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Issues '98

October 1998

Fact Sheet #7: BPA Targets Cost Savings

Close-out on Cost Review Recommendations

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Thank you for participating in Issues '98. This public process was designed to give you an overview of and a context for major policy issues surrounding BPA's future. Your input will help BPA develop planning assumptions for our power and transmission rate cases. With the exception of cost-cutting recommendations, Issues '98 is not a decision-making process by BPA. Instead, your comments will help inform decisions made in other forums, both within the region and by Congress. This fact sheet focuses on what we heard and what we plan to do next. To learn more about how to participate in the various forums surrounding BPA's future, call (800) 622-4519.

BPA is committing to achieve savings equivalent to the total recommended earlier this year by a special Cost Review panel convened by the Northwest governors. How BPA will implement the recommendations is detailed in a separate document called the Cost Management Implementation Plan. It is available on request by calling the number at the end of this document or by visiting BPA's Web site at <http://www.bpa.gov>.

Although BPA is targeting the full annual power expense savings of \$131 million for the 2002-2006 period, the Cost Review recommendations present significant challenges for BPA and for its major power suppliers, the U.S. Army Corps of Engineers, Bureau of Reclamation and Washington Public Power Supply System. Many of the panel's recommendations are "stretch goals" that involve costs over which BPA has limited influence. At least one of the recommendations will require new administrative flexibility through legislation. Recognizing these challenges, BPA is committed to aggressively managing its costs and to working with its partners to achieve the full savings.

Background on Cost Review

At the request of the region's governors in July 1997, BPA and the Northwest Power Planning Council sponsored a Cost Review panel that included BPA and council representatives and five "outside" experts. These experts had extensive experience in downsizing large organizations and managing costs

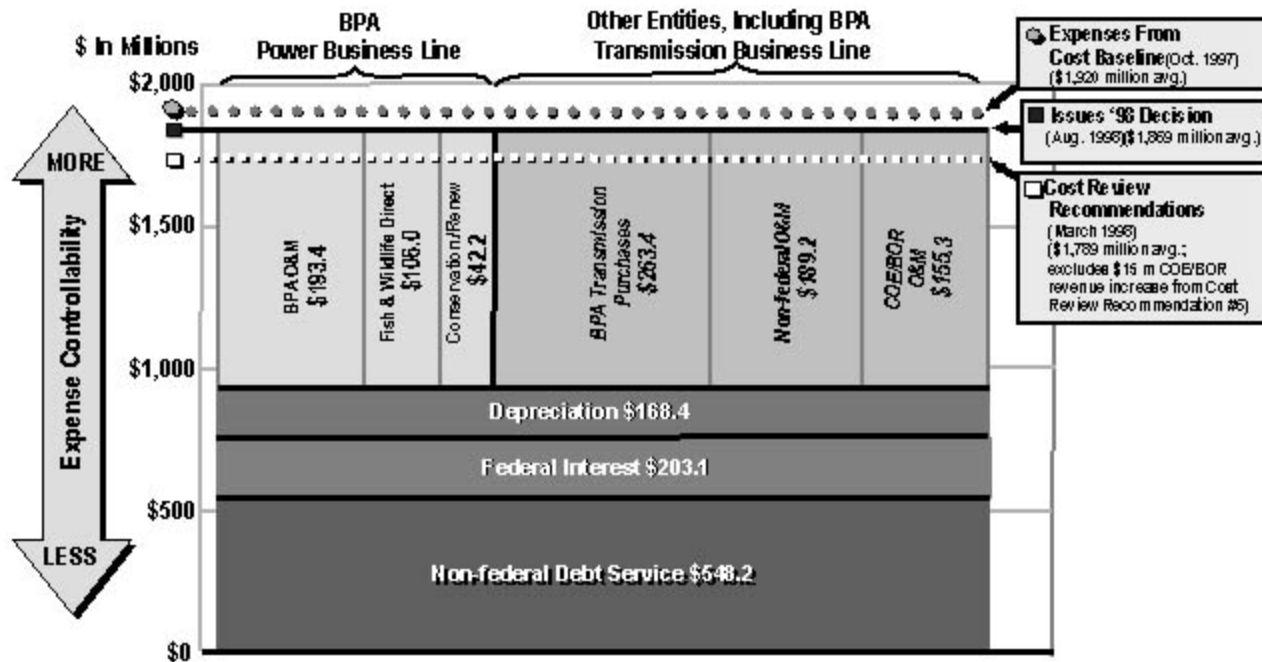
in competitive environments. The panel examined BPA's cost structure and cost management strategies and developed specific recommendations to further reduce the costs that BPA will set rates to recover.

