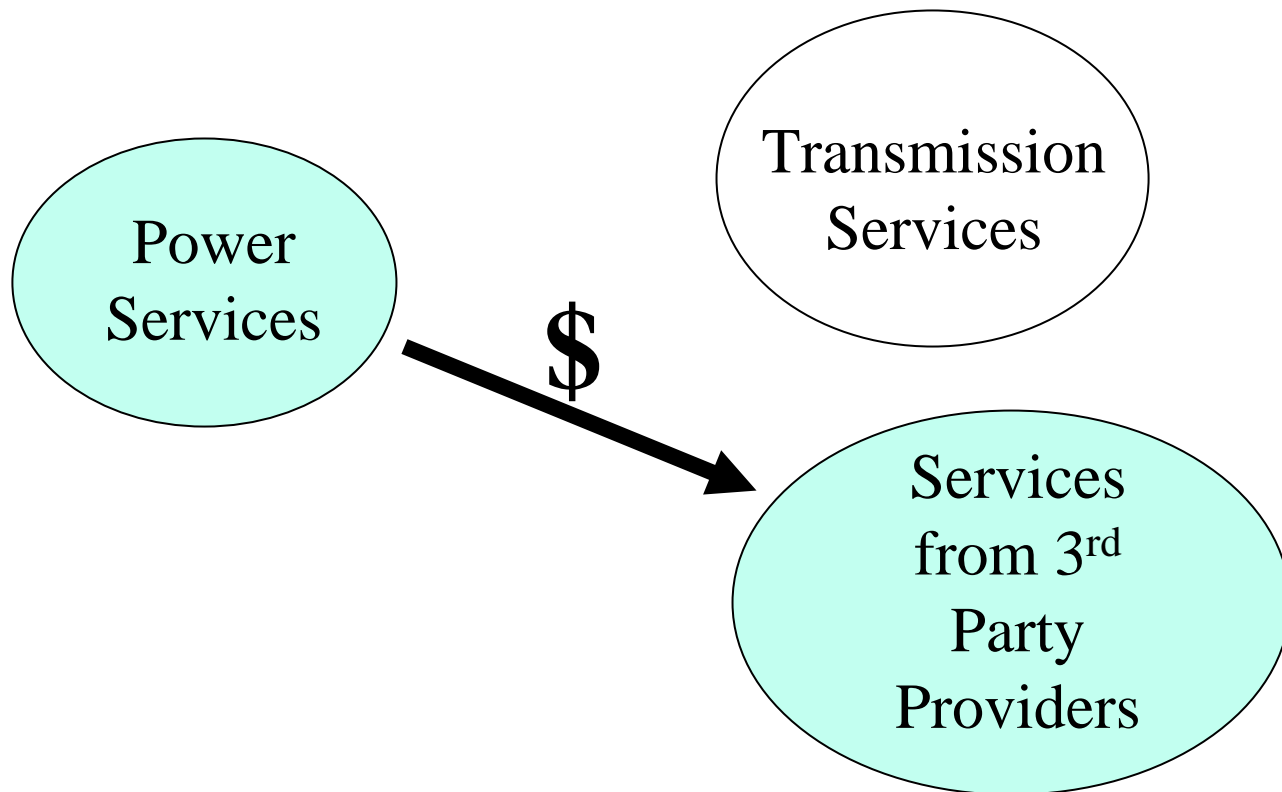
Managing Costs by:

- Maintain staff expertise to manage transmission utilization of existing transmission contracts and incremental transmission purchases.
- Coordinate with trading floor and operations on expected secondary energy (including location of generation and sale).
- Participate in Transmission Services Rate Case proceedings.
- Actively participate in Transmission Services' business practice forums to sustain or enhance Power Services' transmission portfolio.
- Remarketing of unused transmission and purchasing of remarketed transmission in the secondary transmission market.



