Meeting Notes
Power Net Revenue Improvement Sounding Board
December 17, 2003

Attendees: John Saven (NRU), Jim Kempton (NPCC), Steve Eldrige (Umatilla Electric), Larry Cassidy (NPCC), Steve Crow (NPCC), Ralph Goode (Mission Valley Power), Jason Eisdorfer (CUB), Steve Loveland (Springfield Utility Board), Ralph Cavanagh (NRDC), Nancy Hirsh (NWEC), Andrew Englander (Save our Wild Salmon), Mary Verner (Upper Columbia United Tribes), Kris Mikkelsen (Inland Power and Light), Melinda Eden (NPCC), Tom Karier (NPCC), Howard Schwartz (State of Washington), Jerry Leone (PPC)

BPA Attendees: Kimberley Leathley, Michelle Manary, Christy Brannon, Liz Evans, Alex Smith, and Paul Norman

Paul Norman kicked off the meeting restating the task of the group – to provide guidance regarding a target of an additional $100 million in cost reductions and revenue improvements for FY 04 and 05 that could allow the SN CRAC to be zero in FY 05 if all other financial assumptions from the SN CRAC rate case can true. Norman also restated that this commitment is part of the proposed IOU/ public settlement currently under discussion in the region. He stated again that BPA will continue to pursue the $100 million goal and that this group will continue if the members so choose regardless of the outcome of the settlement.

Norman described the plan for the morning as including two items. The first item to discuss is the plan for the next few months of work with this group. The second is to go over three specific topics: 1) BPA's current bench-marking effort, 2) forums for discussions regarding fish operations and summer spill decisions, and 3) a discussion around PBL's internal operating costs as a test of the approach for future discussions of each major cost or revenue category.

There were no exceptions to the agenda.

Sounding Board Work Plan

Michelle Manary then briefly covered the meeting schedule in January and asked the group about notes. The group felt it would be useful to have meeting minutes, and it would be appropriate as an open and public process, as noted by Ralph Cavanagh, that the notes be posted to PBL's web site.

Manary took the group through pages 3-7 showing the format and level of detailed information regarding a scoresheet for the target of $100 million of cost reductions and revenue enhancements as well as the formats for showing changes over time in each of the proposed categories.

Page 3 shows x's as placeholders in each category. Norman explained that those are placeholders for now, and not meant to convey that PBL is not working on identifying savings on a routine basis. Rather, in PBL's commitment to discipline in providing consistent presentation of financial data, PBL only shares such information on a scheduled basis. Norman noted that progress was being made in reducing costs on some of the categories, and that BPA would share that at subsequent meetings.

Steve Eldrige asked where he could go if he had background questions. Norman responded that Michelle Manary could handle the more specific questions as the project manager, but that more general ones would best be directed to Kimberley Leathley or himself.

John Saven pointed out that the group should not stop at $100 million if opportunities are found that exceed the target. Norman said he agreed.

Ralph Cavanagh responded by reminding the group that the $100 million target was an arbitrary number placed into a settlement that may or may not be approved, and that it is not binding unless the settlement is approved. The task before the group is to help PBL manage its costs and revenues better. Cavanagh continued by stating that there are benefits associated with the costs under review, and the group should strive to find the right balance between those benefits and their costs.

Steve Loveland said that there's some value bias in Cavanaugh's statements, and that the $100 million target was not arbitrary, but the approximate amount of cost reductions and revenue improvements that could allow the SN CRAC for FY 05 to be zero. There is still considerable concern in the region over the level of power rates, he said, and the regional economy is still in some trouble.

Cavanagh asked that the table on page 7 show additional detail (in the form of multiple categories) for the Revenue Enhancement category when the time comes for that discussion. Kimberley Leathley responded that PBL is indeed working on that and there are several categories that would be discussed when the time comes in January. Steve Eldrige reminded the group that BPA's wholesale power rates are supposed to be based on the costs of producing the power – not the opportunity costs. The revenue enhancements, Cavanagh said, should not be viewed as a "zero sum" exercise; success should benefit all BPA customers and should not detract from the goals of others around the table.

Eldrige responded that he expected that BPA's rates will become more competitive as new generation is added and the market price reflects the marginal costs of these new resources. He added that, like the function by function review, he expects the work of this group to be the first step in defining the way things will be in the future. Norman agreed.

Nancy Hirsh asked how the costs of organizations like the Corps of Engineers or Energy Northwest would be dealt with, given that their costs are largely out of BPA's control. Norman responded that in fact, we work closely with the Corps and Bureau to develop and manage budgets in a collaborative fashion. Basically, though, he said, BPA will not advance numbers to this group that it is not confident it can manage to.

