

[in the news](#)[home](#) [site search](#) [org chart](#) [contact us](#) [web comments](#)

## Issues '98

*October 1998*

### **Fact Sheet #8: Cost Review Implementation Plan**

[\(return to keeping Current\)](#)

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 committed to aggressively managing its costs and to working with its partners to achieve the total effect of the Cost Review recommendations: \$166 million per year in estimated cost reductions and revenue enhancements. 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 of this effect, BPA must seek new statutory authority for personnel, procurement and property management to further improve efficiency and effectiveness.

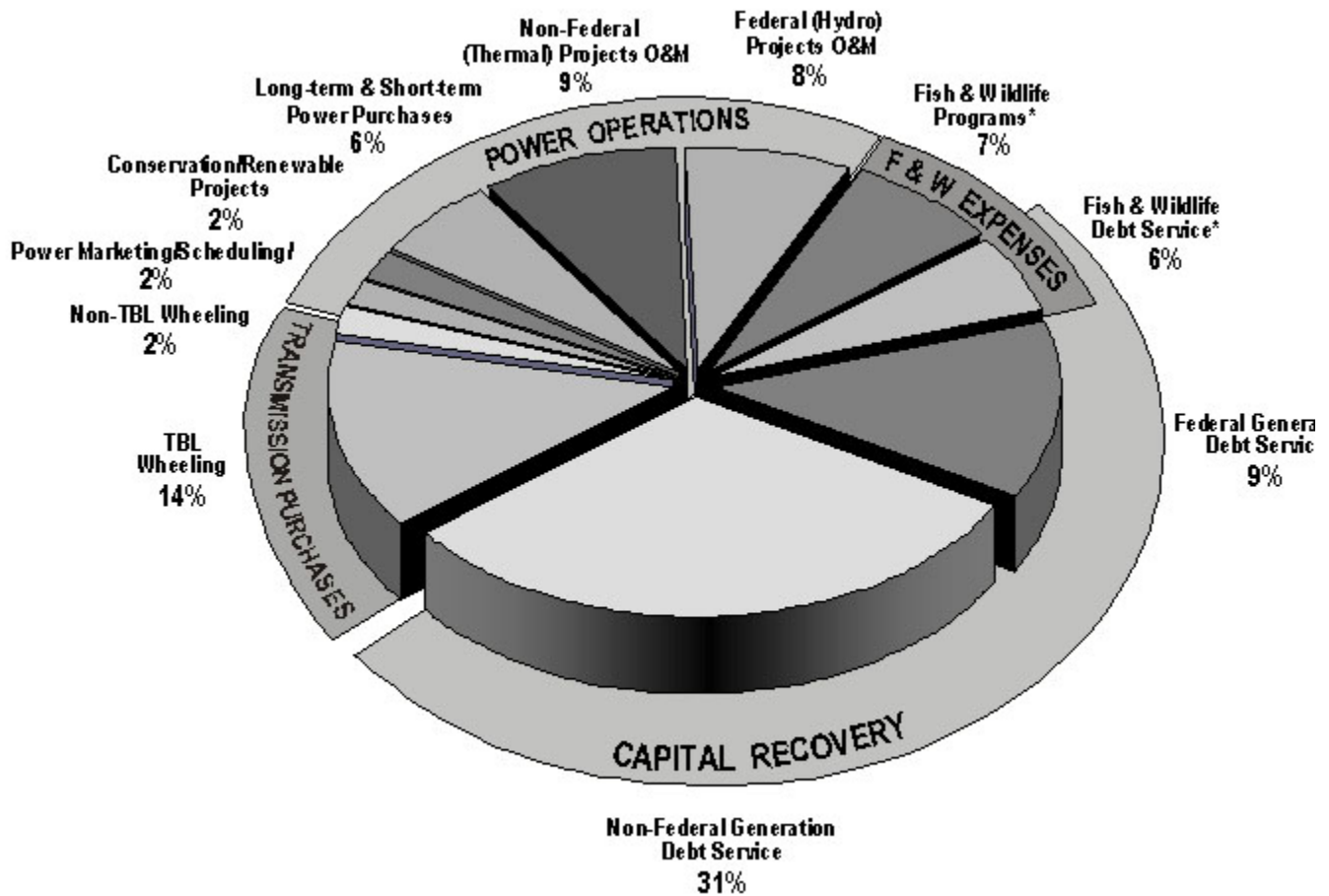
BPA has already initiated aggressive changes in internal processes and systems. In terms of staffing, BPA is at its smallest size since the mid-1960s, but our four-year downsizing effort is being extended. Additional reductions in power, corporate and transmission functions are being planned. In addition, BPA will be working with its partners to implement an integrated 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.