Transmission Acquisition Program

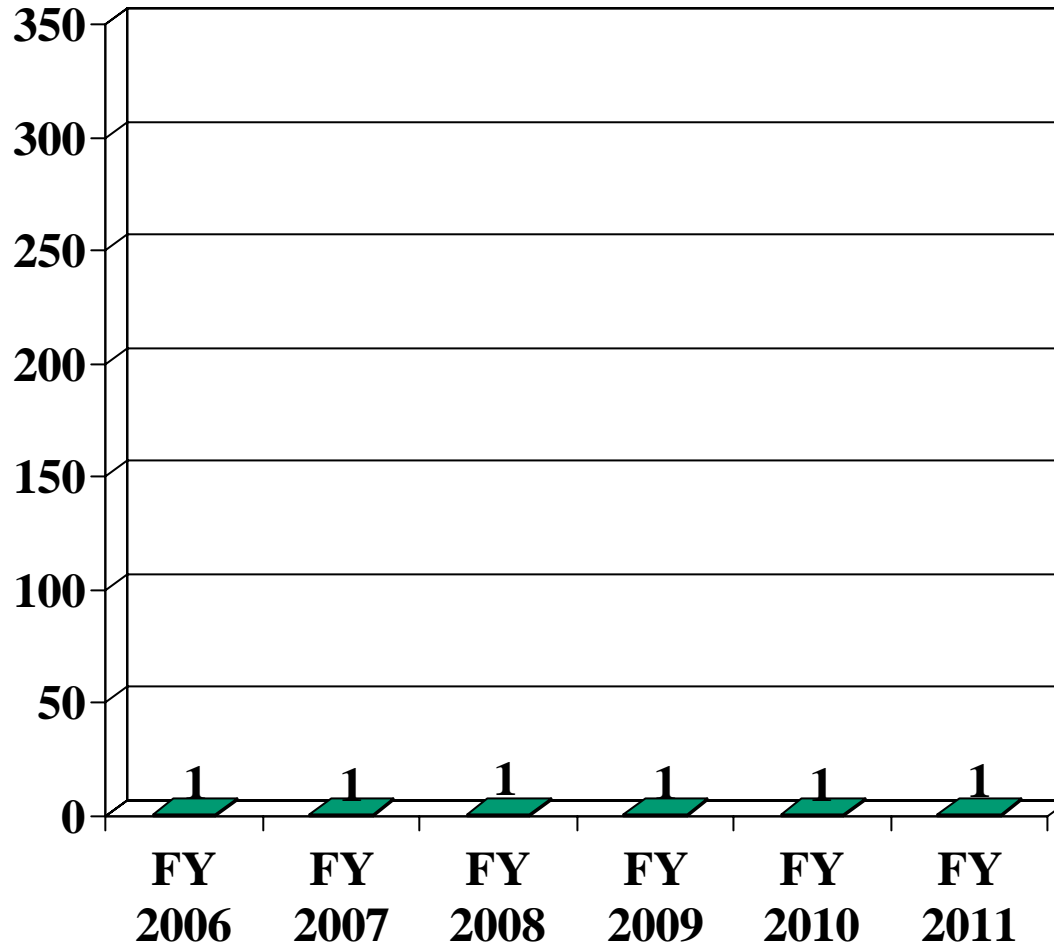
3rd Party Transmission & Ancillary Services Component





Transmission Acquisition Program Level

3rd Party Transmission & Ancillary Services Component





Transmission Acquisition Program

3rd Party Transmission & Ancillary Services Component

The 3rd party transmission and ancillary service component represents costs associated with:

- Payments to external BPA entities for transmission, ancillary services, and use of facilities associated with generation located outside the BPA control area (Lost Creek, Greensprings, and Wauna).
- Secondary energy sales needing delivery over 3rd party systems.
- Rerouting of transfer service due to transmission constraints (3rd party GTA wheeling).
- Power Services remarketing of transmission under the transmission and ancillary service component for accounting purposes.
 - *If Power Services reassigns transmission purchased from Transmission Services then we must credit the difference between the cost of the transmission and the reassigned price (since the purchaser of the transmission will pay Transmission Services the posted transmission rate).*



Transmission Acquisition Program

3rd Party Transmission & Ancillary Services Component

Risks

- Level of transmission constraints and limitations over transfer service provider systems.
- Level of generation output, market price for real power losses.