Jim Kempton then commented that in Lessons Learned BPA "laments" the statements about 2 cents in 2000 and recognizes that one reason it didn't meet that target was costs from the Corps and Bureau. Norman suggested that the issue from Lessons Learned was not the level of budgets per se, but the fact that BPA put the 1998 Cost Review budgets into the 1996 rate case before getting commitment to those budgets from other agencies. So our practice post Lessons Learned is to use funding levels that we have commitments to and are confident we can achieve.

Eldrige asked if the group would have the opportunity to "unwind" future budgets. Norman responded that the group can go about as "deep" into the details as they like to go.

Tom Karier asked about bonus payments to employees at the Corps and Bureau. Norman responded that we have the information and we'll make sure the group talks about it when we get to that cost category.

Eldrige remarked that BPA should look for more taxpayer support for its efforts, and that some costs should be borne by parties other than ratepayers.

Larry Cassidy stated that BPA raises "in lieu" issues all the time – meaning issues about who should pay for certain things, particularly related to fish and wildlife. Before the Council, he said, there are often discussions about whether a state, a county, or BPA should pay for a certain project.

BPA's Benchmarking effort

At this point, Ruth Bennett began discussion with the group regarding BPA's current benchmarking efforts. Bennett also explained the genesis, scope and purpose of a contract with Peter Hutchinson.

She noted that the letter from the four governors of last June suggested recommended that BPA hire some consulting help to provide guidance on its mission and goals. In other conversations, Peter Hutchinson was recommended as a result of his excellent work with the Priorities in Government effort managed by the state of Washington. BPA hired Peter Hutchinson on a small contract focused on assistance to its strategic planning and clarification of mission and vision. The sense was, according to Bennett, that it would be most fruitful if BPA did some focused thinking on its targets etc before beginning a discussion with the region through the regional dialogue or other venue.

Bennett also reviewed briefly efforts to date aimed at reducing costs and increasing efficiency. She described efforts of a few focused efficiency teams to streamline operations in order to reduce the cost of doing business. Bennett referred to this as "skinnying down in place". Bennett said these teams didn't identify the savings we think are out there that can reduce costs.

She concluded that BPA needed to have a more systematic approach to reviewing how we deliver our services and that we need to focus on being sure we deliver those services simply and cost effectively. Therefore, BPA is about to release a statement of work to several consulting firms to help us identify that systematic approach. BPA plans to conclude that contract in about March. BPA has done extensive benchmarking in the past and this will be the one starting point for the consultant's work. Then this consultant will tell us, based on their experience and information they gather from BPA, where the large savings are available, where benchmarking can help produce a more cost effective program, and what approaches might work for other programs that don't lend themselves well to benchmarking.

Kempton asked whether this contract would focus on goals and mission, per the governor's letter. Or just on management efficiencies. Bennett responded that we'd review the mission and strategy of the agency with the consultant, and that we expect to go into most workgroups – not just support groups. She expects, however, that the benchmarking efforts will focus mostly on administrative costs. Peter Hutchinson has been helping us with the goal and mission definition work recommended in the governor's letter.

Eldrige asked if this benchmarking effort was going to include other entities, such as the Corps, Bureau, and ENW. Bennett responded that this initial work will focus on BPA – since that's the entity we have most control over. She also noted that BPA, Corps Bureau have a terrific set of data related to ongoing and very professional benchmarking efforts. They in fact represent some of the best benchmarking done in the agency.

Eldrige continued, saying what he really meant to say was that everyone wants something from BPA, and that if everyone understood each other's desires, we'd have a stronger sense of all being in this together. And that sense of shared mission might result in a more integrated and focused effort that would reap even better results. BPA can't do it on its own, he said.

Bennett responded that while this might well be true, the focus of this initial benchmarking study is BPA. She added though that we have done things along those lines. The supply chain efficiency team is an example.

John Saven opined that the high level approach being described is commendable. And, from the customer perspective, the results will eventually get captured in a revenue requirement for an upcoming rate case. Will there be opportunities for review of the results of this effort?

