Bonneville Power Administration
Integrated Program Review
FY 2009 Power Program Levels
Final Report
July 18, 2008

BONNEVILLE
POWER ADMINISTRATION

Integrated Program Review Final Report for FY 2009 Power Program Levels

Introduction and Background

In response to customer input in the Regional Dialogue process, BPA designed its "Integrated Program Review" (IPR), a process which consolidates the prior program level review processes into one, replacing the Capital Program Review, Power Function Review and Transmission's Programs in Review. The IPR process is designed to allow interested parties to see all agency 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. This will provide interested parties with 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. This IPR also included a review of proposed Power FY 2009 program levels. The review of the FY 2009 Power program levels was expedited, with deadlines for concluding review of FY 2010-2011 program levels continuing for an additional period of time. BPA received various comments, and this report addresses those comments and outlines BPA's conclusions. Results from this report will be used in the final proposal of the WP-07 Supplemental Rate Proceeding currently being conducted.

BPA held its IPR "kickoff" workshop May 15. Workshops on each program that impacts FY 2009 Power costs were held by the end of May. The comment period for these program levels was from May 15 to June 19. The comment period included a meeting on June 11, 2008, at which General Managers of BPA's utility customers were invited to provide comments.

The initial WP-07 Supplemental Proposal, published in January 2008, forecasted significant decreases in residential exchange costs while most other program levels were held to the same levels as those in the original WP-07 rate case. BPA witnesses in the WP-07 Supplemental rate case explained that Fish and Wildlife Program cost levels could be revised for the final proposal to reflect any expected cost impacts resulting from the new Biological Opinion and potential Memoranda of Agreements with some states and tribes. BPA explained that it would review all proposed spending levels and reflect appropriate changes in the Final Proposal, but that most levels were not expected to need revision.

As BPA's spending forecasts for FY 2009 were being developed, however, it became clear that many FY 2009 spending levels forecast in FY 2006 for 2007-2009 power rates were likely to increase. In-depth assessment and analysis of the condition of the aging Federal hydro system has highlighted the need for increased investment and maintenance of that aging system. Energy Northwest (EN) believes significant additional investments are needed to improve the safety and reliability of Columbia Generating Station (CGS). While internal operations costs recovered in power rates have been held essentially flat for seven years through BPA's Enterprise Process Improvement Project (EPIP) and other cost-control efforts, there are greater than expected pressures from changing environmental obligations, regulatory and control requirements, safety and security needs, and internal infrastructure necessary to support changes in the business environment and the expanded capital program. Therefore, BPA believes that program levels will need to increase beyond the levels previously forecast.

BPA's preliminary internal development of FY 2009 spending forecasts occurred prior to the development of the Final WP-07 Supplemental Proposal. As the need for increased costs in some areas became clear, in light of the recent *Golden Northwest v. BPA*, 501 F.3d 1037 (9^{th} Cir. 2007) BPA decided it could not include forecasts that it knew to be inaccurate in its Supplemental Power Rate Proposal. Consequently, BPA's initial IPR proposal reflected numerous areas of increased costs.

Throughout the four days of public workshops on program levels that impact FY 2009 Power costs, participants were given extensive information on BPA's programs and the drivers of proposed cost increases. Participants put a great deal of effort into fact-finding, submitting questions and requesting additional information on areas of interest. Despite the compressed timeframe, customers, constituents and other interested parties provided thoughtful comment on BPA's proposed program levels. BPA has considered those comments and has made some difficult decisions. While BPA believes it is not prudent to reduce all the program levels presented in the IPR, as some comments suggest, BPA is reducing planned costs in two areas.

Summary of Decisions

BPA heard participants' concern over the increasing levels of internal operating costs. BPA has determined it will reduce the proposed spending to a level BPA believes can be sustained without reducing significantly the achievement of program goals. In addition, BPA identified two reductions in the Conservation program forecasts it believes will not negatively impact the future capability of the program.

- For Power and Agency Service internal operations, proposed levels have been reduced by 3 percent.
- The Conservation Rate Credit is reduced by $4 million.
- The capital investment forecast for Conservation is reduced by $10 million.

These changes result in a decrease of roughly $8 million from the FY 2009 Power spending levels shown in the initial IPR.

Additionally, there are changes in forecasts of net interest, amortization/depreciation, and non-Federal debt service that are included in this report for information. These are not decided in the IPR process, and final forecasts will be determined in the Final Supplemental Rate Proposal. The changes in the values from the Initial IPR and the Supplemental Rate Case are due to several debt-related changes other than decisions made in this process, such as updated forecasts of FY 2008 capital investment. Debt Management is described at the end of this report, along with Power Purchases, Transmission Purchases and Reserve and Ancillary Services, and the Residential

Exchange Program, all of which will be determined in the Final Supplemental Rate Proposal.

The following summary tables provide the change in expense forecasts from the original FY 2007-2009 rate proposal, the initial IPR, and this Final Report.

Throughout this document, dollar amounts are shown in $thousands.

Power Expenses

	2009 in WP-07 Rate Case	Supplemental Rate Case	Initial IPR	Final IPR Forecast	Change between Initial IPR and Final IPR
Power Program	**FY 2009**	**FY 2009**	**FY 2009**	**FY 2009**	**FY 2009**
Columbia Generating Station O&M	242,842	274,342	293,700	293,700	0
Corps & Reclamation O&M for Hydro Projects	248,173	248,173	261,600	261,600	0
Long Term Generation Program	25,751	31,864	31,613	31,522	(91)
Renewables (incl rate credit)	41,917	53,414	43,955	43,955	0
Generation Conservation (including Conservation Rate Credit)	70,347	79,414	84,526	80,526	(4,000)
Internal Operations	111,566	111,566	125,030	121,018	(4,012)
Pension & Post-Retirement Benefits	15,375	15,375	15,277	15,277	0
Fish & Wildlife/USF&W/NWPCC	173,353	173,367	229,439	229,439	0
Other – Colville Settlement, Non-Operating Generation	24,649	21,049	27,413	27,413	0
Total	2,698,421	2,615,184	2,730,011	2,717,549	(8,103)

Power Capital

$ in Thousands	2009 in WP-07 Rate Case	Supplemental Rate Case	Initial IPR	Final IPR	Change Between Initial IPR and Final IPR
Description	**FY 2009**	**FY 2009**	**FY 2009**	**FY 2009**	**FY 2009**
Corps of Engineers/Bureau of Reclamation	137,000	137,000	154,950	154,950	0
Fish & Wildlife	36,000	36,000	50,000	50,000	0
Conservation	32,000	32,000	42,000	32,000	-10,000
CGS	27,700	27,700	96,700	96,700	0
CRFM	62,400	62,400	63,000	111,000	48,000
15% lapse factor[1/]			(29,813)	(28,313)	1,500
Total Capital	295,100	295,100	376,837	416,337	39,500

1/ Excludes CGS, CRFM, Fish & Wildlife

Agency Services
The following table provides the Agency Services program levels. These program levels in total will be reduced by 3 percent. (Approximately 40 percent of Agency Services costs are allocated to Power, the remaining 60 percent to Transmission.) The actual distribution and means of meeting that three percent reduction will be determined by Executive Management in order to achieve this lower level of spending.