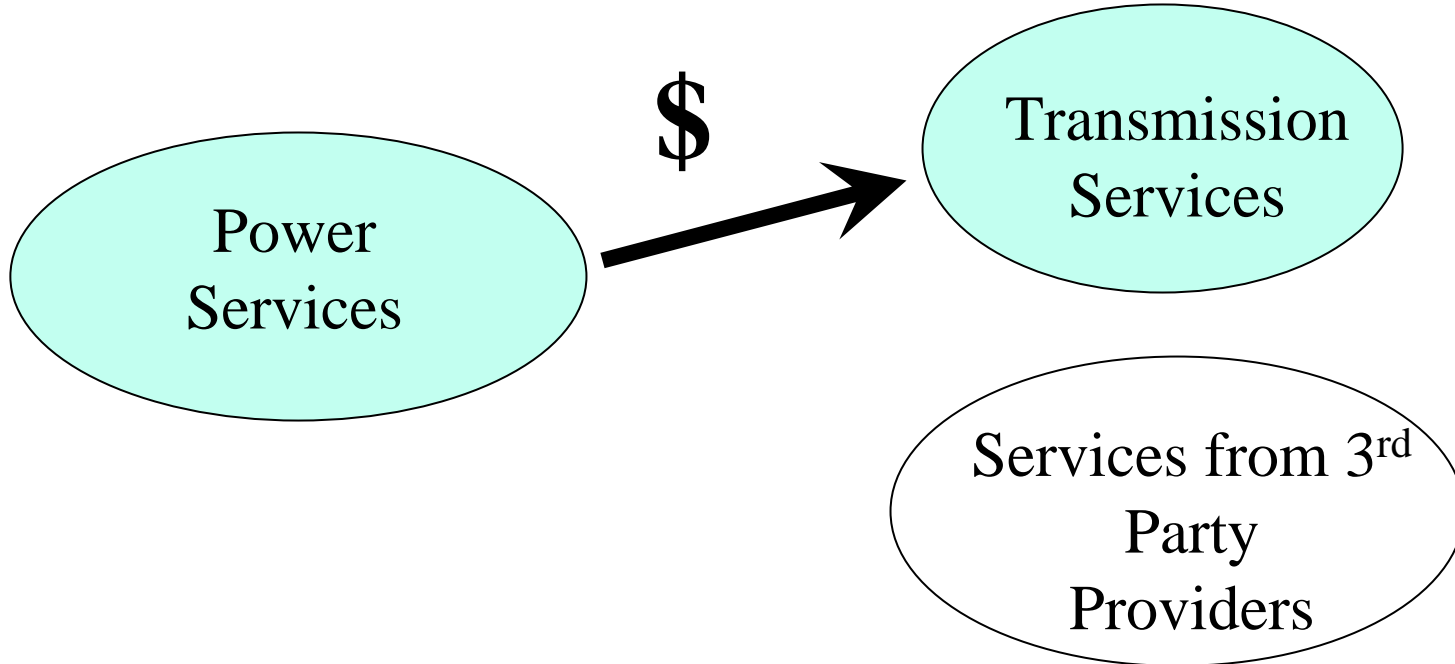
Managing Costs

- Maintain staff expertise regarding re-routing alternatives during periods of transmission constraints.