Bennett responded that she'd appreciate any suggestions on how to engage in that debate in an efficient manner. This information is being shared regularly with the Customer Collaborative, the Sounding Board, and the Council. She added that its likely that the follow-on contract to this first one will be of the most interest because that will be when we start looking at specific areas for benchmarking. Saven continued, noting that at some point, the agency goes to its customers to describe funding levels it would be helpful to have a conversation around that request in order to have an understanding that it's the right amount to collect from the customers. Bennett agreed, saying that BPA will want to be accountable for the actions recommended in these contracts. This first contract helps scope out what's feasible so that accountability can follow.

Tom Karier commented that this all sounded great. He asked how the schedule for the benchmarking project matches the schedule of the Sounding Board given that this group needs to have conclusions ready by June. Bennett said that the first contract is targeted for completion in March, but since this first contract focuses on setting the stage for a systematic approach, she does not expect substantive cost reductions to be available until FY 05. Norman added that since this group has a deadline of June, its just not clear if we'll know enough by June to count on additional savings from the benchmarking effort. Bennett added that by June BPA would definitely know the scope and we won't know until we get there how many savings we are willing to count on.

Leathley adding that we have some major emphases this year – increasing transparency in our financial reporting and building trust and confidence with stakeholders and customers. We don't know what form this will take yet – but we are working on it. Maybe this summer, or a bit later, we'll know what it looks like and we'll include benchmarking results as appropriate.

Lyn Williams stated that she is still confused between the Peter Hutchinson work and the benchmarking work. Bennett summarized the difference, saying that the Peter Hutchinson contract was a different purpose that focused on helping the executive team work through its thoughts on BPA's long term business strategy and targets. This is very different from the benchmarking effort, which looks at processes etc that are currently in place, and asks what improvements can or should be made in order to delivery services as cost-effectively as possible.

Kempton asked if the Peter Hutchinson contract is completed. Yes, replied Bennett. She added that there is no written product because that is not the way that Peter works. BPA will put forward its vision and targets that will reflect the guidance that Peter offered. Kempton suggested that the four governors' letter recommended that BPA consult with the Council before making final decisions on such items. Bennett responded that its time to share the results of this internal strategic planning effort. She told the group that there won't be anything surprising – it hearkens back to the four pillars previously presented – Reliability, Low cost power, Environmental Stewardship, and Regional Responsiveness.

Norman added that our leanings on some of these subjects were included in the recent letter that Steve Wright sent to Jim Kempton, and that many of those leanings came out of the work with Peter Hutchinson. Bennett concluded the discussion by telling the group that if they were interested in working more on the benchmarking efforts to please let her know.

Larry Cassidy asked if the Council's paper on The Future Role of Bonneville was being considered in the strategic planning efforts. Norman said that it's definitely on the table and being considered and that as indicated in the letter to Jim Kempton from Steve Wright, BPA's thinking is not too different from that of the Council.

Eldrige asked if the Hutchinson contract has a written product. Norman responded, saying that we have some information that is just about ready to be shared with the region. Eldrige said he's still confused on how it all connects. Bennett repeated that BPA thought it helpful for the executives to have discussions and find alignment around a strategic vision that would guide the agency between now and 2011 – and it was those discussions that Peter Hutchinson facilitated. The executives will meet again in early January where they will consider analysis around targets. Bennett continued that BPA expects to share those results with the region to help start the discussion.

Steve Loveland added that BPA is not doing this in a vacuum, but with the assistance of the Council, the Customer Collaborative, and other similar groups. Bennett said that we'd package these materials and take them out for comment. After a question from Howard Schwartz about sharing the results of the work with Peter Hutchinson, Bennett continued that BPA will share the balanced scorecard through 2011 and the Agency's strategy map that show key priorities, targets, and measurements. These define where it is that BPA is headed. We intend for these statements to be a jumping off point for regional discussions, such as the Regional Dialogue.

Schwartz added that Governor Locke had recommended that BPA talk with Peter Hutchinson because of his success with the state of Washington and its Priorities in Government effort. Schwartz asked if BPA used Peter Hutchinson in a similar manner. Bennett responded that BPA had used Peter Hutchinson differently. BPA felt that he could provide the biggest value to us by helping with our strategic planning efforts.

Jerry Leone concluded the discussion by asking what the cost was for the contract with Peter Hutchinson. Bennett said that the contract cost $50,000.

Fish Forums (pages 10-12 of the handout)

Christy Brannon then explained the 3 pages in the package pertaining to the venues available for customer participation regarding system operation discussions that could have a bearing on summer spill decisions. In addition, regarding decisions connected to the reworking of the BiOp as required by the remand from Judge Redden, the Federal Executives/ Federal Caucus is working to define the best way to get public input. Brannon distributed a copy of a letter from Bob Lohn at NOAA Fisheries.