Below are the summaries of the thirteen recommendations of the Cost Review and BPA's

implementation plan for each recommendation. The full Cost Review recommendations are available upon request by calling BPA's Public Information Center at 1-800-622-4519. Copies are also available by visiting BPA's Website 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.

### Composition of Power Business Line Operating Expenses FY 2002-2006 Average



### Projected FY 02-06 Average Power Business Line Operating Expenses (\$ in millions)

TBL Wheeling	\$263.4	14%
Non-TBL Wheeling	\$42.0	2%
Power Marketing/Scheduling	\$33.4	2%
Conservation. Renewable Projects	\$42.2	2%
Long-term & Short-term Power Purchases	\$106.5	6%
Non-Federal (Thermal) Projects O&M	\$164.3	9%
Federal (Hydro) Projects O&M	\$154.2	8%
Fish & Wildlife Programs (see note below)	\$123.5	7%

Fish & Wildlife Debt Service (see note below)	\$119.9	6%
Federal Generation Debt Service	\$251.6	13%
Non-Federal Generation Debt Service	\$568.2	30%
<b>Total PBL Expenses</b>	<b>\$1,869.2</b>	<b>100%</b>

\* Note: The F&W funding amounts shown here reflect estimates developed for the Cost Review and Issues '98 and do not include operational costs (i.e., power purchases related to fish). Since then, BPA has proposed F&W principles for its power rate case and subscription process which commit BPA to a goal of achieving a high probability of repaying the Treasury taking into account a range of possible F&W funding requirements. This range is not shown here.

### Power Business Line Operating Expenses

(\$ in millions)	2002	2003	2004	2005	2006	02-06 3 Yr.
1. CSRS Pension Expense	22.1	14.0	12.4	10.6	9.3	13.7
2. Power Marketing & Scheduling	40.4	32.0	24.4	20.1	21.2	27.6
3. Wheeling	42.0	42.0	42.0	42.0	42.0	42.0
4. STPurchased Power & Storage	80.56	87.2	75.5	72.9	77.5	78.7
5. Generation Oversight	3.0	2.9	3.0	3.0	3.1	3.0
6. Conservation & Consumer Services	18.2	16.6	16.9	17.3	17.6	17.3
7. Fish & Wildlife*	100.0	103.1	106.3	109.6	112.9	106.4
8. Corporate Expenses	7.7	6.6	6.7	6.7	6.7	6.9
9. Planning Council	5.1	5.1	5.1	5.1	5.1	5.1
10. Corps of Engineers O & M	108.0	85.0	85.0	84.0	84.0	89.2
11. U.S. Fish & Wildlife O & M	15.4	16.2	17.0	17.9	18.8	17.1
12. Bureau of Reclamation O & M	48.0	49.3	49.3	49.3	49.3	49.0
13. Colville Settlement	16.0	16.0	16.0	16.0	16.0	16.0
14. Renewable Projects	20.3	20.1	20.0	19.9	18.1	19.3
15. WNP-1 & WNP-3 Preservation Costs	3.5	3.6	3.6	3.6	3.6	3.6
16. WNP-2 & O & M Requirements	139.1	148.8	155.7	158.8	164.8	153.4
17. Trojan Decommissioning	9.6	4.2	2.6	2.6	2.6	4.3
18. Between Business Lines	261.5	262.4	265.1	263.9	264.2	263.4
19. LT Power Purchases	26.8	27.2	27.7	28.3	28.8	27.8
20. Undistributed Expense Reduction	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)
21. Non-Federal Projects Debt Service	557.6	594.6	586.2	534.0	568.6	568.2
22. Conservation Financing	5.6	5.6	5.6	5.6	5.6	5.6
23. Federal Projects Depreciation	173.1	172.7	167.2	166.2	162.6	168.4
24. Net Residential Exchange	0.2	0.2	0.2	0.2	0.2	0.2
25. Net Federal Interest Expense	222.1	214.8	206.2	195.6	1767.6	203.1
26. Total	1,905.9	1,910.2	1,879.7	1,813.2	1,837.2	1,869.2

The italicized items denote cost categories that are subject to change as BPA completes its revenue requirement for the upcoming power rate case.