Transmission Acquisition Program

Reserves and Other Services Component Federal Generation Integration



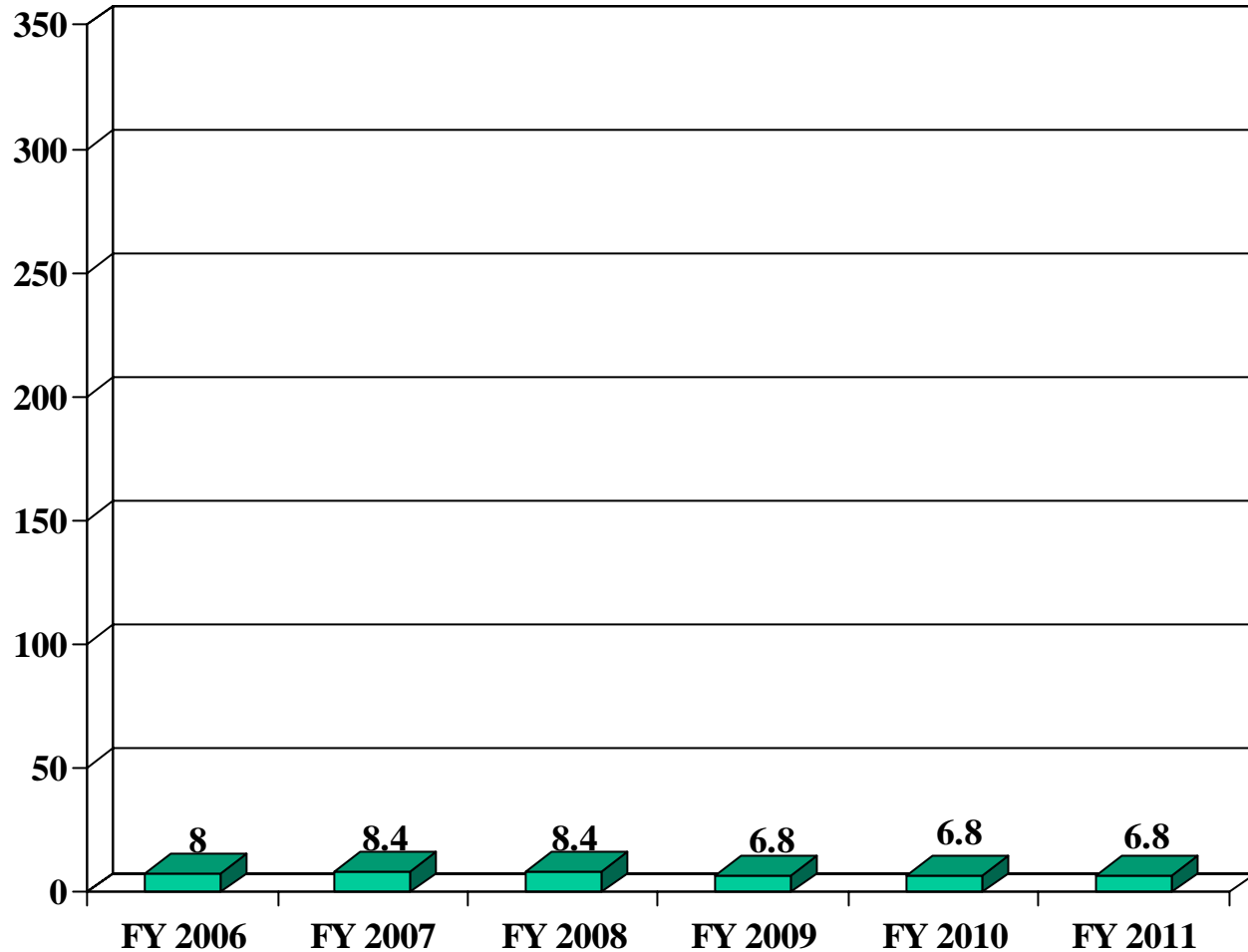


Transmission Acquisition Program Level

Reserves & Other Services Component

Federal Generation Integration

Million \$





Transmission Acquisition Program

Reserves and Other Services Component Federal Generation Integration

- The Generation Integration Component represent costs associated with BPA's Transmission Services' Generation Integration (GI) transmission segment.
- The Generation Integration (GI) segment is a transmission rate segment made up from transmission facilities between the generator and the Network station, including step-up transformers, power house lines or cables, and switching equipment at the Network station for the power house line.
- The costs billed to Power Services by Transmission Services are for the BPA-owned GI facilities. The GI segment costs associated with the US Army Corps of Engineers and Bureau of Reclamation transmission facilities and generator step-up (GSU) transformers are directly included in their generation costs.



Transmission Acquisition Program

Reserves and Other Services Component Federal Generation Integration

Risks

- Adding or replacing facilities to the segment.
- Higher inflation for O&M costs.

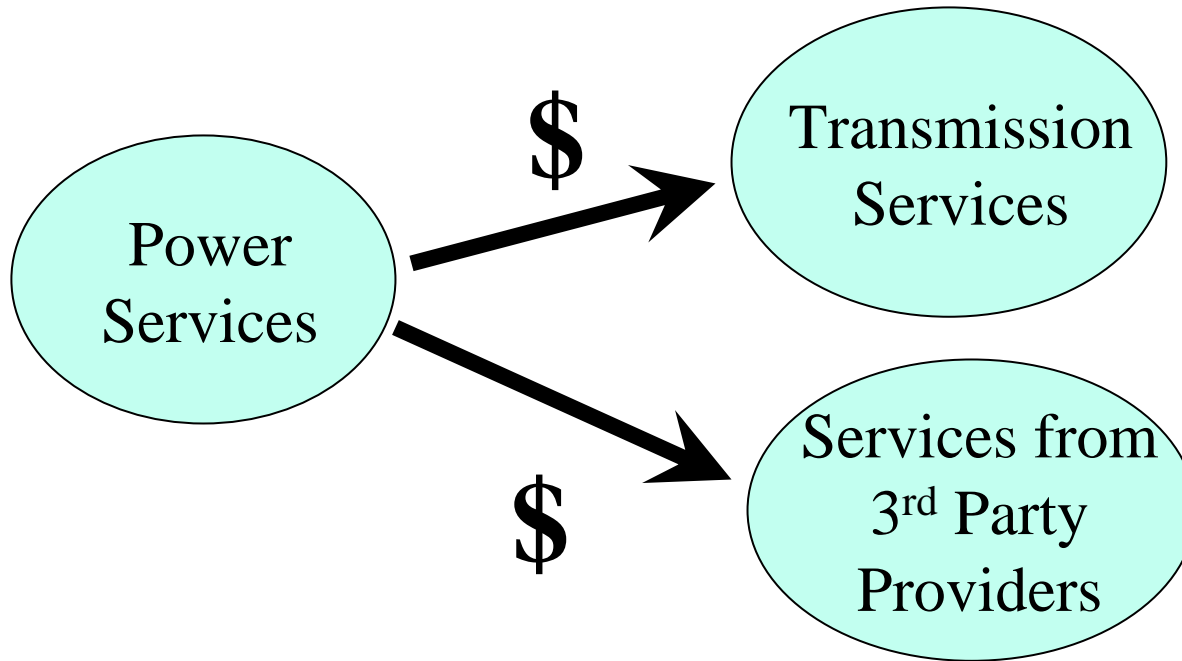
Managing Costs

- Generation Integration costs are set in the Transmission Services' rate case, Power Services does not have direct control over managing costs.



