



Power Net Revenue Improvement Sounding Board

December 17, 2003 8:30 am – 11 am

BPA headquarters Room 614

Call 503 230-4600 to connect by phone

Agenda

I. Welcome and Review Agenda

II. Sounding Board Work Plan

- Meeting Schedule (12/17, 1/9, and 1/16)
- Notes for the meeting
- Format for discussions
- Proposed Scorecard for tracking progress

III. Today's Topics

- Benchmarking (Ruth Bennett)
- Forums for Decisions and Discussions regarding Fish Operations
- Internal Operating Costs – where we've been and what's next

IV. Future Meeting Topics

- Early January Meeting – 2nd set of specific cost categories
- Later January Meeting – 3rd set of cost categories
- Feb Meeting – TBD
- March Meeting - TBD
- April Meeting - TBD

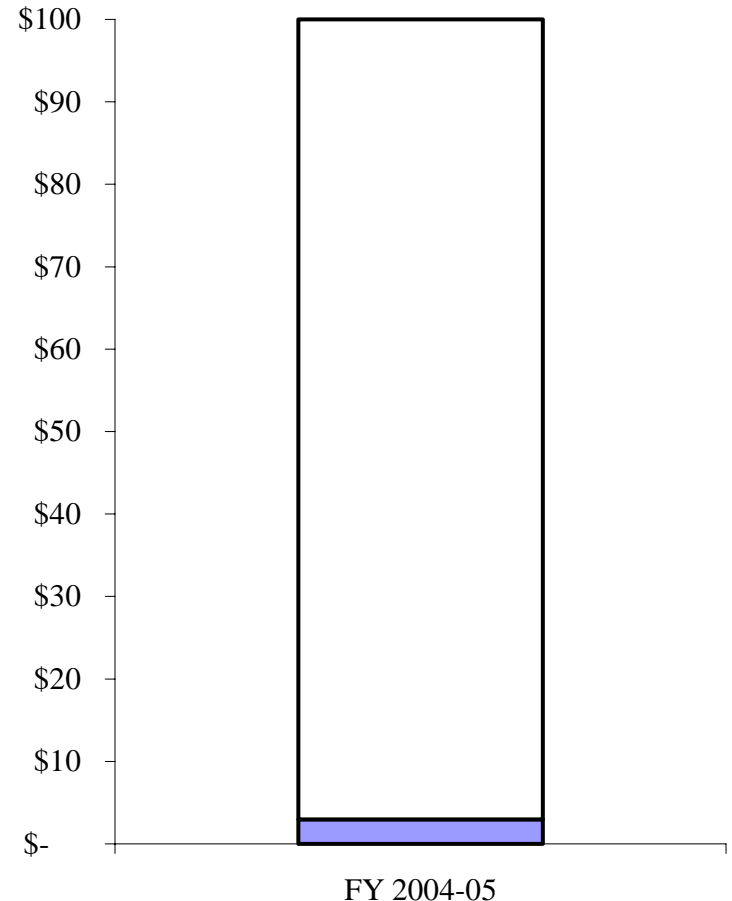
DRAFT

\$100 Million Progress Report

Updated: December 2003

1.	Internal Operations Expenses Charged to Power Rates*	\$X M
2.	Generation Conservation	\$X M
3.	Columbia Generating Station O&M	\$X M
4.	Bureau of Reclamation O&M	\$X M
5.	Corps of Engineers O&M	\$X M
6.	Renewable Generation	\$X M
7.	Trojan Decommissioning	\$X M
8.	BPA Fish & Wildlife	\$X M
9.	Net Interest Expense	\$X M
10.	<u>Revenue Improvements</u>	<u>\$X M</u>
	TOTAL	\$X M