Agency Services Costs

Expenses - Direct & Allocated	Rate Case	Initial IPR	Final IPR	Change Between Initial IPR and Final IPR
	FY 2009	FY 2009	FY 2009	2009
Executive Office	1,030	1,069	1,069	0
Deputy Administrator	271	279	279	0
Chief Risk Officer	5,136	5,871	5,871	0
Technology Innovation & Confirmation	3,373	9,916	9,916	0
Chief Public Affairs Office	18,379	17,439	17,439	0
Internal Audit	1,930	2,384	2,384	0
Finance	13,782	15,224	15,224	0
Corporate Strategy	340	303	303	0
Supply Chain Policy & Gov.	686	667	667	0
Regulatory Affairs	1,829	2,327	2,327	0
Strategic Planning	1,771	1,913	1,913	0
Strategy Integration	7,510	7,604	7,604	0
Security & Emergency Mgmt	7,042	7,404	7,404	0
General Counsel	9,014	9,514	9,514	0
Chief Operating Officer	3,254	3,507	3,507	0
Customer Support Services	8,224	9,776	9,776	0
Internal Business Services	576	576	576	0
Business and Process Mgmt	n/a	n/a	n/a	n/a
Civil Rights	725	725	725	0
Safety	2,386	2,314	2,314	0
Human Capital Management	16,472	16,228	16,228	0
Supply Chain Services	16,987	18,315	18,315	0
Workplace Services	26,813	32,508	32,508	0
Information Technology	58,313	58,313	58,313	0
Undistributed Reduction[1]	(8,386)		(6,725)	(6,725)
Total	197,457	224,175	217,450	(6,725)

[1] Rate Case amount shown here reflect an analytical "reformulation" effort done in FY 2006 to create spending levels that both tied to the Power and Transmission Rate Cases and that incorporated the impacts of reorganizations made up to that time. An undistributed reduction was included in this reformulation.

[2] Part of the program estimate increase from the rate case to current estimates for FY 09 is the result of transfers of functions and resources from Power and Transmission to Agency Services. These transfers include: $6M in Research and Development from Power and Transmission: $2.1M in non-electric plant maintenance funds from transmission; and $0.3M in training funds from Power and Transmission.

The following pages outline the comments received from IPR participants about each of the program areas, noting any changes BPA has made between the initial IPR and this Final Report as a result of these comments. Unless otherwise noted, "Original WP-07" refers to the value reflected in the July 2006 Final Power Rate Proposal for FY 2009.

A. Columbia Generating Station (CGS)

Expense

Original WP-07	Initial IPR	Final IPR
242,842	293,700	293,700

Capital

Original WP-07	Initial IPR	Final IPR
27,700	96,700	96,700

BPA pays the costs of Energy Northwest's CGS nuclear power plant. EN management is focusing on equipment obsolescence, reliability and plant performance, and believes very significant additional investments are necessary to improve safety and reliability. While the plant's capacity factors have been good, the performance indicators have been low when measured against criteria set by the Institute for Nuclear Plant Operation (INPO).

Summary of Comments Received: Generally the comments noted that the increasing spending forecasts are of concern and that EN and CGS should work to reduce the costs. As shown in the comments below, no specific reductions were suggested.

- We are "concerned with the proposed $51 million increase. More background should be provided in a clear fashion for BPA's customers .... The CGS budget must undergo the same review and scrutiny applied to other projects and programs. (We) commend BPA on efforts to influence the reduction of the proposed CGS budget."
- "(T)he operating costs of CGS are the most significant upward cost driver in BPA's program levels for 2009. BPA and CGS should continue to work to identify cost reductions without hindering the safe and reliable operation of this plant."
- "While the proposed increases in costs for CGS O&M are significant, we believe these expenditures are necessary. We note EN reduced its original funding request from $65 million to $51 million, and trust EN and BPA will continue to find positive ways to work together."
- "EN and BPA should continue to develop a closer working relationship when it comes to the inclusion of EN costs in the BPA budgeting and rate making processes."

BPA Response: BPA has been and will continue to be clear that we are very much concerned with the safe and reliable operation of Columbia Generating Station. Safety and reliability are paramount goals, but it is essential that we meet those goals in the most cost-effective way possible. While BPA has chosen to non-disapprove the 2007, 2008 and now the 2009 budgets we are concerned about the rapid rate of increase in costs for CGS operations from the levels EN management endorsed in 2006. In conjunction with Energy Northwest management, a set of performance indicators has been developed. We are actively tracking these indicators on a quarterly basis. This tracking should help ensure that these major increases in spending actually yield the improvements they are intended to produce. EN management has also proposed to develop a long range plan with significantly increased rigor such that it would provide greater confidence to BPA and others that actual results will be consistent with the plan. We also understand the EN Board has indicated a desire to seek independent counsel to review budget proposals from management. We believe this is an appropriate step and encourage its implementation. We would be interested in working with the Board to see how we could benefit from the counsel of any independent review the Board undertakes. Finally, BPA is considering seeking independent counsel from individuals with significant nuclear plant executive management and operations experience in order to be able to complement our on-site Richland staff's experience. The focus of any contracted additional executive nuclear expertise will be to assure our budget review and oversight authority is executed in a manner that will promote the safe, reliable and cost-effective operation of CGS consistent with the project agreements. We also intend to continue to urge the EN Board to adopt the overarching principle we proposed to the Board last year. As stated below, this principle seeks to provide greater alignment throughout our organizations through focusing on the complementary nature of our missions. That principle is as follows:

> "BPA and ENW are committed to long-term, safe, reliable operation of CGS accomplished at the lowest reasonable cost necessary to achieve those objectives. It is also our objective to integrate CGS with the Federal Columbia River Power System and to achieve optimum utilization of the resources of that system taken as a whole and to achieve efficient and economical operation of that system."

Decision: The program levels for CGS O&M and capital remain the same as that originally proposed in the initial IPR.

B. Corps and Reclamation

Expense

Original WP-07	Initial IPR	Final IPR
248,173	261,600	261,600

Capital

Original WP-07 (2007-2009 average)	Initial IPR	Final IPR
150,301	154,950	154,950

Columbia River Fish Mitigation Project (Capital)

Original WP-07	Initial IPR	Final IPR
62,425	62,425	110,000

BPA works with U.S. Army Corps of Engineers and the Bureau of Reclamation to implement funding for 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 to Federal hydro projects. A major asset management planning effort has been conducted as part of the BPA Enterprise Process Improvement Project (EPIP). Major drivers of change affecting Corps and Reclamation O&M include WECC/NERC Compliance requirements, non-routine extraordinary maintenance requirements, and Bi-Op requirements. BPA expects O&M spending to rise at roughly the rate of inflation (except for non-routine extraordinary maintenance activities like the Grand Coulee Dam Third Powerhouse rehabilitation, and the other items mentioned above.)

Columbia River Fish Mitigation Project (CRFM) includes the power portion of investment funded by Corps of Engineers appropriations for investment on mitigation efforts for fish and wildlife on the Federal Columbia River dams. BPA becomes obligated to repay the power portion of the costs to the US Treasury at the time the investment is considered completed and placed into service. While the forecast of total investment from FY 2007 through 2011 has not changed significantly, the Corps provided an updated forecast reflecting a change in the expected timing for investment being placed into service, with less than forecast going into service in FY 2007, and considerably more expected in FY 2008 than forecast in the WP-07 rate case.