Transmission Acquisition Program

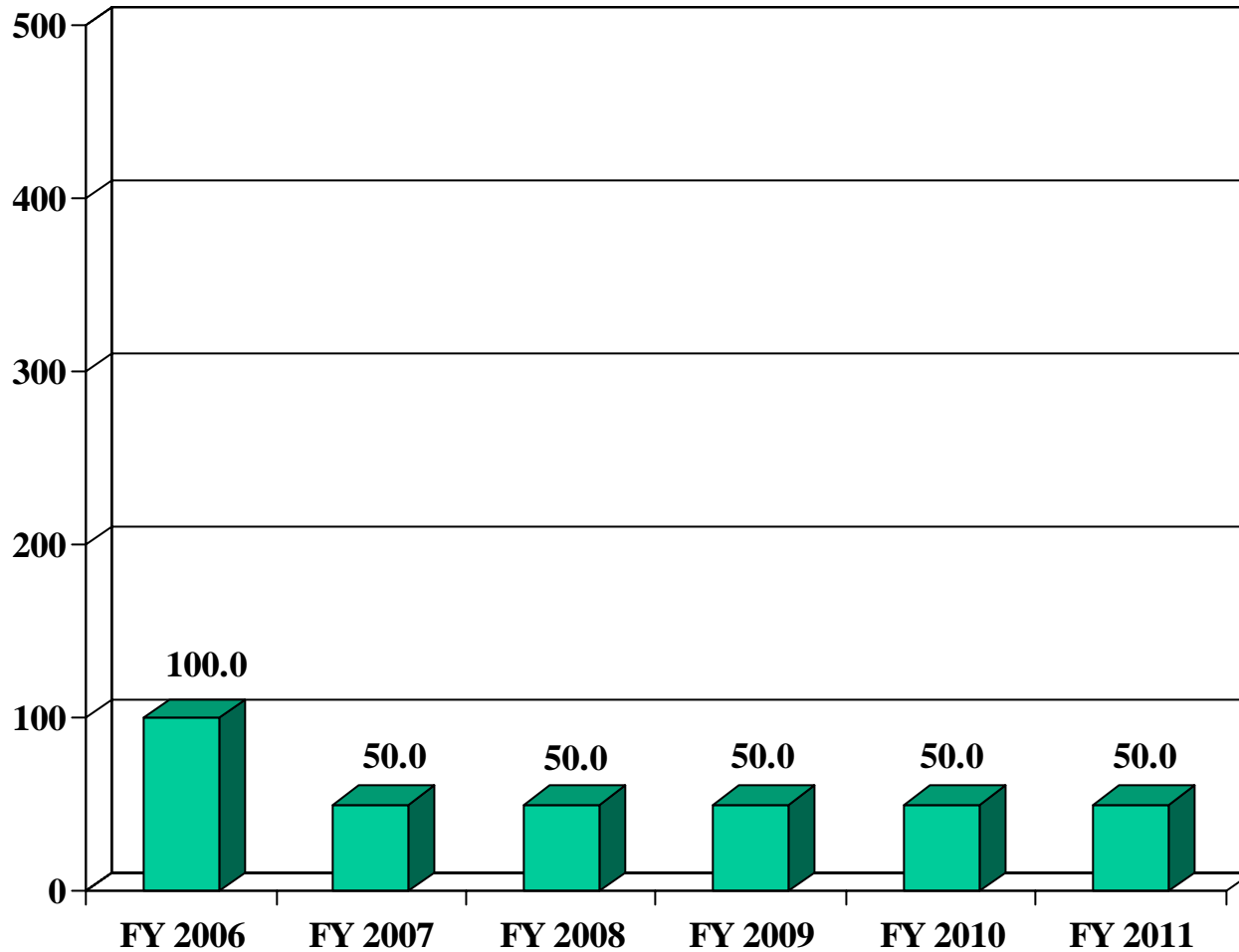
Telemetry/Equipment Replacement





Transmission Acquisition Program Level

Telemetry/Equipment Replacement Component





Transmission Acquisition Program

Telemetry/Equipment Replacement Component

- The metering, communications and Transmission Services Engineering support component represent costs associated with
 - Installation of metering, telemetry, communications equipment & replacements and ongoing charges to meet increasing Power Services business requirements for frequency and granularity of meter data.
- Major Drivers of Change
 - Industry moving towards a more granular reporting of transmission schedules than we have historically seen which will change our metering requirements.