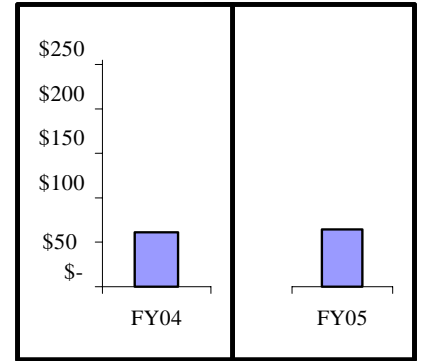
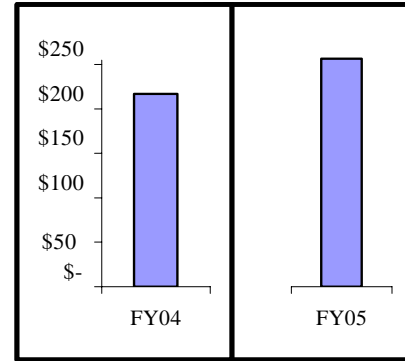
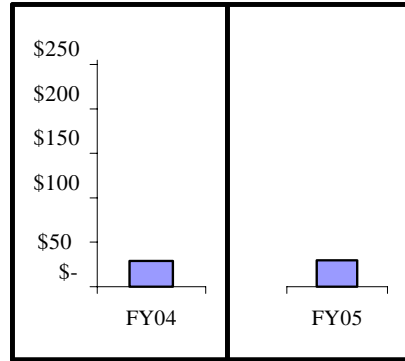
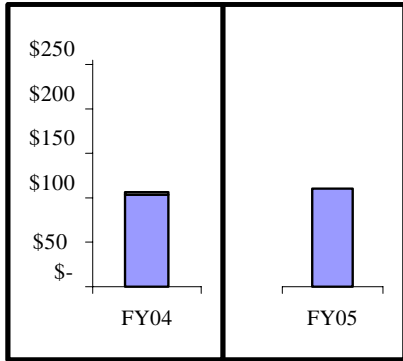
\$100 M Target



* On BPA's Income Statement, this category is the sum of: Power Non-Generating Operations, Corporate Support Services, and TBL Supply Chain – Shared Services

\$100 Million Progress Report Breakdown

\$ in Millions



Internal Operations Expenses Charged to Power Rates

	FY04	FY05
Aug 28th Base =	\$ 106	\$ 108
Current Forecast =	\$ 104	\$ 108
Net Change	\$ 3	\$ -

The main drivers are....

Generation Conservation

	FY04	FY05
Aug 28th Exp =	\$ 29	\$ 29
Current Exp =	\$ 29	\$ 29
Aug 28th Rev =	\$ -	\$ -
Current Rev =	\$ -	\$ -
Net Change	\$ -	\$ -

The main drivers are....

Columbia Generating Station O&M

	FY04	FY05
Aug 28th Base =	\$ 217	\$252
Current Forecast =	\$ 217	\$252
Net Change	\$ -	\$ -

The main drivers are....

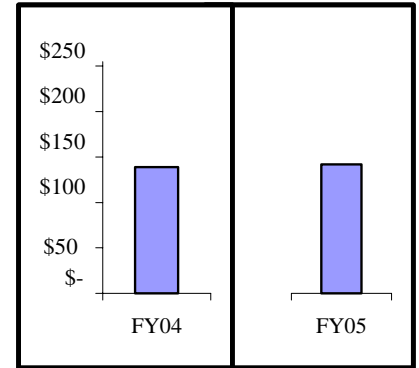
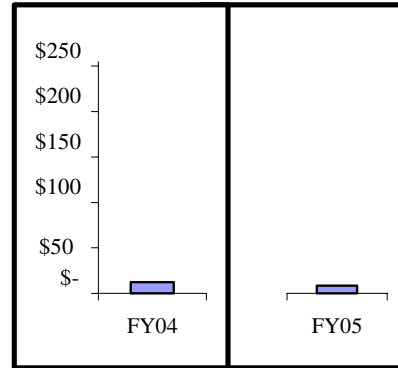
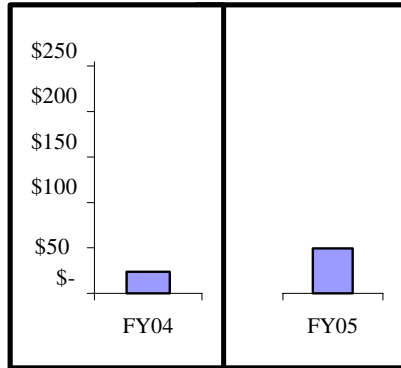
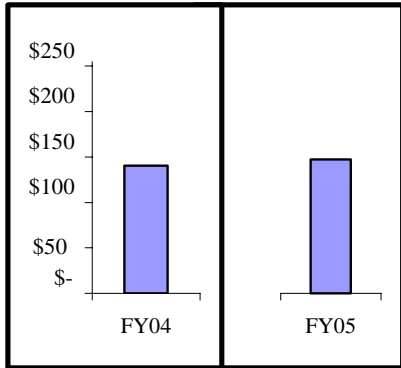
Bureau of Reclamation O&M

	FY04	FY05
Aug 28th Base =	\$ 61	\$ 63
Current Forecast =	\$ 61	\$ 63
Net Change	\$ -	\$ -

The main drivers are....