\* Note: The F&W funding amounts shown here reflect estimates developed for the Cost Review and Issues '98 and do not include operational costs (i.e., power purchases related to fish). Since then, BPA has proposed F&W principles for its power rate case and subscription process which commit BPA to a goal of achieving a high probability of repaying the Treasury taking into account a range of possible F&W funding requirements. This range is not shown here.

### Description of Expenses -- Power Business Line

**Expenses**

1. CSR Pension Expense	Bonneville expects to cover the full unfunded liability of retirement benefits, pending a review of legal authority. The cost recovery will be phased in over a ten-year period, per agreement with the Administration.
2. Power Marketing & Scheduling	Primarily personnel costs, both Federal and contractor FTE, for marketing and selling power and for operation of the Federal Columbia River Power System
3. Wheeling	Primarily General Transfer Agreements (GTAs) costs for wheeling electricity over BPA's customer-owned transmission facilities.
4. ST Purchased Power & Storage	Costs associated with the purchase of power from other entities/institutions.
5. Generation Oversight	Personnel costs for management of other entity generation projects such as WPPSS.
6. Conservation & Consumer Services	Primarily existing contract costs for conservation projects/programs.
7. Fish & Wildlife	Costs associated with the direct funding of Fish & Wildlife program activities, including personnel.
8. Corporate Expenses	Corporate overhead costs associated with building rents & maintenance, financial services, general services, computer support, security, human resources, etc.
9. Planning Council	Operational costs of the Pacific Northwest Planning Council
10. Corps of Engineers O&M	Annual power generating operation and maintenance costs of the Corps of Engineers
11. U.S. Fish & Wildlife O&M	Annual operation and maintenance costs of the US F&W Lower Snake River Compensation Plan hatcheries program.
12. Bureau of Reclamation O&M	Annual power generating operation and maintenance costs of the Bureau of Reclamation
13. Colville Settlement	Annual payment to the Confederated Tribes of the Colville Reservation for their claims concerning their contribution to the production of hydropower by the Grand Coulee Dam (Settlement Agreement 494).
14. Renewable Projects	Wind and geothermal generation project costs.
15. WNP-1 & WNP-3 Preservation Cost	Site restoration costs for the terminated Washington Public Power Supply System nuclear plant
16. WNP-2 O&M/Capital Requirements	O&M costs for WPPSS nuclear generating plant.
17. Trojan Decommissioning	Decommissioning costs for Trojan nuclear plant.
18. Between Business Line Expense	Primarily transmission costs purchased from the Transmission Business Line (BPA).
19. LT Power Purchases	Contract costs for the purchase of power from other entity generation projects (e.g., Waho Falls, Coultz Falls, Wauna).
20. Undistributed Expense Reduction	Cost reductions identified as necessary but not yet specified.
21. Non-Federal Debt Service	Debt service
22. Conservation Financing	Debt service
23. Depreciation	Depreciation is the annual capital recovery expense associated with power plant in service (includes amortization of BPA's investments in energy conservation measures and fish and wildlife projects).
24. Net Residential/Exchange	Costs associated with providing residential and small farm customers of investor-owned and publicly-owned utilities with the benefits of low-cost Federal power.
25. Net Federal Interest Expense	Interest on long-term debt includes interest on bonds that BPA issues to the U.S. Treasury and appropriations used to fund capital projects related to power net of interest and other credits.

*The italicized items denote cost categories that are subject to change as BPA completes its revenue requirement for the upcoming power rate case.*

**Cost Review Recommendation #1:**

*Further reduce staffing and support costs of power marketing and other Power Business Line functions not directly related to operation of the federal power system.*

*(FY2002-06 Annual Average)*

BPA Cost Baseline (Oct. 97): \$50.0 million/year  
 Cost Review Recommendation (Mar. 98): \$35.3 million/year  
 Cost Review Annual Savings: \$14.7 million/year  
 Issues '98 Decision (Aug. 98): \$14.7 million/year

**Cost Review Recommendation:**

Further reduce staffing and support costs of power marketing and other PBL functions not directly related to operation of the federal power system.

**BPA Implementation Plan:**

BPA is adopting the Cost Review recommendation for cost and staff reductions as its goal. BPA is pursuing this goal consistent with the broader strategy of managing the FCRPS to maximize its value for the region.