Transmission Acquisition Program

Telemetry/Equipment Replacement Component

Risks

- Existing metering/communications equipment inadequate to meet increasing scheduling criteria set by transmission providers could cause financial exposure (i.e., energy imbalance charges).

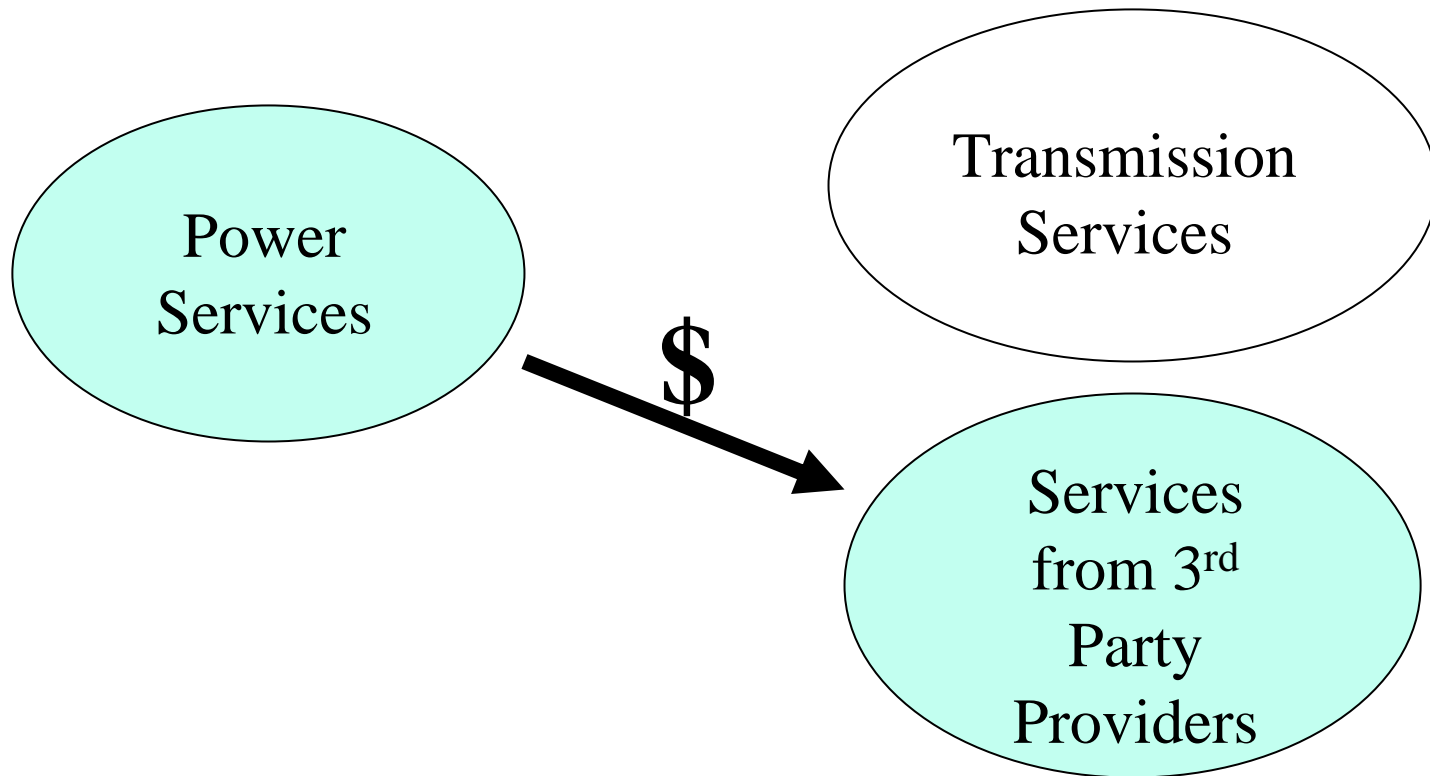
Managing Costs

- Collaboratively working with customers to develop plans of service, determine meter data needs, and identify mutually beneficial options.