\$100 Million Progress Report Breakdown

\$ in Millions



Corps of Engineers O&M		
	FY04	FY05
Aug 28th Base =	\$ 141	\$ 145
Current Forecast =	\$ 141	\$ 145
Net Change	\$ -	\$ -
The main drivers are....		

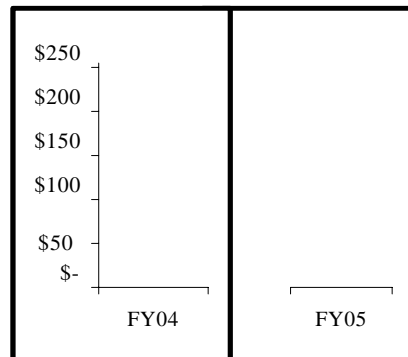
Renewable Generation		
	FY04	FY05
Aug 28th Exp =	\$ 24	\$ 49
Current Exp =	\$ 24	\$ 49
Aug 28th Rev =	\$ -	\$ -
Current Rev =	\$ -	\$ -
Net Changes	\$ -	\$ -
The main drivers are...		

Trojan Decommissioning		
	FY04	FY05
Aug 28th Base =	\$ 12	\$ 8
Current Forecast =	\$ 12	\$ 8
Net Change	\$ -	\$ -
The main drivers are....		

BPA Fish & Wildlife		
	FY04	FY05
Aug 28th Base =	\$ 139	\$ 139
Current Forecast =	\$ 139	\$ 139
Net Change	\$ -	\$ -
The main drivers are....		

\$100 Million Progress Report Breakdown

\$ in Millions



Net Interest Expense		
	FY04	FY05
Aug 28th Base =	\$ 218	\$ 235
Current Forecast =	\$ 218	\$ 235
Net Change	\$ -	\$ -
The main drivers are....		

Revenue Enhancements		
	FY04	FY05
Aug 28th Base =	\$ -	\$ -
Current Forecast =	\$ -	\$ -
Net Change	\$ -	\$ -
The main drivers are....		

PBL FY 2004 - 2005 Aug 28th Workshop vs. Most Recent Forecast

	<u>Expense Reduction/Revenue Enhancement Categories</u>	August 28th Base		Most Recent Forecast		Recent vs. Base		Total Change
		FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004-05
1	Internal Operations Expenses Charged to Power Rates	\$ 106.5	\$ 108.5	\$ 103.5	\$ 108.5	\$ (3.0)	\$ -	\$ 3.0
2	Generation Conservation Expense	\$ 28.9	\$ 29.0	\$ 28.9	\$ 29.0	\$ -	\$ -	\$ -
2a	Generation Conservation Revenue							
3	Columbia Generating Station O&M	\$ 216.9	\$ 251.7	\$ 216.9	\$ 251.7	\$ -	\$ -	\$ -
4	Bureau of Reclamation O&M	\$ 61.3	\$ 63.3	\$ 61.3	\$ 63.3	\$ -	\$ -	\$ -
5	Corps of Engineers O&M	\$ 140.5	\$ 144.5	\$ 140.5	\$ 144.5	\$ -	\$ -	\$ -
6	Renewable Generation Expense	\$ 23.8	\$ 48.7	\$ 23.8	\$ 48.7	\$ -	\$ -	\$ -
6a	Renewable Generation Revenue							
7	Trojan Decommissioning	\$ 12.2	\$ 8.4	\$ 12.2	\$ 8.4	\$ -	\$ -	\$ -
8	BPA Fish & Wildlife	\$ 139.0	\$ 139.0	\$ 139.0	\$ 139.0	\$ -	\$ -	\$ -
9	Net Interest Expense	\$ 217.8	\$ 235.1	\$ 217.8	\$ 235.1	\$ -	\$ -	\$ -
10	Revenue Enhancements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11	Total							\$ 3.0