Summary of Comments Received:

- "The FCRPS Hydro Program has a detailed, rigorous and structured asset management program ... easy to follow and understand. The benefits of investment were well presented. We request BPA exercise diligence to identify projects or program areas where costs could be reduced to offset some of the impacts of the proposed asset management initiatives."
- "The ramp up of capital expenditures in FY 2009 is significant ... to catch up with capital improvements that have lagged over the last several years and the reliance on increasingly costly hydro generation equipment .... The agencies should be encouraged to broaden their supplier network so they are not captive to a small number of suppliers."
- "O&M takes a substantial jump. We believe that the agencies should be encouraged to take steps to reduce or eliminate inefficient O&M, rather than just escalating O&M costs by a fixed amount."
- "It is concerning to see FY 2009 O&M increasing $13 million over the original FY09 level and they should be encouraged to continue to manage to the original budgets. We are supportive of capital investments to catch up with hydro system improvements that have lagged over the last several years."
- Re: Corps Cultural Resources Funding at Lake Roosevelt National Recreation Area (LRNRA) – "We are asking for an increase in funding for the protection of our significant cultural heritage, either through stabilization or the excavation of the many archaeological sites affected by dam operations. Funding has been constant since 1995 with no increase for approximately 13 years. Archaeological Surveys have documented the presence of at least 500 cultural resource sites in the LRNRA, most of which are being adversely affected by reservoir operations."

BPA Response: BPA recognizes that its customers expect continued collaboration with the Corps and Reclamation to ensure the hydro assets are operated and maintained effectively. Part of this collaboration includes an active ongoing asset planning process that assesses the condition and health of the system and its equipment, evaluates various risk scenarios and their consequences, considers alternatives for achieving reliable generation system performance, and estimates the financial and economic returns for the program in the future. Initial conclusions for the first of many future iterations of this planning process were completed this year and shared with BPA's customers through the IPR. In addition, asset planning helps identify resource needs and investment activities for the coming rate periods -- it takes a long-term view for system sustainability. Three objectives were critical to guiding the asset planning process. They are: 1) low cost power, 2) power reliability and 3) trusted stewardship. Throughout the asset planning effort, the Corps, Reclamation, and BPA were constantly challenging ourselves to satisfy and, to the extent possible, have the results of the proposed plan maximize these objectives.

The increase in O&M costs for FY 2009 are directly related to this asset plan as well as other regulatory requirements, and are attributable to increasing non-routine extraordinary maintenance activities, updated Biological Opinion compliance measures, and new WECC/NERC reliability compliance measures. Critical to the asset plan are budget increases to provide funds for increasing non-routine extraordinary maintenance activities at the generating projects. Failures associated with aging, worn out infrastructure are increasing, causing potential safety problems and operational issues at the plants. If not addressed, these non-routine extraordinary maintenance items will increase risks associated with increased forced outages, reduced generating capability due to units being out of service, reduced system capacity and operational flexibility, and employee safety. Budget increases for WECC/NERC compliance are required to provide resources necessary to ensure compliance with new reliability standards. Additional funding is needed for reliability coordinators, to provide training and perform process analysis, to implement corrective actions and ensure documentation, and to provide data storage. Not meeting the standards increases the risk of a catastrophic system operational event, and WECC/NERC will assess fines and sanctions for being out of compliance with the standards. Increased budgets for BiOp activities are necessary to address aging infrastructure needs, particularly associated with hatcheries. Not addressing these BiOp requirements risks non-compliance with the BiOp and associated court actions.

Funding levels for Cultural Resource activities across the FCRPS were derived from the System Operations Review (SOR) and agreed to by the Corps, Reclamation, BPA, and the tribes. The term of the agreed upon funding was for 15 years, which is up in 2012. Changes in funding levels for Cultural Resources will be addressed during development of a new agreement for funding which will take effect in 2012, after the 15 year original term is completed.

BPA and its partner agencies will continue to monitor the condition of the generation assets to ensure the value of the system is sustained at an appropriate level of risk. Nearly 25 percent of the power train equipment at plants critical to the system is currently in Marginal or Poor condition, according to hydroAMP, our equipment condition rating system. The lost generation risk (with no action) is estimated at $871 million, which improves to $479 million by 2016 with the implementation of this asset plan. Also, overall equipment condition improves by 7 percent, with the largest gains at the highest risk plants of Grand Coulee, Chief Joseph and McNary.

Clearly, unanticipated needs will arise as we move forward requiring continuous management and being flexible with regard to decisions and direction suggested by the plan. BPA's Federal Hydro staff, working with the Corps and Reclamation, will scrutinize all resource needs, both capital investment projects and operation and maintenance funding to ensure the lowest cost to ratepayers while preserving generation reliability and satisfying our stewardship responsibilities for the river system under our care.

Decisions: No changes are being made to Corps and Reclamation O&M, including for Corps and Reclamation Cultural Resources activities, or for hydro capital investment. The revised CRFM plant-in-service schedule provided by the Corps during this IPR process will be adopted in the final IPR forecasts.

C. Long-term Generation Program

Original WP-07	Initial IPR	Final IPR
25,751	31,613	31,522

This program consists of BPA’s long-term acquisition contracts for output from generating resources, such as Cowlitz Falls, Billing Credits Generation, Wauna, Elwah Dam, Idaho Falls Bulb Turbine, and Clearwater Hatchery Generation. Most of the expenses associated with the long-term generating projects are based on energy production at the generating units, and therefore are offset by revenues. There is little opportunity for improvement because prices are fixed by contract.

Summary of Comments Received:
None

BPA Decision: No comments were received on this program. The primary change from the original WP-07 rate proposal to the IPR forecast is that the WP-07 rate proposal did not include Idaho Falls Bulb Turbine as a generating resource, since there was not a signed contract in place for the FY 2007-2009 period at the time of that proposal. The increase since the original WP-07 proposal reflects the cost associated with that resource. The amount of generation produced by this resource is included in the Load Resource study in the WP-07 Supplemental rate proposal. It is appropriate to include the cost of the resource as well. An error was discovered in the calculation of the maximum cost of this resource subsequent to the last FY 2009 IPR workshop. Correction of this error results in a $90.7 thousand decrease to the cost of this resource. This correction is being adopted and is incorporated into the Final IPR spending level for Long-term Generation. No other changes are being made to the original IPR forecast.

D. Renewable Resources

Original WP-07	Initial IPR	Final IPR
41,917	43,955	43,955

BPA’s goal for renewable resources is to ensure the development of our share of cost-effective regional renewable resources at the least possible cost to BPA ratepayers.

BPA's share will be based on the regional load growth (about 40 percent) of its Public Utility customers. BPA will cover its share through power acquired by BPA from renewable resources to serve its Public customers and/or renewable resources acquired by Publics with financial assistance by BPA.

Two changes from the original WP-07 rate proposal are reflected in the IPR proposed spending level. First, $9.6 million is included for power acquired from the Klondike III wind project, which was not contemplated in the 2007 rate case. The costs incurred by this project are recovered through revenues generated from the sale of the project's generation and environmental attributes to BPA's Public Utility customers. Second, due to recent state legislative enactment of renewable portfolio standards in Washington and Oregon, many Publics are meeting the Council's forecasted renewable development without BPA facilitation spending. In light of this advancement, the FY 2009 Facilitation spending level was reduced from $13 million to $2.5 million. (An additional $3 million is included for Green Energy Premiums from Environmentally Preferred Power (EPP) and Renewable Energy Certificate (REC) sales transferred to Technology Innovation (TI) to fund renewable research projects. See Agency Services below.)