Steps BPA is taking immediately to achieve this goal:

- developing standardized power products and contracts to reduce staffing needed for contract administration in the future
- focusing heavily on a successful subscription process at below market rates with the goal that BPA firm power be subscribed for multi-year periods to reduce the need for future marketing effort
- investing in improved automated systems for power scheduling and billing
- using staff from within PBL and other BPA organizations as much as possible when filling key vacancies
- using early retirement and separation incentives to reduce staff

### Challenges/Risks

By themselves, the steps described above may not be enough to achieve the target reductions. The Cost Review assumption was that BPA's cost-based rates would be far below market, making it possible to subscribe all of the system for periods of at least five years, and probably longer. This in turn was assumed to allow large reductions in staffing and support costs for contracting, rate-setting, account executives, customer service and similar functions.

- It is not yet clear how close BPA can come to the Cost Review vision of BPA rates far below market and full, long-term subscription. Many of the estimates of future fish mitigation cost scenarios for post-2001 are far higher than the level assumed in the Cost Review. The range of potential fish mitigation costs post-2006 is especially wide. BPA is working to define the range of fish costs it needs to plan to cover. Likewise, there is a wide range of expectations of market price levels after 2001.
- By mid-1999, several events will have occurred that should make more clear whether the Cost Review vision of rates significantly below market can be realized: post-2001 market price expectations will be clearer; the power rate case should be completed; and many customers will have responded to BPA's subscription offer. These events will help to clarify the necessary level of long-term marketing and customer service support. In the meantime, BPA will continue to take the above-described steps toward the Cost Review reductions and will treat the Cost Review recommendation for costs and staffing as its goal.
- Another challenge that has emerged since the Cost Review is increasing staffing demands created by the new California Power Exchange/Independent System Operator operation and the split between BPA's business lines. The new California market has created a substantially increased need for around-the-clock staffing in power scheduling, transmission acquisition and related functions for BPA and many other utilities and marketers on the West Coast. This increases the importance of creating automated systems to bring staffing levels for these core operations back down to Cost Review baseline levels. Nonetheless, these increased demands may result in higher numbers post-2001 in these functions than assumed in the Cost Review baseline staffing levels.

### Customer Comments:

*Will a reduction in staffing levels erode current improved relationships with customers?*

Improved customer relations will continue to be a primary goal for BPA. BPA acknowledges that any significant staffing decrease to the Power Business Line will be across all operations including customer support. However, staffing decreases would follow such counterbalancing efforts as increasing standardization of products and a successful subscription process that decrease staffing need, not erode

customer relations.

---

### **Cost Review Recommendation #2**

*Fund regional conservation market transformation at a level proportional to the percent of the regional firm load served by BPA. Carry out a review of the need for, and the appropriateness of, continued Bonneville support beyond the 10-year life established in the Comprehensive Review.*

*(FY2002-06 Annual Average)*

BPA Cost Baseline (Oct. 97): \$14.6 million/year

Cost Review Recommendation (Mar. 98): \$10.0 million/year

Cost Review Annual Savings: \$4.6 million/year

Issues '98 Decision (Aug. 98): \$4.6 million/year

### **Cost Review Recommendation:**

Fund regional conservation market transformation at a level proportional to the percent of the regional firm load served by Bonneville, as called for in the Comprehensive Review. Reductions shown reflect correction to BPA's baseline funding. Work with retail utilities and states to secure funding for conservation market transformation through state public purpose funds, as recommended by the Comprehensive Review. By not later than 2004, carry out a review of the funding available for this activity from other sources and the appropriateness of continued BPA funding beyond the 10-year minimum life established in the Comprehensive Review.

### **BPA Implementation Plan:**

Adopt recommendation. This recommendation is fully consistent with policy direction in the Comprehensive Review.