12	Other Expense Categories (excluding augmentation p.p, other power purchases, Transmission, and ENW debt service)*	\$ 478.6	\$ 485.9	\$ 478.6	\$ 485.9	\$ -	\$ -	\$ -
----	---	----------	----------	----------	----------	------	------	------

*Includes: Canadian entitlement (\$2 M), Hedging/Mitigation (\$3 M), Residential Exchange costs (\$144 M), Other generating projects (\$32 M), Civil Service Retirement (\$14 M), WNP 1&3 O&M (\$0 M), Conservation and Renewable Discount (\$37 M), Planning Council (\$9 M), USF&W Lower Snake Hatcheries (\$17 M), Colville Generation Settlement (\$17 M), Non-Federal Debt Service (not including ENW) (\$27 M), Depreciation (\$107 M), Amortization (\$74 M), and Non Project Expense Adjustments (\$0 M). [Numbers are average of FY04-05 August 28th Base]

Process Improvement and Benchmark Planning at the Bonneville Power Administration

The purpose of this contract is to engage a consulting firm to conduct a strategic, high-level assessment of major BPA functions, systems, and processes and to recommend a game plan for subsequent performance improvement. These subsequent efforts will include such activities as benchmarking and process improvement initiatives prioritized with the aim of making significant and measurable reductions in costs and improvement in performance consistent with BPA's business objectives. These efforts will likely be initiated immediately, but will entail multi-year efforts to achieve expected results.

Tasks

1. Review prior BPA benchmark studies, performance improvement initiatives, and interview key BPA managers and staff to learn quickly and avoid duplication of prior efforts
2. Based on industry best practices, set forth an analytical framework to characterize BPA functions, systems, and processes. Apply this framework to develop high-level, summary assessment of BPA's functions, systems, and processes using readily available data, reflecting an understanding of BPA's unique qualities
3. Prioritize and recommend functional areas likely to benefit further from additional process improvement and benchmarking initiatives
4. Present findings in oral and written form

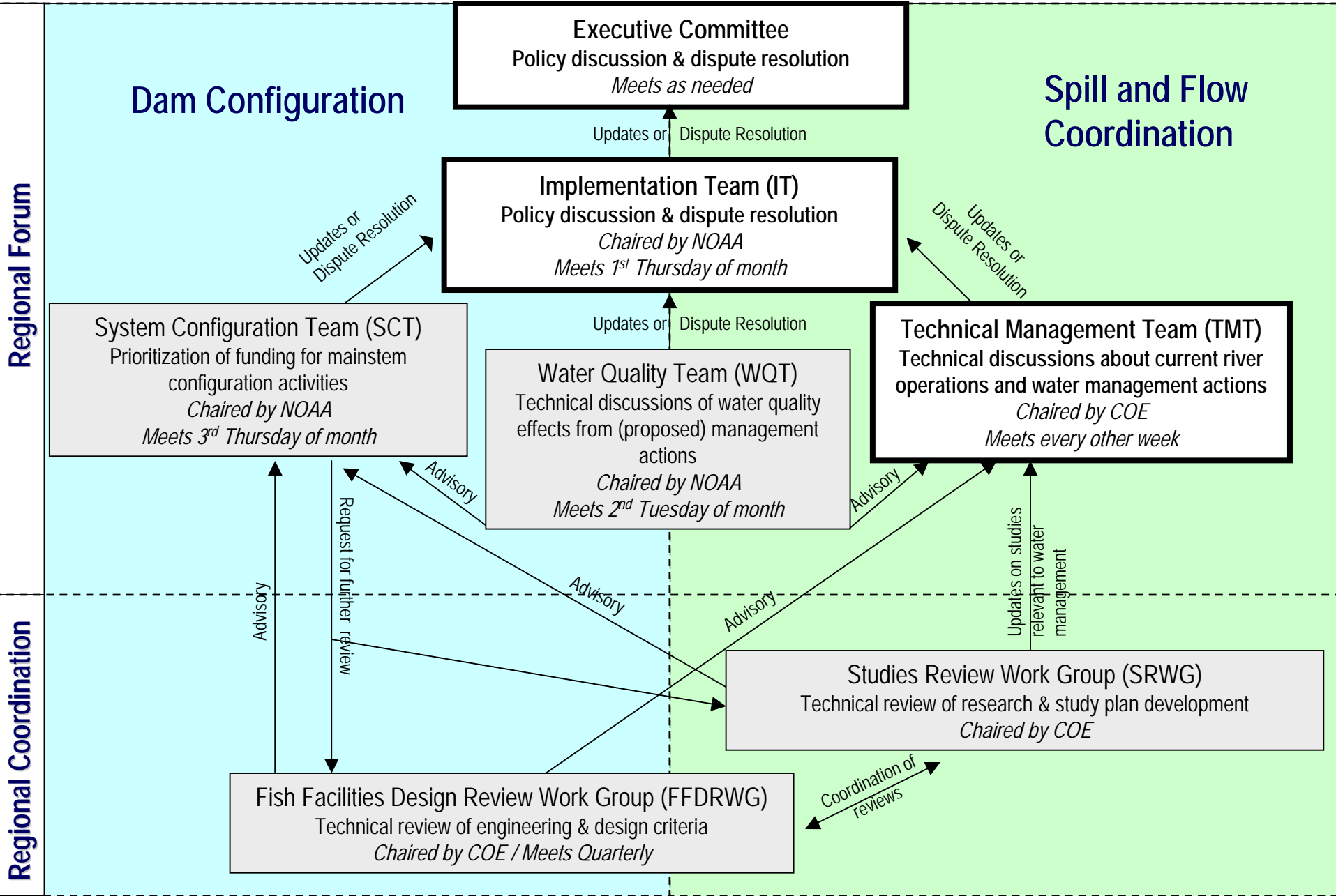
Process Improvement and Benchmark Planning at the Bonneville Power Administration