Summary of Comments Received:

- "Reducing BPA's renewable energy budget at this time is the wrong direction. The proposed expenditure of $2.5 million (for facilitation) is woefully inadequate to respond to customer's needs for new renewable resources and to assist the region in preparing for climate change regulation."
- "The reduction in facilitation services and programs is shortsighted."
- "BPA should be proactive in helping its customers take advantage of federal renewable credits ...."
- "(We are) concerned that the renewable-resources budget has been cut so drastically that the agency will be unable to assist its customers in acquiring these resources at the very time the agency's customers will be required under state law to acquire them."
- "With the growing importance of climate and renewable energy policy, BPA needs to dedicate appropriate resources to this area."
- "We commend BPA for acknowledging the region's successes in developing renewable resources by reducing its facilitation budget .... We urge BPA to continue to reflect the region's progress in renewable resources, and other areas, by adjusting its program budgets accordingly."
- "(We) concur that BPA should reduce the proposed renewables budget. There has been much progress in the region in developing renewables and this proposed change acknowledges that progress."
- "BPA should be holding the line on conservation and renewables spending in anticipation of state conservation and renewable portfolio standards .... Utilities will be continuing their recent progress in developing renewable resources and the need for BPA facilitation is likely to be much less than it has been historically."

BPA Response: BPA has set the renewable facilitation proposed spending at the level necessary to meet its renewable resource policy goal. BPA's goal is to ensure that BPA and public power stay on track to purchase public power's share of Council forecasted renewables. BPA will meet that goal at the least possible cost to BPA ratepayers. BPA intends to adjust its facilitation spending each rate period based on its progress in meeting that goal. BPA believes its customers are doing a good job acquiring renewable resources to meet the targets established in the Council's Fifth Power Plan and the targets established under State Renewable Portfolio standards. The large amount of renewable resources under development in the region suggests there is less need for BPA to spend facilitation dollars to encourage their development.

A number of comments equated dollars included in the renewable facilitation program with BPA support for renewable resources. BPA believes its support for renewable resources is best measured in the accomplishment of its targets. BPA expects to offer a Tier 2 vintage rate based on renewable resources that will assist individual customers in meeting their individual renewable targets under State Renewable Portfolio standards.

Decision: BPA will make no change to the Renewable Resources program level.

E. Conservation

Expense

Original WP-07	Initial IPR	Final IPR
70,347	84,526	80,526

Capital

Original WP-07	Initial IPR	Final IPR
32,000	42,000	32,000

BPA's conservation program (expense and capital) has a goal of delivering 52 aMW of conservation savings per year (net of any naturally occurring conservation) during the FY 2007-2009 period, compared to an average of 44 aMW per year over the FY 2002-2006 rate period. Increases are primarily due to forecasting additional spending for acquisition, support for regional delivery infrastructure required to achieve accelerated conservation targets, and load management work related to BPA's 2008 Resource Plan.

Summary of Comments received:

- "Bonneville needs to create the incentives and provide the support to help its customers succeed .... Our concern is that there is no increase in BPA staff to ensure the effective spending of this increased budget."
- "It is vital that funding for 2009 conservation programs be increased .... If funding is held constant in 2009, we risk losing cost effective energy savings. Further, maintaining spending and 2008 levels sends the wrong message to utilities, Congress and all stakeholders on the value of energy efficiency."
- "I am extremely disappointed that there is no substantive increase in the budget for energy efficiency. The region and the planet are undergoing the greatest environmental challenge ever faced, and BPA refuses to take advantage of clear and cost-effective efficiency opportunities with any sense of priority. There is no excuse for the inaction on energy efficiency in the proposed budget, and it should be corrected before being finalized."

- "BPA's proposed increase in conservation funding does not consider state renewable portfolio standards that place responsibility for energy efficiency on individual utilities. BPA should begin to ratchet down its program, rather than expand its budget."
- "A flat conservation budget reflects a failure to recognize the clear economic and environmental benefits of energy efficiency .... Now is the time for Bonneville to begin to ramp up this program in anticipation of the higher efficiency targets that will be set in the 6th Power Plan."
- "We would encourage BPA to adopt a more flexible budget approach that allows for more innovation and reaction to opportunity for more robust FY 2009 efficiency gains."
- "(We do) not support the proposed increase in conservation spending above WP-07 levels."
- "Because the region has demonstrated its ability to achieve conservation under current levels of BPA spending, we question the proposals for increases above the previously set budget for 2009."
- "Specificity in the nature of some of these costs is needed to provide clarity to the programs ratepayers are funding. For example, the difference between "conservation" and "regional energy efficiency"... is not evident. With BPA expecting these costs to increase, customers need greater clarity as to the differences and the reasons BPA believes it is necessary for these budgets to increase."
- "BPA should be holding the line on conservation and renewables spending in anticipation of state conservation and renewable portfolio standards .... Having BPA charge its customers a half mil for this program, that those customers must spend time and money justifying their efforts in this area just to get this credited back would seem to be a redundant, expensive waste of effort, resources and time."
- "BPA needs to set budgets for conservation taking into account that customers are responding to these signals. This should result in a decrease in BPA conservation programs and thus a reduction in costs in FY 2009 from the original budget."

BPA Response: The Agency agrees that conservation will continue to be a priority in the future, and believes that the FY 2009 proposed spending level for Energy Efficiency is structured to best position the region to meet the need for additional conservation capability.

BPA believes there needs to be a conversation with customers and other stakeholders regarding what role BPA will play in energy efficiency in the post-2011 period. Given the workload for interested parties and BPA associated with developing new long-term contracts, we don't believe this energy efficiency question can be effectively engaged at this time. BPA is committed to engaging the region on this question following the beginning of the next calendar year. It seems likely, however, that the aMW targets for energy efficiency acquisitions will be increasing in the coming years. For this reason, we believe providing funding for some "ground-plowing" activities is important regardless of the direction BPA ultimately takes in energy efficiency. We believe, for example, there is a need for load-management scoping and planning activities due to growing forecasted regional capacity deficits and the movement toward long-term contracts requiring that BPA augment its system for capacity, as necessary. Revisions to the regional reporting system, trade ally development, planning of marketing strategies and evaluation of existing programs will provide a firmer foundation supporting BPA's commitment to collaboratively working with public power to assure its share of the regional energy efficiency targets are accomplished. The additional spending in the area of Low-Income Weatherization reflects the fact that spending did not occur at the expected rate in the first two years of the rate period. Therefore, the $800,000 added to the planned FY 2009 budget reflects the timing for the funds to be spent and is not an overall increase in spending.

Decisions: After close examination of the proposed Energy Efficiency program level, BPA has identified two reductions which are appropriate and will not impact energy efficiency goals in FY 2010 and beyond. The first is to reduce the proposed capital spending from $42 million to $32 million for FY 2009. Capital spending in this rate period to date has been below historical trends. Reducing this line item should not negatively affect the ability of BPA and the region to achieve 2009 energy efficiency goals. BPA has also reduced the amount of the rate credit for 2009 from $36 million to $32 million to reflect the fact that IOUs are no longer eligible for rate credit funding.

F. Fish and Wildlife Direct Program

Expense

Original WP-07	Initial IPR	Final IPR
173,353	229,439	229,439

Capital

Original WP-07	Initial IPR	Final IPR
36,000	50,000	50,000

BPA’s Direct Fish and Wildlife Program manages projects to meet BPA’s mitigation objectives under the Northwest Power Act, in a manner consistent with the Northwest Power and Conservation Council’s (Council’s) Fish and Wildlife Program, as well as BPA’s Endangered Species Act (ESA) requirements under biological opinions from the U.S. Fish and Wildlife Service and National Oceanic and Atmospheric Administration (NOAA) Fisheries.