Eldrige asked if BPA was working on the remand of the BiOp. Norman responded that we are, under the leadership of Sarah McNary and Lorri Bodi.

Kempton asked if the Court is reviewing all river operations. Norman stated that we're trying to avoid having operations dictated by the Court. Kempton responded that if these discussions on operations and summer spill are under the purview of the court, then he understands the need for closed meetings. But, if they are a subject of discussion with the Federal Executives, then he does not see any reason for there to be closed meetings. Norman said that Steve Wright understands this point of view and is discussing it with the Federal Executives and they are working something out that we will share as soon as we know. However, Norman said, we cannot commit the Federal Executives to a course of action at this point.

Kris Mikkelsen stated that she understands that these fish and wildlife issues are discussed in many forums, but said that it would be most helpful to have a timeline that shows the timeframe for summer spill discussions relative to the timeline for decisions that stem from the discussions of the Sounding Board. Melinda Eden agreed. Cassidy added that the window is closing as we get closer to summer, so we need the Federal Executives to make decisions soon. Loveland also agreed on the need for a timeline.

Nancy Hirsh added that decisions on summer spill are not within the purview of this group. Norman summarized by saying that changes in river operations is a candidate for the $100 million target. He continued that there are some ways that changes to summer spill can affect FY 04/05. These include decisions to do spill tests this summer, and decision to change spill with offsets for any biological effects. Decisions on spill tests have to be made by January to allow equipment to be acquired in time. A decision to change spill with offsets could come later than that. A key date for this group and the Safety Net CRAC is June, so this group can definitely guide us through the decisions on what assumptions we should put into the SN CRAC decisions this summer.

Karier summarized by saying that what he understands from what Norman said is that there is not a hard deadline, but that the sooner these decisions are made, the better. He also stated that communication about decisions by the Federal Executives needs to be improved.

Saven agreed, with the addition that some decisions regarding this summer need to be made very soon in order to allow Pit tags to be ordered no later than January.

Internal Operations Discussion (pages 13- 16 of the handout)

Norman began the discussion by stating that he wanted to “tee up” the discussion on power-related internal operations costs as a category of interest as well as a template for future discussions of other categories.

Eden commented that last meeting there was a presentation of about 70-odd line items, but that this time it’s many fewer. She suggested that it would be helpful to have a common format for each week’s presentation.

Norman then turned the presentation over to Leathley. He added that we would like the group’s feedback on whether this is the level of detail that is useful to you.

Eldrige asked about BPA’s and PBL’s total budgets. Norman responded that BPA’s budget is approximately $3.7 billion per year and PBL’s is about $3 billion of that total. Eldrige suggested that PBL just reduce everyone’s budget by 5% as the easy way to cut costs. Norman responded that we have cut any fat out of the budgets and further cuts make us bump up against mission-critical decisions. Additionally, not every item is controllable, such as debt service power purchase costs. Internal operating costs, for example, are about 3 percent of the total annual budget.

Leathley then led the group through pages 13 through 16 of the handout. She noted that she’s looking for feedback on how this information is presented, and that it might take staff one or two tries before we have it just the way folks want it. Leathley then went on to describe PBL’s cost management philosophy, as one focused on accountability and clear objectives. Each manager has his or her performance evaluated relative to the success at meeting spending limits. In addition, Leathley continued, we are focusing on identifying objectives, figuring out the cost of meeting those objectives, and asking frequently is there are ways to deliver those objectives more efficiently. As a result, actual costs for power-related internal operating costs for FY 2003 came in nearly $9 million below FY 2001 actuals. Leathley continued that 2004 spending levels are being examined in reference to 2003 actuals. So far, 2004 spending levels have been set $3 million below rate case levels, contributing $3 million in cost reductions toward the $100 million target. In addition, if managers achieve the full performance level in their contracts, there will be an additional $3 million in savings this year. 2005 has not yet been examined in detail.

Williams commented that more detail would be helpful in order to provide meaningful comments. Leathley stated that we understood the dilemma and staff will respond as best we can, given the workload required to pull things together in a more detailed manner.

Eldrige recommended that each figure be labeled to make it easier to follow in the handout.

Steve Crowe suggested that it would be helpful to have actuals further back in history than FY 2001. Also he'd be interested in seeing FTE trends, including details regarding the # of positions, the number of FTE on board, and distinguishing contractors from BPA staff.