Current Status

- Effort is being directed by Ruth Bennett, Chief Operating Officer and assisted by Mark Roberts, Strategic Planning
- Statement of Work will be sent to approximately nineteen, highly qualified firms for proposals
- Contract will be awarded during the third week of January with work to begin immediately thereafter
- Contract completion mid-March

Regional Forum Process for Hydrosystem Operations Decision Making

Participants Include Federal, State, and Tribal Representatives



IT Guidelines on Decision Making & Dispute Resolution

(Text explanation of process depicted in diagram)

The goal of the Regional Forum is to reach consensus on technical and policy issues whenever possible, with consensus being defined as the lack of strong objection. When consensus cannot be achieved in one of the technical teams or workgroups, the objecting member(s) may request the issue be elevated to the IT or the Executive Committee as follows:

1. If consensus cannot be achieved in a technical team or workgroup, the federal agencies will state how they intend to proceed. A member objecting to the proposed action may request the issue be raised to IT, and the technical team will formulate a written description of the disagreement.
2. If consensus cannot be achieved at IT, the agency with decision-making authority will state how they intend to proceed.
 - If the decision relates to weekly in-season management, the member with authority to make the decision will make the final decision.
 - If it is not an in-season management decision, a member objecting to the action may request that the issue be elevated to the Executive Committee, and the IT will formulate a written description of the disagreement.
3. Members will make all reasonable efforts to present an issue for decision by IT or the Executives in writing one week prior to the relevant meeting date. The Executive Committee or IT may decline to entertain an issue that is not sufficiently defined.
4. When all efforts to achieve consensus have been made, the agency with authority will make the final decision.

Upcoming Regional Forum Meetings

All meetings are open -- those most frequently attended by the public are TMT, IT and Executive Committee.

Executive Committee

Meet as needed -- location varies.

Contact Kathy Ceballos (503) 230-5420 for meeting time, location and agenda.

Implementation Team

NOAA Fisheries Forum Bldg.

525 NE Oregon St., Portland, OR

For agenda and room number contact Kathy Ceballos (503) 230-5420

- January 8
- February 5

Technical Management Team

Custom House Rm. 118

220 NW 8th Ave.

Portland, OR

Conference Call Line: (503) 808-5190

<http://www.nwd-wc.usace.army.mil/TMT/welcome.html>

Website provides agenda, location, call-in, contact and other information.