The primary drivers of change are ESA requirements pursuant to new Biological Opinions (e.g., the May 5, 2008 FCRPS Biological Opinion) (BiOp), requiring increased spending for habitat restoration, hatchery reform, and research, monitoring and evaluation. In addition, BPA has executed the 2008 Columbia Basin Fish Accords, which are agreements with States and Tribes regarding implementation of fish and wildlife projects to mitigate for effects of the FCRPS, including requirements under ESA. The Fish Accords include expected costs necessary for implementing actions to support the BiOp, and other FCRPS mitigation. The Fish Accords benefit the agency and the region in the following ways:

- They help mitigate the impacts of the FCRPS, particularly on ESA-listed species within projects that are expected to provide significant and measurable benefits.
- They reinforce partnerships with key players ending years of divisiveness.
- They provide funding stability, leading to more certainty of implementation and stable rates.

The Fish Accords reinforce an all-H approach by focusing on multiple strategies to produce biological benefits that are cost-effective and satisfy BPA's legal obligations under ESA and the Power Act. Increased costs are partially offset by 4(h)(10)(C) credits, which, in essence, reimburse BPA for the portion of costs that are attributable to non-power purposes of the FCRPS.

Summary of Comments Received:

- Washington Department of Fish and Wildlife (WDFW) considers certain identified projects as either critical and essential projects within the FY 2008-2009 funding decision, or necessary projects to begin to implement the recent BiOp in FY 2009. "We are aware there may be funding available from Fish and Wildlife Program expense "carryover" from FY 2002-2006 along with unspent FY 2007-2008 funds. In your review, we ask you to consider exploring whether the needs we identified may be met with carryover and planning dollars and therefore could be addressed without necessarily impacting the FY 2009 power costs."
- "Bonneville should budget sufficient dollars to fund the unmet needs identified by the Council in its FY 2007-2009 recommendations. BPA arbitrarily set its annual budget for this time period at $143 million, despite the fact it was much less than the $150 million originally proposed for FY 2002-2006."
- "We ... urge you to resolve the growing disparity between resident and anadromous fish mitigation funding. We are concerned that BPA's proposed funding schedule deviates from the Fish and Wildlife Program goal for Anadromous Fish, Resident Fish, and Wildlife categories (known as the 70:15:15 allocation) .... A recent estimate provided by CBFWA indicates that BPA's proposed allocation would allocate 75% for anadromous fish projects, 11% for resident fish projects, and 13% for wildlife projects .... (C)urrent projections indicate that resident fish and wildlife projects will not keep pace with anadromous fish restoration actions. BPA should revise these resident fish and wildlife mitigation requirements when calculating the Program funding level for the 2009 rate case. This disparity could be resolved ... by scheduling 7% more than the $200 million in costs proposed for FY 2009."
- "We strongly support BPA's proposal to increase its fish and wildlife funding to fully implement the MOA (with States and Tribes) .... We expect the IPR close-out letter to include expense funding for the MOA with CRITFC, the Yakama Nation, and the Umatilla and Warm Springs Tribes of approximately $35.5 million in FY 2008 and $49.4 million in FY 2009; the capital budget will be approximately $10.6 million capital in FY 2008 and $20 million capital in FY 2009."

- “BPA should carefully review this proposed ($38 million) increase and look for duplicate efforts or items that are not required. Further, these initiatives need to be results oriented.”
- “Questions remain as to how the Council Program, MOAs, a new BiOp, and other elements of BPA’s fish and wildlife budget will be integrated into an effective program. These uncertainties should not be an avenue for additional budget increases beyond those proposed for FY 2009.”
- “BPA should work to ensure there are no duplicative efforts or double funding of projects. The litmus test for new elements of the fish and wildlife program is that they complement existing fish and wildlife projects. “
- “BPA should limit fish and wildlife spending to projects affected by BPA’s operations of the FBS. There are many existing and proposed projects in areas that have little relation to BPA operations.”
- “The program budgets should be fixed, regardless of whether or not the program has spent all of the allocated dollars in the previous year.”
- “The funding should be seen as comprehensive for both fish and wildlife and the proposed budget should not increase beyond its current limit.”
- “We support a long term capped budget for the fish and wildlife direct program and believe that this is important for all parties.”
- “We do request that BPA perform an analysis of whether it is appropriate to apply the inflation adjustment to the entire direct program, or only that portion of the program that is truly subject to inflation.”
- “Most of the FY 2009 increase is targeted to fund projects identified in the tribal MOAs and elements of the BiOp. While (we do) not dispute the value of these projects, much of the funding will not go toward making the BiOp sufficient to restore endangered salmon and steelhead nor satisfy BPA’s obligations in this arena.”

BPA Response: BPA's Fish and Wildlife Program budget encompasses both BPA's Northwest Power Act and ESA compliance obligations. The Program is carried out in partnership with the Council. ESA-related project commitments benefiting listed salmon and steelhead are also coordinated with NOAA Fisheries. BPA's program is implemented primarily through BPA funding of several hundred individual projects and contracts intended to mitigate for the effects of the FCRPS on fish and wildlife.

In the IPR workshops on Fish and Wildlife Program funding for FY 2009, BPA proposed a very significant upward spending level adjustment for both the expense and capital portions of the Program, from $143 million and $36 million, respectively, to $200 million and $50 million. These proposed spending levels reflect the funding increases needed in FY 2009 for implementing both the new FCRPS BiOp and the Columbia Basin Fish Accords, without reducing funding for the other non-BiOp and/or non-Accord elements of the Program. While the magnitude of these funding increases is unprecedented in nature, BPA believes these increases are critical to both ensure its ability to deliver on commitments reflected in the Biop and Accords, and to move the region away from years of divisiveness and litigation under the ESA toward support for and implementation of an all-H (hydro, habitat, hatchery and harvest) approach for ESA compliance and recovering

ESA-listed salmon and steelhead. The actions funded via these commitments are expected to produce targeted biological benefits to specific population groups of ESA-listed stocks. These commitments themselves make these actions more reasonably certain to occur and demonstrate that the entities signing the Accords are committed to and accountable for achieving identified biological benefits and that projects which haven't previously undergone independent science review will be reviewed prior to implementation, consistent with the Power Act. BPA acknowledges that it has proposed this very significant Program spending increase ahead of developing detailed "statements of work" for these new project commitments. To that end, BPA is committed to ensuring adequate independent science review and project scoping, including appropriate adjustments as necessary and agreed-upon with Accord signatories.

Comments on BPA's proposed spending increases varied significantly, with some suggesting that BPA fund additional and/or different projects, and others raising concerns about adequate science review and more general program management issues. With respect to suggestions to fund additional projects, some of these suggestions have been made previously, and BPA has responded to them previously, such as within its FY 2007-2009 funding decision and a December 31, 2007 response letter to the Columbia Basin Fish and Wildlife Authority. As far as new work not previously suggested, BPA believes that while there will always be an interest in funding for additional new projects, there is substantial opportunity and flexibility within the existing Program and its base $143 million spending level to fund appropriate additional work by rededicating funding as some projects reach their natural end and by leveraging potential efficiency gains from upcoming Council-led reviews of parts of the current program (such as wildlife and monitoring/evaluation). In addition, the Council's new High Level Indicators initiative has the potential to drive reform of the region's research, monitoring and evaluation efforts, thereby creating further spending flexibilities.