The Cost Review covered operation, maintenance and capital investment costs of the Federal Columbia River Power System, including transmission, for fiscal years 2002-2006 — the initial period for new power sales contracts. These include not only the costs that BPA incurs but generation costs of the Corps of Engineers, Bureau of Reclamation and the Washington Public Power Supply System. Fish and wildlife costs were not included in the review because they were being addressed in a separate regional process.

The objective of the Cost Review was to ensure that BPA's near- and long-term power and transmission costs are as low as possible, consistent with sound business practices. This will help ensure BPA can achieve full cost recovery with power rates at or below market levels. Accomplishing this would:

- Give BPA customers and constituents confidence that Federal Columbia River Power System costs are being managed effectively;
- Ensure that the Subscription process — for selling BPA power — results in a high level of customer commitment to BPA;
- Minimize, if not avoid entirely, transition (stranded) costs; and
- Ensure obligations to the U.S. Treasury, third-party bondholders, and fish and wildlife recovery remain at least as secure as they are currently.

FCRPS Power Expense Projections
FY 2002-2006 Averages



- BPA proposes to adopt the Cost Review recommendations, obtaining \$125 million in cost reductions from power cost baseline
 - Savings from legislation to improve administrative efficiency/effectiveness not included above (pending development and support for legislation)
- Changes outside Cost Review recommendations: General Transfer Agreements expenses added (+\$28 million); treatment of PNCA interchange expenses and revenues modified (-\$20 million) and forecast of interbusiness line expenses (BPA transmission purchases) updated (+\$66 million).
- Some expenses will change in rates development process, e.g. in-lieu transaction costs for residential exchange, resolution of allocation/functionalization/interbusiness line transaction issues, and federal interest cost and earnings projections.
- In addition, power rate proposal will include a margin for risk management (planned net revenues).

Coming Up with Recommendations

In January 1998, the Cost Review panel released a set of draft recommendations that advocated additional cuts to the costs that BPA and other agencies of the Federal Columbia River Power System had planned for the 2002-2006 horizon. In March, following a public comment period, the panel submitted 13 final but advisory recommendations to the BPA administrator for consideration and action. The recommendations called for a combination of reduced federal power expenses (\$131 million) from BPA’s October 1997 spending forecast and increased revenue through asset management efficiencies (\$15 million) in fiscal years 2002-2006 that together should produce annual savings averaging \$146 million per year. If fully achieved, this would result in savings averaging \$232 million a year from spending estimates in current rates (1997-2001).

In Issues ‘98, BPA took public comment on its proposal to accept the recommended savings. Eighty participants in Issues ‘98 commented on BPA’s cost management plan and practices. In general, they called on BPA to demonstrate its sincerity in managing its costs by ensuring that the recommendations are implemented in full. Some commentors wanted to understand what kind of benchmarking or monitoring would be used to measure success, and others wanted assurance that BPA could meet the proposed savings.

Implementing the Cost Savings

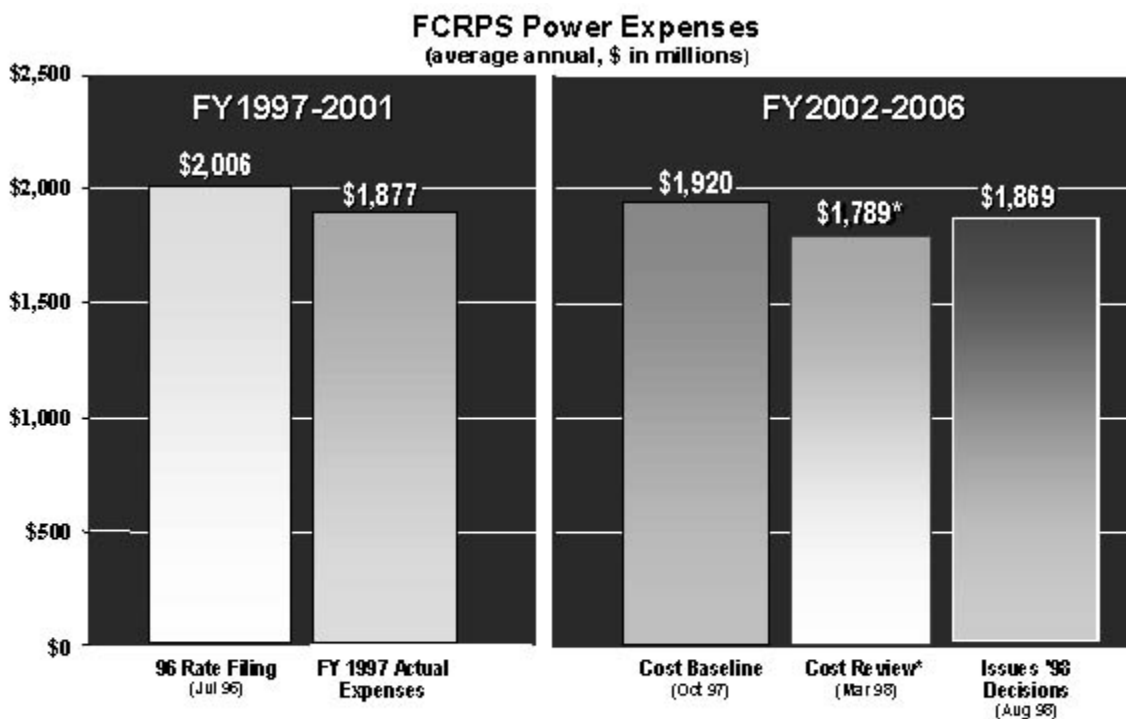
BPA is committed to aggressively managing its costs and to working with its partners to achieve the full