- The Cost Review figure of \$10 million reflects an estimate of BPA's share of the regional firm load in 2002-2006. BPA loads may be a greater or lesser proportion of regional loads; therefore, actual expenditures for market transformation may be higher or lower than \$10 million.
- BPA's collection of these costs in its rates will be competitively neutral, assuming that the states enact legislation that requires customer expenditures for market transformation and enables BPA customers to credit BPA funding towards their expenditure obligation.
- Work with retail utilities and the states to secure funding for conservation market transformation through state public purpose legislation, as recommended by the Comprehensive Review.
- BPA intends to act as an advocate and catalyst to encourage customers to opt for efficiency and renewable resources, helping them explore the value and benefits these have to offer. The subscription proposal contains an initial proposal for an incentive for BPA firm power purchasers to invest in these new conservation and renewable resources. In designing an incentive to encourage conservation and renewables, it's anticipated that support for utilities would be proportional to the amount of power purchased from BPA and that no involuntary income transfers would occur between BPA rate classes or utilities. BPA hopes this proposal will encourage state legislatures and regional power planning organizations to establish direction for the Pacific Northwest's development of conservation and renewable resources.
- By no later than 2004, review appropriateness of continued BPA support.

**Customer Comments:**

*BPA, in the past and currently, has supported energy conservation. You've sold surplus power where it's available to sell. We've paid for it, but it's sold outside the region. Now we're going to have to pay again, with the benefit going outside. How can you achieve equity and be competitive? The cost to Washington might be different from that to Oregon. What are those out of the region going to pay?*

Conservation produces benefits day in and day out. Participants always benefit from energy efficiency. The region's benefit is always there but will vary. When the region has a shortage of power, the amount we pay to buy power is reduced. When the region has excess energy or capacity to sell on the market, how much the region gains and how much the out-of-region purchasers pay for the available power will depend on the market value of the power. This can sometimes be substantial. The cost of market transformation will vary by state, depending on loads, but the benefits should also follow because the biggest markets are usually the highest load areas. BPA, through its work on the board of the Northwest Energy Efficiency Alliance, will encourage equity across states and customer classes.

*States have not acted to replace BPA's decimated public purposes budgets as recommended by the Review.*

BPA and the Cost Review Panel recognize that the commitments of the Comprehensive Regional Review will require constant emphasis in order to be fully implemented. Please see the fourth bullet of the Implementation Plan for further information on how BPA proposes to encourage state participation.

*Stabilize market transformation through total participant contribution from all customer groups.*

BPA recognizes that without a non-bypassable, competitively neutral distribution charge to fund public benefits as called for in the Comprehensive Review, there may be some utilities or customer groups who will not be contributing to regional market transformation efforts. This is unfortunate, as all will benefit from successful market transformation. The Cost Review Recommendation reiterates the intent of the Comprehensive Review that BPA should not be paying for those who aren't otherwise contributing.

**Cost Review Recommendation #3:**

*Reduce projection of legacy conservation contract and staffing expenses. Allow Bonneville to extend low-income weatherization contracts with the states to be consistent with the end of the legacy contract commitments to the utilities.*

*(FY2002-06 Annual Average)*

BPA Cost Baseline (Oct. 97): \$10.0 million/year  
 Cost Review Recommendation (Mar. 97): \$7.5 million/year  
 Cost Review Annual Savings: \$2.5 million/year  
 Issues '98 Decision (Aug. 98): \$2.5 million/year

**Cost Review Recommendation:**

Reduce projected legacy conservation contract expenses to reflect historical underspending. Do not modify or extend existing contracts, except that the states' low-income weatherization contracts should be extended consistent with the end of the legacy commitment to utilities. Reduce associated staffing.

**BPA Implementation Plan:**

Adopt recommendation.

- Conservation contractors typically underspend contract budgets. Savings estimates reflect historical underspending trends, however, there remains significant uncertainty on actual utility spending.
- Low-income weatherization agreements with the states will be extended, consistent with the Cost Review recommendation.
- Revised estimates reflect a reduction in associated staffing for this activity.

**Customer Comments:**

*Conservation is still a role BPA needs to play until someone else funds it. BPA should support cost-effective and innovative conservation efforts like the Northwest Energy Alliance and continue follow-through on renewable resource commitments.*

BPA will continue to support the Northwest Energy Efficiency Alliance consistent with the Comprehensive Review and the recommendations of the Cost Review. BPA is following through on its commitments to the development of renewable resources.

**Cost Review Recommendation #4:**

*Further reduce staffing/funding for the Northwest Power Planning Council.*

*(FY2002-06 Annual Average)*

BPA Cost Baseline (Oct. 97): \$6.2 million/year

Cost Review Recommendation (Mar. 98): \$5.1 million/year

Cost Review Annual Savings: \$1.1 million/year

Issues '98 Decision (Aug. 98): \$1.1 million/year

**Cost Review Recommendation:**

Further reduce funding for the Council to reflect changes in BPA's regional role, i.e., very limited new resource acquisition while carrying out the Council's role in power as recommended by the Comprehensive Review and reflecting the continued importance of fish and wildlife issues. Seek additional funding from other sources for Council activities that are of regional scope. Reductions assume one Council representative per state. A process should be carried out to determine both the functions the region wishes the Council to perform and how the functions should be funded.