BPA's customer representatives provided several suggestions relating to additional spending increases beyond those proposed for FY 2009; science review; economic review; and inflation. These suggestions and accompanying responses are as follows:

- One suggestion was that BPA look for the potential to reduce funding of other projects where there are duplicative efforts and/or a lack of a clear FCRPS mitigation nexus; BPA believes such an assessment is appropriate and should logically occur as part of the Council's upcoming project review initiative.
- BPA customers asserted that outside the BiOp and Accord commitments, unspent funds should not be carried forward nor made available for funding projects in the future. As part of its FY 2007-2009 project funding decision BPA made a decision to carryover $8.8 million in unspent funding from the previous rate period, so as to not create a "use-it-or-lose-it" incentive. As for FY 2010-2011, as it relates to projects outside the BiOp/Accords, BPA will make a decision on how to handle unspent funds as part of the development of a budget management plan for overall Program budget management. BPA expects to develop this plan during the summer of 2008 and will provide an opportunity for Council, customer and Program stakeholder input.

- In terms of science review, BPA is committed to ensuring adequate independent science review consistent with the intent of the Science Review amendment to the Power Act.
- BPA may also suggest, as noted by BPA's customers' comments, that the Council utilize the Independent Economic Advisory Board for cost-effectiveness assessments as appropriate.
- Regarding inflation, BPA's FY 2009 proposed spending level does not reflect an inflation adjustment. However, BPA has proposed an annual adjustment of 2.5 percent per year starting in FY 2010. BPA agrees with the customer suggestion that the addition of an annual inflation adjustment provides, in part, a rationale for an overall budget commitment or cap. Such a commitment, with the addition of the inflation adjustment, could provide substantial flexibilities for future project funding decisions within an overall set budget through applying the inflation adjustment where necessary and redirecting it elsewhere when it isn't needed for a particular project.
- Finally, BPA is also committed to working with its customer representatives and other program stakeholders to ensure that its daunting implementation challenges relating to the ramp-up of the Program occur in the most efficient, effective and biological-results-oriented manner.

Decision: No change. Taking into account all the drivers that led to BPA's initial FY 2009 budget proposal in the IPR, and the range of comments received, BPA believes that it is appropriate to increase the Fish and Wildlife Program expense and capital budgets to the $200 million and $50 million levels, respectively, as proposed in the initial IPR numbers for FY 2009. These increases will: 1) make good on commitments/actions reflected in the new BiOp and Fish Accords; while 2) not reducing funding to other projects which provide important mitigation benefits relative to BPA's Power Act obligations. BPA notes that, in addition, there are sufficient tools and flexibilities within the existing Program to redirect funding to other projects, assuming support for doing so exists among program stakeholders. BPA acknowledges, however, that there are many new budget management complexities as well as policies that will need to be developed, and important unanswered questions that still need to be addressed given the new Biological Opinion and Fish Accords and the related significant Program increase in FY 2009. Over the summer of 2008, BPA will continue to develop an overall Fish and Wildlife Program budget management plan in coordination with the region, with opportunity for input and comment, to address these questions, issues and policies.

G. US Fish and Wildlife Service: Lower Snake River Compensation Plan

Original WP-07	Initial IPR	Final IPR
19,600	19,600	19,600

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, Nez Perce, Shoshone-Bannock and 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 the 1970's.

Comment received:

- "I was pleased to learn that the U.S. Fish and Wildlife Service and BPA secured consensus to a budget that provides funding for the LSRCP hatchery and monitoring an evaluation operations, including hatchery and M&E programs operated by Washington Department of Fish and Wildlife. The proposed budget aligns with the congressionally mandated commitment to mitigate for the loss of fishing opportunity resulting from construction of the four Lower Snake dams. . . . WDFW shares these goals and supports the modest annual rate increase to cover anticipated costs."

Decision: No change

H. Internal Operations (Including Pensions and Post-Retirement Benefits)

Original WP-07	Initial IPR	Final IPR
126,941	140,307	136,295

Internal Operations includes Agency Services allocated to Power Services, Agency Services costs direct-charged to Power Services, as well as the internal operating costs of Power Services itself.

Summary of Comments Received:

- "BPA's internal costs are increasing dramatically overall, despite savings achieved in some areas. BPA should set reasonable caps for growth in internal operating costs, no higher than the annual rate of inflation, and then live within those caps."
- "BPA's forecast internal power operations costs for FY 2009 are escalating significantly .... For example, General Counsel ..., Finance ..., and Technology Innovation .... BPA could limit the net escalation in its internal operating costs to the rate of inflation. If the agency wants to add new functions, it should identify offsetting savings in other functions."
- "(We are) very concerned with the rate at which internal costs are increasing. . . BPA should look at these costs and find ways to reduce them to more acceptable levels (inflation or less): Chief Risk Officer, Technology Innovation, Internal Audit, Strategic Planning, Strategy Integration, General Counsel, Workplace Services
- "BPA has not justified the proposed 14% increase in internal power costs."

BPA Response: Internal costs charged to power have been held virtually flat since FY 2001. While there is an increase proposed in the IPR, it results in costs that are still well below where they would have been had they increased at the rate of inflation since FY 2001. We believe holding these costs flat is no longer sustainable and that increases must occur. However, BPA has taken seriously the comments on the significant increases to internal operations costs.

Decision: The Power internal operating costs and total Agency Services costs will reflect a three-percent reduction from the levels included in the IPR. The actual distribution and means of meeting that three percent reduction will be determined by Executive Management in order to achieve this lower level of spending.

Below, we have outlined the drivers behind spending increases in programs that were specifically identified in customer comments.

(a) Chief Risk Officer:

Rate Case	Initial IPR	Final IPR
5,136	5,871	5,871

The key responsibilities of Risk Management include: facilitating a risk-based approach to strategic planning in which BPA's tolerance for specific risks and overall risk management capability are key inputs to strategy development and execution plan; coordinating a robust and sustained Enterprise Risk Management (ERM) program to identify and appropriately address the broad range of risks to achievement of the agency's strategic objectives; monitoring and reporting on BPA's full range of risks, including commodity transacting risks; mitigating BPA's credit exposure in the event of counter-party default; and implementing a Business Continuity Management Program, including Emergency Management and Continuity of Operations planning. The primary driver of increase for FY 2009 spending estimates is the incorporation of funds for the Business Continuity program, including contractor support.

(b) Technology Confirmation / Innovation:

Rate Case	Initial IPR	Final IPR
3,373	9,916	9,916

The Technology Innovation program focuses on actions that have substantial value for BPA's ratepayers. The program is guided by a set of technology roadmaps specifically developed to narrow the focus of technology innovation to solving business challenges BPA is facing. The roadmaps were created with internal and external expert input, and address major technology issues in transmission, hydro, energy efficiency, renewable energy, and security areas. They provide robust, public guidance to BPA's technology innovation program and to our potential partners – utilities, EPRI, and others.

BPA's research spending was drastically reduced in the late 1990's. Beginning in 2000 some growth occurred in transmission, driven by needs to advance critical research related to reliability. As a result, funding rose to an estimated $3 million by FY 2005. Similarly, a few special-exception projects were planned on the power side, including: energy efficiency projects related to the EnergyWeb concept; Hydro operations projects relating to specific trials of new turbine runners; and projects tied to a growing realization of issues related to renewable energy. The Research and Development (R&D) spending for the power side also grew to around $3 million in

2005. Together, the estimated FY 2005 spending forecast of $6 million accounted for less than 2/10ths of 1 percent of BPA revenues.

BPA management benchmarked it's expenditures against the utility industry as a whole, and against other industries. BPA also looked ahead at the challenges facing the Federal Columbia River Power System, including transmission reliability issues, the need for future energy efficiency technologies and renewable energy, and the impacts of climate change.