Transmission Acquisition Program

Transfer Service Component





Transmission Acquisition Program

Transfer Service Component

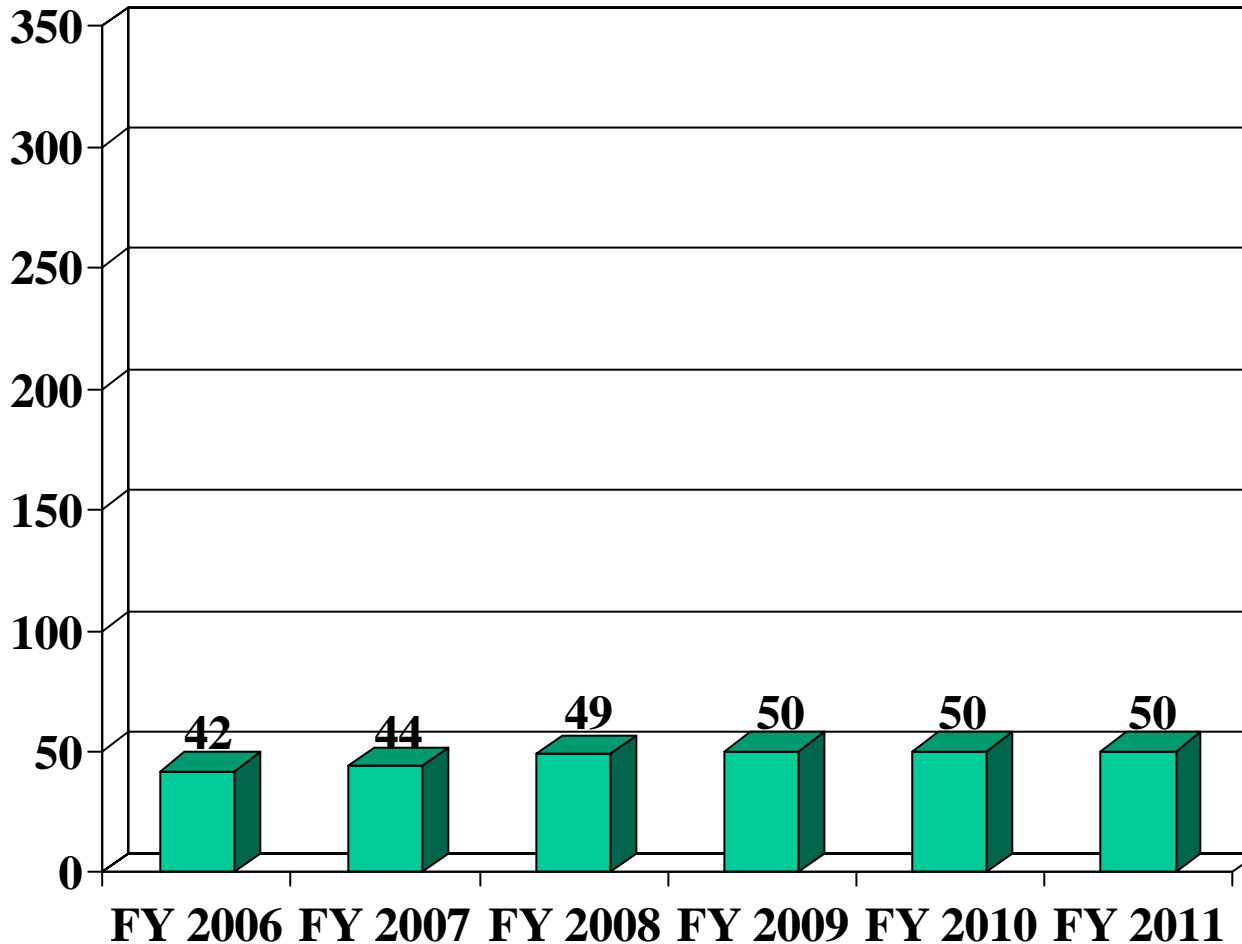
- Transfer Service Component represents the costs associated with BPA providing third party transmission to aid in the delivery of federal power to preference customers in the Pacific Northwest.
- Currently BPA has 82 preference customers that receive all or part of their federal power deliveries using this mechanism.
- BPA contracts for Transfer Service with all six investor owned utilities in the region and several public utilities and cooperatives.
- Types of arrangements vary from simple use of facilities agreements and others are complex combinations of agreements (i.e., General Transfer Agreements, Exchange Agreements and Open Access Tariff Transmission).