Leathley responded that we could do some of those things. However, providing detail before 2001 is difficult, due to a switch in accounting system. The good news is that the new accounting system is significantly better and was specifically put in place to address this difficulty. Norman confirmed that he shared this frustration with the group, but it is true that our past accounting system just doesn't allow the same detailed history that the current one allows. And so we miss that 10-year trend. We can provide the FTE trends, however.

Larry Cassidy then brought up the issue of federally mandated Cost of Living Adjustments (COLA) and stated that the 4 percent amount mandated by federal legislation is just not appropriate to the PNW. He went on to suggest that BPA should work to get that changed. Norman responded that, BPA just doesn't have that kind of influence.   Leathley did note however that overall payroll costs in PBL have remained flat in spite of the COLA adjustments because FTE have decreased. Total PBL FTE today are about 425 compared to about 460 in 2002. [Seven FTE of this reduction is due to movement of risk management staff to the new CRO office.]

Jason Eisdorfer commented at this point that he encouraged the group to focus on cost reductions that are sustainable, meaning we should avoid drastic reductions to respond to a crisis that usually just push costs into the future. He suggested that it is important to consider the costs of any identified savings as part of making wise and sustainable choices. Norman agreed. He offered the example that last fiscal year, PBL employees were told that they virtually couldn't travel. This year, the budget for travel is above that of last year's because a no-travel policy was just too damaging to our ability to do business.

Howard Schwartz suggested that it would be helpful to get at measures of efficiency that focused on costs per unit output – whatever the appropriate measure would be for output. Leathley answered that that was a great point and that BPA is heading that direction through its efforts to identify Industry Best Practices. But, she continued, we still have lots of work to do to find the best measure of output. The benchmarking study will help.

Leathley then turned the group's attention to the details of pages 13 and 14 of the handout. She noted that actual spending in FY 03 for power related internal operating costs was 10% and $9 million below FY 2001 actuals. She then moved on to page 15, noting that BPA expects to credit $3 million in cost reductions for FY 04 toward the $100 million target. We are also looking closely at FY 05 – so more savings are likely.

Cavanagh asked if costs were presented in real or nominal dollars. Norman responded that they were nominal. Cavanagh then noted that none of these estimates incorporated any inflation, so the reductions are actually larger than the numbers indicate, and that we should show at least one forecast in the future in real dollars to more accurately show how costs are changing over time. Norman and Leathley agreed that we could do that kind of presentation in the future.

Norman also pointed out that FY 04 is the major source of the $3 million cost savings, and reminded the group that there would be an additional $3 million if managers meet their full performance level.

At this point, Norman noted that there were only about five minutes left and he wanted to make sure there was time for feedback from the group, particularly on the level of detail provided in the handout. He offered those at the meeting to provide any feedback one at a time.

Loveland responded that he wants to be sure that the group focuses on categories with the best opportunities for savings or revenue improvements sooner rather than later. BPA has done a good job, he noted, on getting its power-related internal operating costs down. But, he needs an assessment of what would be a reasonable cost reduction or revenue improvement for each category, and then spend time on those that can be influenced. Time is short, he noted.

Eldrige agreed, and also wanted the advice that "if you watch your pennies, the dollars take care of themselves."

Larry Cassidy requested that the discussion of fish costs occur at a meeting that he can attend, such as the Feb meeting.

Eldrige echoed Loveland's request to focus as soon as possible on the categories with the largest opportunities for meeting the target, and requested that the group get to fish issues sooner rather than later.

Saven said that he thinks he's part of a group that can give advice on how to meet the $100 million target and the repercussions of those choices. He said that the worst outcome would be where BPA then says that it has had input from this group and goes straight to a rate case revenue requirement without any additional input.

Ralph Goode said that he'd worked on an ad hoc group previously with BPA last year, and that it took awhile to develop an agreed-to format for presentation of cost information. He added, that as a customer, he wants stability in costs and rates over the long term. Sustainability of cost reductions is important to prevent the need to pay for that reduction at a later time.

Eisdorfer noted that he could not attend the meeting on January 16th. He also requested that information be sent ahead of time for future meetings. He asked if the group quickly go through all categories at the January 9th meeting. Leathley said that staff probably can't do more than a couple of categories by the 9th, but that we can definitely get background information to people ahead of time.

Norman then summarized that it is PBL's intent to present at each meeting 2 or 3 categories in some detail showing the source of possible reductions in costs or increases in revenues. Then the group will respond with questions and suggestions for additional places to look for savings. Next time, if possible, we will bring to the group the categories with the largest costs and focus on those in some detail.

The meeting was adjourned at 11 am.