- December 17
- December 31
- January 14

Water Quality Team

At NOAA -- For agenda and room number contact Kathy Ceballos (503) 230-5420

- January 13
- February 10

System Configuration Team

At NOAA -- For agenda and room number contact: Kathy Ceballos (503) 230-5420

- December 18
- January 15

Studies Review Work Group

Hosted by Corps -- location varies

- January 14 in The Dalles

Fish Facilities Design Review Work Group

Hosted by Corps -- location varies

- February 3 in Portland
- February 25-26 in Walla Walla

Reaching Our FY 2001 Goal: Internal Operations Costs Charged to Power Rates

\$ in Millions

In the process of adopting the PBL Cost Management philosophy, the PBL has come a long way over the past year towards getting Internal Operations costs on average over the rate period back down to FY 2001 levels. Active budget management towards mission critical costs has been one successful measure in helping to bring down budget levels.

Areas of change from FY 2001 levels to FY 2004

- Reduced award budgets by 95%
- Complete elimination of all retention bonuses
- Absorbed a non-discretionary Congressionally mandated COLA of approximately 4% a year
- Reduced materials and supplies (computers, printers, etc.) by 50%
- Reduced travel by 40%
- Reduced service and construction contracts by 60%

Accomplishments in FY 2003: Internal Operations Costs Charged to Power Rates

\$ in Millions

	Forecast From August 2002 (Financial Choices)	Forecast From Initial Proposal March 2003	Forecast From Final Proposal June 2003	Forecast From Third Quarter Review August 2003	FY 2003 Actuals	FY 2001 Actuals
PBL Internal Operations	\$88.2	\$75.2	\$68.0	\$65.7	\$63.0	\$70.1
Corporate Internal Services	\$51.0	\$41.8	\$40.5	\$40.5	\$34.4	\$37.6
<i>Total Internal Operations</i>	\$139.2	\$117.0	\$108.5	\$106.2	\$97.4	\$107.7
Percent Over FY 2001 Actuals	29%	9%	1%	-1%	-10%	0%
Cost Reductions From Previous Forecast		(22.2)	(8.5)	(2.3)	(8.8)	

Percent of Total Internal Operations Below FY 2001 Actuals:

-10%

Total Reductions In Internal Operations Costs Since August 2002:

-\$41.8 or 30%

Making Progress: Power Business Line Average Annual Internal Operations Expenses for FY 2004-2005

\$ in Millions

<u>Description</u>	2001 Actuals	Forecast From August 2002 (Financial Choices)	Forecast From Initial Proposal March 2003	Forecast From Final Proposal June 2003	Forecast From August 28th Workshop 2003	Most Recent Estimate December 2003	Average Annual Total Cuts
PBL Internal Operations	\$ 70.1	\$ 87.8	\$ 71.5	\$ 68.8	\$ 68.3	\$ 66.8	(21.0)
Cuts from previous Forecast			\$ (16.4)	\$ (2.6)	\$ (0.6)	\$ (1.4)	
Corporate Internal Operations	\$ 37.6	\$ 53.4	\$ 46.5	\$ 40.0	\$ 39.2	\$ 39.1	(14.2)
Cuts from previous Forecast			\$ (6.9)	\$ (6.5)	\$ (0.7)	\$ (0.1)	
Total Program Cost	\$ 107.7	\$ 141.2	\$ 117.9	\$ 108.8	\$ 107.5	\$ 106.0	
Total Reductions			\$ (23.3)	\$ (9.1)	\$ (1.3)	\$ (1.5)	(35.2)

August 28th Workshop estimates represent a 24 percent reduction in costs since August 2002.

X's2 =

Reductions up to Aug 28th Workshop FY04-05	(67.4)
Further Reductions Towards \$100 M FY04-05	(3.0)

What's Next:

Can We Do More to Further Bring Down Internal Operation Costs?

The PBL is actively pursuing ways to save money every month. By adopting an active cost management plan, the PBL is committed to actively manage the business to produce a high quality product at the lowest possible cost.

Active Management Process

- Monthly standardized reports to all PBL managers itemizing their budgets by FY 01 levels, FY03 levels, Budget Limit, Current Month Actuals, Year to Date Actuals and FY04-6 yearly forecast.
- Budget accountability of all PBL managers included in performance contracts.
- Full performance requires managers to reduce total budgets by over \$3 M above budget limits.
- Targeted budget levels below that of the 2003 SNCRAC Rate Case levels
- Justification of any deviation to budget levels to executive management