**BPA Implementation Plan:**

Adopt recommendation.

- The reductions may put the Council's capacity to perform independent analysis for the region at risk.
- Once a future role is clarified for the Council, BPA will work with the Council to look for other funding sources for activities that are of regional scope.



**Customer Comments:**

*Will the reduction in funding impose limitations on the Council's ability to make crucial decisions?*

The reduction in funding may diminish the Council's ability to perform regional analysis and other tasks. However, after the Council's role has been more clearly defined, BPA will work with the Council to identify other financial resources to support key regional activities.

---

**Cost Review Recommendation #5:**

*Renewable resource projects: new projects beyond those currently committed must be supported by incremental revenues that cover the additional costs.*

*(FY2002-06 Annual Average)*

BPA Cost Baseline (Oct. 97): \$24.9 million/year

Cost Review Recommendation (Mar. 98): \$22.7 million/year

Cost Review Annual Savings: \$2.2 million/year

Issues '98 Decision (Aug. 98): \$2.2 million/year

**Cost Review Recommendation:**

Provide funding for costs of the three renewable resource projects that BPA currently is planning, and provide currently planned levels of renewable resource data collection and research and development. Annual net cost above project revenues should not exceed \$15 million per year, including the data collection and research and development costs. No additional renewable resource projects should be undertaken unless Bonneville's costs are recovered fully by project revenue.

**BPA Implementation Plan:**

Adopt recommendation.

- BPA is proceeding with development activities on three renewable projects (two geothermal and one wind) that could result in a decision to proceed with construction on two of the projects. These would be in addition to the Wyoming wind project currently under construction.
- We will attempt to hold costs for project development, operation and data collection for these projects to less than \$22.7 million per year to ensure the net cost does not exceed \$15 million per year.
- We will also continue to market the output from the projects at green power rates, which will maximize cost recovery.
- Additional renewable projects will be acquired only if costs are fully recovered by resulting revenues.

**Risks/Challenges**

Project costs could be higher than anticipated and actual revenues could be lower or higher than assumed depending on the market.

- BPA might not be viewed as a desirable power supplier by target customers if it cannot meet their

demand for new renewables, particularly if the market transformation activities recommended by the Comprehensive Review are implemented.

- The Cost Review rationale is that BPA's core business strategy should not include the development of additional renewable resources or additional related research unless project costs are fully recoverable by project revenues. This may be interpreted by some to be contrary to the Northwest Power Act purposes, which charge BPA broadly with encouraging renewable resource development.

### **Customer Comment:**

*We want BPA to ensure that the system is as efficient as it can be and that it becomes cleaner over time.*

*Please encourage customers to continue renewables development.*

*Will BPA commit resources to research and development of new technologies in renewable energy and energy conservation?*

BPA will continue its support of renewable resource development as mandated by the Regional Act while complying with the cost constraints recommended by the Cost Review.

BPA remains committed to the Cost Review recommendations, specifically the recommendation that BPA fund three renewable resource projects and provide currently planned levels of renewable resource data collection and R&D. While the Cost Review limits BPA's role in expanding the renewables market, our sanctioned development efforts on three renewable projects, combined with the development efforts of other PNW utilities should 1) provide encouragement to developers, 2) provide enough product to supply the market, and 3) stimulate more demand.

BPA seeks to sell these renewable resources, both within and outside the region, at a premium price as "green" power. This marketing effort should allow BPA to respond to (and hopefully to stimulate) market demand for clean resources, to cover resource costs and to encourage others to develop clean green resources for the market. If the market demands it and there is customer support, BPA may seek to develop additional renewable projects, provided that the projects' costs are covered by project revenues.

As mentioned, BPA intends to act as an advocate and catalyst to encourage customers to opt for efficiency and renewable resources, helping them explore the value and benefits these have to offer. The subscription proposal contains an initial proposal for an incentive for BPA firm power purchasers to invest in these new conservation and renewable resources. In designing an incentive to encourage conservation and renewables, it's anticipated that support for utilities would be proportional to the amount of power purchased from BPA and that no involuntary income transfers would occur between BPA rate classes or utilities. BPA hopes this proposal will encourage state legislatures and regional power planning organizations to establish direction for the Pacific Northwest's development of conservation and renewable resources.