BPA concluded that its technology innovation investment was insufficient considering the business challenges it faces. The benchmarking revealed that the US utility industry in general was far behind nearly every other industry in the level of expenditures for R&D. More importantly, BPA executives saw a coming set of challenges that could not be effectively dealt with unless BPA had an organized, focused, strategically directed technology innovation program. Ad hoc research projects taken up off-the-cuff, weren't going to address these challenges.

The 2005 Power Function Review and the 2006 Programs in Review tipped out BPA's conclusion that a more appropriate spending level for R&D was 1/2 of 1 percent of revenues.

In order to facilitate and manage this ramp-up to a more appropriate agency spending level, the Technology Innovation central office function was decentralized in FY 2007. In the beginning funds provided for just the salaries and incidental costs of start-up staff. Funds were then assumed to grow at a gradual pace, leading to the targeted level by about FY 2011. This IPR proposal moves the targeted funding to FY 2012. The $6 million in the balance of the agency was assumed to continue to be invested as in the past.

BPA created the Technology Confirmation/Innovation Council as a cross-agency team of executives and experts that guide the formation and operation of the Technology Innovation program. This group's deliberations have guided the transformation from a decentralized model to a centralized model in which R&D spending, expenditures, and project progress can be better managed.

This change occurred between FY 2007 and FY 2008. Hence, the $1.6 million in FY 2007 represents the central office function before consolidation, and the $9.6 million represents the combination of $6 million formerly reflected in power ($3 million) and transmission ($3 million) and the growth in centralized funds along the ramp up to 1/2 of 1 percent of revenues. The total agency spending estimates as described in the IPR is the same as that used for the currently established rates.

BPA believes that the Technology Innovation program is on the right track and that the growth to the target level of investment should continue as reflected in the proposal. The program is addressing critical issues facing BPA and the Federal Columbia River Power System.

(c) Internal Audit:

Rate Case	Initial IPR	Final IPR
1,930	2,384	2,384

Internal Audit supports governance and serves BPA managers through audits, reviews, analyses, and other services. A key driver of change is accelerated succession coverage with pending retirements of key staff. Internal Audit has also responded to new and/or expanded governance, risk management, and compliance activities that require more, regularly-scheduled audit support. This includes annual support for OMB Circular A-123 assessment of internal control over financial reporting, a Federal requirement that parallels that of Sarbanes-Oxley Sec. 404 for publicly traded companies.

(d) Strategic Planning and Strategy Integration:

	Rate Case	Initial IPR	Final IPR
Corporate Strategy	340	303	303
Strategic Planning	1,771	1,913	1,913
Strategy Integration	7,510	7,604	7,604

The Agency Services Corporate Strategy group combines Strategic Planning and Strategy Integration. Corporate Strategy is charged with the following activities:

- Industry intelligence/market fundamentals
- Coordinated infrastructure planning & analytical tools/modeling, scenario analysis and strategic options
- ColumbiaGrid funding and functional agreements (planning & expansion, reliability and staffing, OASIS)
- Greenhouse gas policy analysis
- Development of greenhouse gas strategy
- Wind integration coordinated operations planning
- Multi-year strategic objectives, initiatives, and performance targets
- Agency capital project valuation and approval process
- Agency-wide performance management system

It is true that the expenditures for the agency's Corporate Strategy function are showing increases over the period covered by the IPR. There are two factors driving these increases:

First, this includes BPA’s support for ColumbiaGrid. The ColumbiaGrid approach to one-utility planning and operations is a building block approach. Since its creation in late 2006, ColumbiaGrid has been building its basic capability by establishing a Board of Directors and an executive team, and creating the region's only independent regional transmission planning capability. Funds included in FY 2009 allow for the completion for ColumbiaGrid design work in the areas of transmission service and operations, and for the potential implementation by ColumbiaGrid of resulting proposals in those areas.

Second, there are fundamental structural changes in the operating environment of the utility industry that are only beginning to unfold. These include dramatic increases in the need for infrastructure investment, sharp increases in infrastructure and fossil fuel costs, aggressive state renewable portfolio standards (RPS), dramatic increases in wind generation, and considerable uncertainty around greenhouse gas legislative actions. These changes will have dramatic effects on BPA's operating and business environment and will affect both the transmission and power services arms of BPA and, ultimately, BPA's customers. The proposed spending reflects BPA strengthening its ability to anticipate, systematically analyze, and manage these changes with least-cost impacts to regional consumers, while maintaining the reliable operation of the FCRPS. For example, BPA's efforts to solve highly complex wind integration challenges will be an important determinant of the region's success in meeting state RPS at least cost. These solutions require a thorough, rigorous, coordinated cross-agency technical and policy analysis that will be led by the Corporate Strategy function.

(e) General Counsel:

Rate Case	Initial IPR	Final IPR
9,014	9,514	9,514

General Counsel supports BPA programs through legal advice and representation. Major activities include: (1) Advice and risk assessment, negotiation and alternative dispute resolution; (2) Advice concerning BPA transmission policies and transmission tariffs, contracts and rates; (3) Advice concerning BPA power policies, contracts and rates; (4) Agency representation in all areas of litigation before the courts or administrative and regulatory proceedings covering: power marketing, contracts, rates, energy efficiency, resource acquisition, renewable resource policy matters, federal projects, and nonfederal projects, including Energy Northwest and BPA's statutory and contractual responsibilities with regard to the provision of transmission service; (5) Advice and legal representation in environmental issues and policies including BPA's fish and wildlife obligations under various acts; and (6) Drafting and negotiating financial instruments including documents related to Energy Northwest and Treasury financing.

The primary drivers of increases are the increased need for legal services in transmission due to increased investments and Transmission Service Agreements, resumption of the Residential Exchange with attendant legal review, increases in Fish and Wildlife programs, new reliability standards, and compliance requirements – NERC, FERC, WECC filings, review and interpretation of new mandates and regulations, State law research and opinions critical to BPA and its customers and stakeholders.

(f) Internal Business Services (IBS):

	Rate Case	Initial IPR	Final IPR
Internal Business Services	576	576	576
Safety	2,386	2,314	2,314
Human Capital Management	16,472	16,228	16,228
Supply Chain Services	16,987	18,315	18,315
Workplace Services	26,813	32,508	32,508
Information Technology	58,313	58,313	58,313

IBS is comprised of multiple organizations that provide essential infrastructure functions in support of the effective operations for the Agency. The "rate case" values in the table above reflect an effort to create spending levels that tied to both the Power and Transmission rate cases and that incorporate the impacts of reorganizations made up to that time. Looking at just the original FY 2007-2009 Power Rate Case, the overall spending levels for Internal Business Services will be managed to the levels identified in the WP-07 Power rate case, with exceptions in Supply Chain and Workplace Services. The original spending levels included aggressive cost management associated with several process improvement projects in Information technology, Human Capital Management and Supply Chain.

- **Supply Chain**: BPA is forecasting an increase in the FY 2009 spending for Supply Chain Services relative to the original rate case level for FY 2009 in order to support the increased programs for Transmission capital and expense programs, for Fish and Wildlife BiOp Remand and Long Term Agreements, for Research and Development; and implementation of Lease Financing agreements. These programs require new Supply Chain Services support that was not previously included in the original rate case spending level for FY 2009. However, the revised spending level for FY 2009 includes offsetting reductions due to Supply Chain process improvement efficiencies of $200,000 in FY 2009.