total of Cost Review savings. BPA will be including the savings in its power rate proposal. The savings also will be reflected in budgets submitted to Congress and in internal cost management targets. To achieve an estimated \$7 million in power savings, BPA must seek new statutory authority for personnel, procurement and property management to further improve efficiency and effectiveness.

BPA has already initiated aggressive changes in internal processes and systems. Although in terms of staffing BPA is at its smallest size since the mid-1960s, the four-year downsizing effort is being extended. Additional reductions in power, corporate and transmission functions are being planned. In addition, BPA will be working with its partners to implement an asset management strategy directed at maximizing the value of the Federal Columbia River Power System for the region.

In the upcoming power rate proceeding, BPA's revenue requirement will include cost components that are not covered in the Cost Review recommendations – in particular, short-term power purchase expense, net costs of the residential exchange, General Transfer Agreement costs, federal interest and depreciation, and interbusiness line expenses. In addition, BPA's rate proposal will include fish recovery costs and a risk analysis and management plan, including a planned net revenue component for risk. These cost components are subject to change as BPA develops its rate proposal and will be covered in workshops prior to the rate proceeding.

BPA is adopting the full total of the Cost Review recommendations
 Issues '98 expenses for initial Subscription period are \$137 million lower than in current rates



*Excludes the \$6 million in Corps of Engineers/Bureau of Reclamation revenue increases recommended by the Cost Review panel (recommendation #6)

- BPA entered Cost Review with an expense baseline for FYs 2002-2006 that was \$86 million lower on the power side than expenses in current rates
- Cost Review recommended reducing this power baseline by an additional \$131 million (with an additional \$15 million in COE/BCR revenues)
- BPA plans to implement the Cost Review recommendations in a manner that would reduce the baseline by \$125 million
- 2002-2006 changes to the power baseline outside the Cost Review include the cost of GTAs, as well as adjustments to interbusiness line and PNCA interchange expenses
- Some components of power expenses will change in rates development process this fall. Rates will also include a cash margin (planned net revenues) for risk management

For More Information

In addition to this publication, the publications below are available upon request by calling BPA's Public Information Center at 1-800-622-4519. Copies also are available by visiting BPA's Web site at: <http://www.bpa.gov>. If you would like to speak to someone about any of these issues, please contact BPA using the number above or contact your BPA account executive.

Issues '98 Fact Sheets

- [Fact Sheet #1](#): Cost Management
- [Fact Sheet #2](#): Future Fish and Wildlife Funding — Keeping the Options Open
- [Fact Sheet #3](#): Power Markets, Revenues, and Subscription
- [Fact Sheet #4](#): Transmission Issues
- [Fact Sheet #5](#): Risk Management
- [Fact Sheet #6](#): The Region Speaks: Summing Up Issues '98
- [Fact Sheet #7](#): BPA Targets Cost Savings: Close-out on Cost Review Recommendations
- [Fact Sheet #8](#): Cost Management Implementation Plan
- [Fact Sheet #9](#): Issues '98 Comment Analysis

Other documents available

- BPA's Power Subscription Strategy Proposal
- Issues '98 Comment Analysis
- Fish and Wildlife Funding Principles

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