Further, BPA has agreed to pay a portion of the market premium realized from the sale of green power to the Bonneville Environmental Foundation to help maximize the development of renewables. The Foundation is not an agency nor an establishment of the United States and payments to the Foundation do not diminish BPA's obligation to fund the development of renewable resources. Foundation activities will complement BPA activities.

The Foundation is a charitable and nonprofit public benefit corporation dedicated to encouraging and

funding projects that develop and/or apply clean, environmentally preferred, renewable power, as well as acquire, maintain, preserve, restore, protect, and/or sustain fish and wildlife habitat within the Pacific Northwest.

---

### **Cost Review Recommendation #6:**

*Develop/implement a consolidated/integrated capital/asset management strategy for the FCRPS, including transmission.*

#### **US Army Corps of Engineers**

*(FY2002-06 Annual Average)*

BPA Cost Baseline (Oct. 97): \$116.7 million/year - O&M

Cost Review Recommendation (Mar. 98): \$86.7 million/year - O&M

Cost Review Annual Savings: \$30.0 million/year - O&M

\$10.0 million/year - enhanced revenue

Issues '98 Decision (Aug. 98): \$30.0 million/year - O&M

Revenue enhancement not estimated at this time.

#### **Bureau of Reclamation**

*(FY2002-06 Annual Average)*

BPA Cost Baseline (Oct. 97): \$50.9 million/year - O&M

Cost Review Recommendation (Mar. 98): \$47.9 million/year - O&M

Cost Review Annual Savings: \$3.0 million/year - O&M

\$5.0 million/year - enhanced revenue

Issues '98 Decision (Aug. 98): \$3.0 million/year - O&M

Revenue enhancement not estimated at this time.

### **Cost Review Recommendation:**

Develop and implement a consolidated, integrated capital/asset management strategy for federal hydro directed at maximizing value, including both financial returns and public benefits. The strategy should encompass the operation and maintenance of the physical assets, a coordinated investment plan, potential consolidation of duplicate administrative support services among FCRPS agencies and the creation of integrated performance measures. Performance should be measured explicitly and reported publicly, accountabilities established and incentives created and applied FCRPS-wide. Estimates include a combination of reduced O&M expenses from the Cost Baseline and increased revenues from higher production.

### **BPA Implementation Plan:**

Adopt the Committee's recommendation as BPA's goal, recognizing that the aggressive cost targets may pose risks to system performance.

- Savings recommendation would require that the Corps manage average annual O&M in

FYs 2002-2006 to FY 1996 actual levels.

- BPA will work closely with the other members of the FCRPS to forge and integrate asset management plans directed at maximizing value for the region (financial returns and public benefit returns).
- These plans will further improve operations and maintenance cost management by benchmarking functions against best industry practices and establishing integrated performance measures and incentives to clarify and help ensure performance accountability.
- Potential consolidation of duplicate administrative services will be investigated to gain additional efficiencies.
- The asset management plans will include coordinated investment plans that rigorously analyze investment, disinvestment and divestiture opportunities directed at maximizing the value of the FCRPS.
- At this point, potential savings for the FY2002-2006 period average about \$8 million per year for the Corps and \$3.6 million per year for Reclamation. As the integrated asset management plans are developed, additional efficiencies will be identified. These efforts will begin in FY 1999.
- From FY1990 to FY1996 FCRPS hydropower availability decreased from 92 percent to 82 percent, apparently due to underfunding of an aging system. Through collaborative efforts and direct funding arrangements between BPA, the Corps and Reclamation, FCRPS hydropower availability improved to 85 percent in FY1997. To meet the enhanced revenue goal, BPA, the Corps and Reclamation will continue to work collaboratively to increase project generation capability.
- The structure of the FCRPS is such that control over the quality and cost of production is largely separated from the responsibility for marketing and recovering costs. FCRPS entities operate with multiple and often competing purposes and objectives. This complicates forging an integrated asset management strategy. This recommendation requires long-term commitment, determination and creativity from FCRPS owners to maximize financial returns and public benefits for the region.
- Long lead times are involved with these improvements, and all savings may not be available by FY 2002.