- **Workplace Services**: Workplace Services consists of facilities (HQ and Ross O&M and non-electric facilities including field office facilities), leases, space management, office services, printing and mail services. The revised FY 2009 spending level for Workplace Services is consistent with the original FY 2009 level assumed in the original rate case forecast with the exception of the program to address the backlog of deferred maintenance on its non-electric facilities. Over the past 10 years (or more), maintenance on facilities that are essential in delivering transmission services has been deferred, creating a backlog of work that now needs to be addressed. Condition assessments of these facilities have been performed and have uncovered life safety and facility reliability issues that need to be addressed during the upcoming rate case period. As these are Transmission assets, the funding increase associated with the implementation of this program does not impact Power costs.

- **Information Technology** (IT): IT expense spending has remained flat since FY 2006 and will again for FY 2009 consistent with the spending level assumed in the original rate case for FY 2009. IT has been able to keep spending flat (even with absorbing inflation cost) due to EPIP savings achieved through improved contract management, software title reductions, demand management, and service delivery. Expense savings could have been even higher had business demand for IT services not increased dramatically across the agency.

- **Human Capital Management (HCM):** The FY 2009 spending level for HCM has been revised down slightly from the original WP-07 rate case forecast level for FY 2009. HCM has achieved its EPIP efficiencies and its proposed spending level reflects the implementation of HCM services via a new delivery model that focuses on business outcomes, sharpens delivery via expert services, and relies on the deployment of automation tools to manage workflow.

- **Safety:** The FY 2009 spending level for Safety has been revised down by three percent relative to the original WP-07 rate case level to reflect lower than expected contract costs.

(g) Finance:

Rate Case	Initial IPR	Final IPR
13,782	15,224	15,224

BPA recognizes the concerns expressed in Joint Public Power comments that BPA's internal operating costs, including Finance costs, are increasing significantly. Much of the increase in Finance spending estimates since FY 2007 has been driven by the reestablishment of the Residential Exchange Program as a result of the recent 9th Circuit Court decisions. ($2 million and $1.1 million were included in the FY 2008 spending estimates and the FY 2009 initial IPR budget, respectively.)

Without the Residential Exchange Program administration costs, the FY 2009 Finance spending level has increased 5.9 percent per year from FY 2007 actuals and 2.8 percent from the FY 2008 spending estimates. During this period, Finance's workload has increased due to accelerated deadlines for the year-end audit, Federal financial reporting, and the Annual Report; the implementation of OMB Circular A-123, Appendix A - the Federal equivalent of Sarbanes-Oxley; the execution and administration of the Lease Financing program in support of BPA's capital program; and negotiation and implementation of new agreements with the U.S. Treasury for borrowing and investing. This increased workload was partially offset by efficiencies, resulting in a small net increase in staffing resources (the equivalent of about 2 FTE). The net result is that the IPR spending level for FY 2009 is about $300 thousand or two percent higher than the spending level included in current Power rates. The Residential Exchange Program, the increasing scale of the Lease Financing program, and the need to restructure financial data to accommodate the implementation of tiered power rates are the primary drivers for Finance spending over the next several years.

Rate Case Decisions:
The following section provides information on areas for which the costs will be determined in the Final WP-07 Supplemental Rate Proposal. They have been included in the IPR to provide an opportunity for participants to understand the basis for these costs.

I. Power Purchases, including monetized benefits to DSIs

Original WP-07	Initial IPR	Final IPR
292,210	316,454	*316,454

*The actual amount will be determined in the Final Rate Proposal.

Changes from the WP-07 Rate Case to the Supplemental Proposal include a decrease in the monetized benefits to DSIs from $59 million to $55 million, and increases in the power purchase forecasts due to the firm load deficit in the supplemental rate case being higher (354 aMW vs. 270 aMW) than the deficit in the WP-07 case. A reduction in the expected price of power partially offsets this increase.

Summary of Comments Received:

- "BPA continues to provide payments to the DSI's. These subsidies which we understand are $59 million per year are not required under the NWPA post 2001 and should cease."

BPA Response: The $59 million identified as monetized benefits to DSIs has been reduced to $55 million for FY 2009. This amount is available to DSIs under an existing contract.

Decision: BPA will assume $55 million monetized benefits to DSIs. Other Power Purchase amounts will be determined in the final rate proposal.

J. Transmission Purchases, Reserve/Ancillary Services

Original WP-07	Initial IPR	Final IPR
177,525	176,073	*

*The actual amount will be determined in the Final Rate Proposal

Generally, this category represents costs associated with services necessary to deliver energy from resources to markets and loads, such as transmission, ancillary services, and real power losses. Drivers of change are surplus levels and shape, change in Transmission's business practices, limited access to transmission – purchasing more expensive transmission products, and acquiring resources to meet Resource Adequacy.

Summary of Comments Received:
None

Decision: Transmission Purchases and Reserve and Ancillary Services will be determined in the Final Supplemental Rate Proposal.

K. Residential Exchange Program

Original WP-07	Initial IPR	Final IPR
337,320	212,985	*212,985

*The actual Residential Exchange benefits will be determined in the Final Rate Proposal.

For the current rate period (FY 2007-2009 from the WP-07 rate case) the program expense is a result of the Residential Exchange Program Settlement agreements with the Investor Owned Utilities (IOUs). A subsequent ruling from the 9th Circuit Court found these settlements beyond BPA's authority. As a result, 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)
<u>Plus additional staffing to support program - $2 million (implementation costs of running the program)</u>
Net Residential Exchange Benefits in Initial Supplemental FY 2009 PF Rates = $213 million

Decision: Residential Exchange benefits will be determined in the Final Rate Proposal.

L. Debt Management

Debt management issues are not decided in the IPR. How BPA includes decisions and assumptions on debt management are rate case issues and will be discussed in that forum. However, BPA thought it important to show in the IPR the impact of past and future debt management decisions since these impact power rates. This IPR final report is intended to portray BPA's current thinking on these issues however does not make any decisions associated with debt management issues.

BPA's debt management process is largely driven by actual and forecasts of future capital investments in the FCRPS. Management of this program entails comprehensive review of options for reducing debt service costs based on assumptions about capital spending, interest rate yield curves, and retaining access to capital. However, the primary driver of costs in this area is capital spending levels. The IPR includes discussion on these items because it is important for participants to understand the implications of past debt management decisions and proposed capital spending levels. That said, review during the IPR has led to some changes, the impacts of which are estimated here. The levels for these cost categories may be different in the Final Rate Proposal.

Total Net Interest, Amortization/Depreciation and Non-Federal Debt Service

Original WP-07	Initial IPR	Final IPR*
937,393	911,946	907,587

Net Interest

Original WP-07	Initial IPR	Final IPR*
177,499	155,411	154,787

Amortization/Depreciation

Original WP-07	Initial IPR	Final IPR*
205,857	191,509	188,580

Non-Federal Debt Service

Original WP-07	Initial IPR	Final IPR*
554,014	564,466	564,220

* The actual amount will be determined in the Final Rate Proposal.

Changes since the initial IPR numbers reflect the decisions described above in Section B, Corps and Reclamation, related to the revised CRFM Plant-In-Service estimate and decreased Conservation capital for FY 2009. In addition, BPA modified an assumption in the repayment study, as described in the debt management workshop. CRFM studies that were placed into service in FY 2006 and 2007 had been included in the initial IPR repayment study with a 15-year life, but have been modified to reflect the 50-year repayment period and 75-year amortization period as they had in the original WP-07 rate proposal. Other changes that affect the current estimates are revised estimates of FY 2008 investments and revised reserves estimates resulting in different interest earnings assumptions. The final levels of these forecasts will be determined in the final rate proposal.