Transmission Acquisition Program Level

Transfer Service Component

Million \$



Reasons for Changes in expense levels

- OATT Conversions
- Change in Posted Rates
- Change in Rate Structure
 - Splitting of rates into Network and Wholesale Distribution
- Load Growth
- New Transfer Customers



Transmission Acquisition Program

Transfer Service Component

•Major Drivers of Change

- Conversions from GTA Agreements to OATT Agreements (Change in billing factors)
- Load growth
- Movement to financial true up of scheduling deviations (energy imbalance under OATT).
- Increase of transfer costs due to newly qualifying customers
- Rate increases imposed by Idaho Power and NorthWestern Energy



Transmission Acquisition Program

Transfer Service Component

•Risks

- Under or over estimated inflation/growth rate assumed in forecast.
- Energy Imbalance – under or over scheduling of loads.
- Costs for network system upgrades on 3rd party systems.
- Level of communications between BPA and customers regarding load growth and plans of service.
- Unknown costs associated with service to new transfer customers.



Transmission Acquisition Program

Transfer Service Component

•Managing Costs

- Coordination with BPA Account Executives and transfer customers regarding load growth and plans of service.
- Under Regional dialogue policy, enhanced language clarifies rights and responsibilities after encountering unforeseen circumstances, such as facility upgrade costs and re-dispatch.
- Manage energy imbalance with improved tools for forecasting schedules, (i.e., more frequent meter readings, enhanced load forecasting tools.)



Upcoming Workshops

Workshop	Date	Time
Executive Welcome & Overview	Thurs. 05/15/2008	9:00am-3:00pm
FY 2009 Power Cost Overview, Misc.	Thurs. 05/15/2008	3:00pm-4:00pm
Asset Management Overview, Agency Service Costs	Tues. 05/20/2008	9:00am-9:30am 9:30am-12:30am
Power's Internal Operating Costs, Power's Transmission Acquisition & Residential Exchange	Tues. 05/20/2008	1:00pm-4:00pm
Fish & Wildlife Capital/Expense with emphasis on MOA costs overall and FY 2009 F&W Program Costs, and FY 2009 Columbia River Fish Mitigation Investment	Wed. 05/21/2008	9:00am-12:00pm
Corps/Reclamation – Capital/Expense Part 1 of 2	Wed. 05/21/2008	1:00pm-4:00pm
Conservation & Energy Efficiency – (Capital/Expense), Renewable Resources Program	Thurs. 05/22/2008	9:00am-12:00pm
Columbia Generating Station	Thurs. 05/22/2008	1:00pm-4:00pm
General Manager Meeting on 2009 Costs	Thurs. 06/11/2008	9:00am-12:00pm 1:00pm-2:00pm
Fish & Wildlife Capital/Expense with an emphasis on FY2010-2011 F&W Program Costs, Hydro Ops, Lower Snake River Comp. Program & Columbia River Fish Mitigation Investment & NWPCC	Thurs. 06/12/2008	9:00am-12:00pm
Corps/Reclamation – Capital/Expense Part 2 of 2	Thurs. 06/12/2008	1:00pm-4:00pm
Transmission Capital/Expenses	Thurs. 06/19/2008	9:00am-12:00pm
Depreciation, Amortization and Interest, and Debt Management	Thurs. 06/19/2008	1:00pm-4:00pm
General Manager Meeting	Thurs. 06/26/2008	9:00am-12:00pm
IPR Concluding Workshop	Thurs. 06/26/2008	1:00pm-4:00pm



BPA's Financial Disclosure Information

1. All FY 2008-2013 information was provided in May 2008 and cannot be found in BPA-approved Agency Financial Information, but is provided for discussion or exploratory purposes only as projections of program activity levels, etc. This information is a derived estimate for presentation purposes and cannot be found in BPA-approved Agency Financial Information but is provided for discussion or exploratory purposes only as “projections of program activity levels, etc.”
2. All FY 2007 and earlier information was provided in May 2008 and is consistent with audited actuals that contain BPA-approved Agency Financial Information.



Ways to Participate

- All forums are open to the public and will be noticed on the IBR external Web site at: <http://www.bpa.gov/corporate/Finance/IBR/IPR/>. Staff from the Corps of Engineers, Bureau of Reclamation, and Energy Northwest will participate in presentation costs they manage.
- All Technical and Managerial workshops will be held at BPA Headquarters.
- The comment period for the IPR opens Thursday, May 15, 2008. Close of comment for FY 2009 Power costs is June 19, 2008. Close of comment for all other costs is August 15, 2008. You have several options to provide comments to BPA:
 1. Attend one or more of the scheduled workshops and give BPA your comments.
 2. Discuss your input with your Customer Account Executive, Constituent Account Executive, or Tribal Liaison.
 3. Submit written comments to Bonneville Power Administration, P.O. Box 14428, Portland OR 97293-4428.
 4. Submit comments via e-mail to: comment@bpa.gov or submitted on-line at: <http://www.bpa.gov/comment>
 5. Comments can also be sent via fax to (503) 230-3285