#### **Customer Comment:**

*We recommend BPA work to create "a more businesslike arrangement" with the Corps and Bureau.*

*BPA should maximize efficiencies in operations and maintenance.*

BPA has been working with the Corps and Reclamation to create a closer and more businesslike relationship, and already has achieved some efficiencies as a result. The goal is to create efforts that more easily can be coordinated. While in the past, the structure of the FCRPS separated the responsibilities of quality and cost of production from that of marketing, BPA is committed to work with the Corps and Reclamation to develop an integrated asset management strategy in order to facilitate more businesslike investment and operation decisions.

BPA is attempting to maximize efficiencies in operations and maintenance. We have developed plans to improve operations and maintenance cost management in order to gain efficiencies. These plans include benchmarking of our management functions and operations against the best industry practices. These efforts will improve the operations and maintenance functions and enhance the value of the FCRPS by reducing costs while optimizing system production.

---

#### **Cost Review Recommendation #7:**

*WNP-2: Aggressive cost management, flexible response to market conditions.*

*(FY2002-06 Annual Average)*

BPA Cost Baseline (Oct. 97): \$172.5 million/year operating expenses  
 \$153.8 million/year operating revenues  
 (\$18.7) million/year net operating revenues

Cost Review Recommendation (Mar. 98): zero - net operating revenues

Cost Review Annual Savings: \$18.7 million/year - net operating revenues

Issues '98 Decision (Aug. 98): \$18.7 million/year - net operating revenues

### **Cost Review Recommendation:**

Implement a strategy for Washington Public Power Supply System's nuclear plant, WNP-2, that combines aggressive cost management with a flexible response to market conditions and unforeseen costs. Manage annual operating costs to annual revenues achievable within market constraints. In BPA's subscription process and upcoming rate case, determine how to allocate the plant's costs in BPA rates so that its portion of the Federal Base System on a planning basis can be marketed to ensure full recovery of the plant's operating costs (unless legal or other issues prevent doing so). To the extent revenues can exceed operating costs, use a portion of the resulting net operating revenues to build up the decommissioning fund. Biennially subject the plant's operating costs to a market test. Evaluate termination in the event operating costs are projected to exceed operating revenues. Estimated savings include a combination of reduced O&M expense from the cost baseline and potential increased revenues.

### **BPA Implementation Plan:**

BPA agrees with the basic objective of the Cost Review recommendation "to ensure that the operations of the plant not be insulated from the discipline of the marketplace" and to achieve the recommended increase in net operating revenues.

- BPA intends to subject WNP-2 operating costs to a market test biennially, testing whether market value of the WNP-2 output recovers annual operating costs of the plant. BPA intends to solicit input on the precise nature of this market test in a public process this year.
- Likewise, as recommended in the Review, BPA intends to re-evaluate plant termination if operating costs are projected to exceed revenues achievable at market prices by more than the termination costs.
- With the cost and revenue projections assumed by the Cost Review, this would require about \$19 million of operating cost reductions and/or revenue increases. BPA will work with the Supply System to achieve as much of this enhancement of net revenues as possible through reductions in operating costs.
- BPA intends to work with the Supply System to achieve additional operating cost efficiencies, avoid major capital additions, shorten outages and, potentially, change from an annual to a biennial refueling cycle (would reduce from five to two the number of refuelings during the next five-year rate period).
- Cost reductions assume, in part, that there are no major equipment failures and no extensive additional regulation.
- The Cost Review also recommended that BPA market a portion of the FBS equivalent to the planned output of WNP-2 priced in a manner that ensures recovery of the plant's operating costs in the actual sales of the plant's output. Subject to further input, BPA's tentative conclusion is that

the problems connected with this piece of the recommendation may not be practicably solvable given several issues that have emerged since the Cost Review: (1) the likelihood that BPA will have insufficient inventory to meet demands for firm power in its subscription process; (2) additional complexity introduced by the present Fish Funding Agreement; and (3) certain specific aspects of BPA's subscription proposal. It would involve selling a portion of the Federal Base System at a higher price equal to WNP2's operating costs – a legal difficulty – and reduction of the lowest cost subscription inventory when it appears that we will be oversubscribed. WNP-2's operating costs are now so close to the market and to BPA's likely subscription power rates that the cost impact of this separation on both the subscription rate and the theoretical WNP-2 rate would be negligible. Equity concerns among parties with subscription rights over who is left with the higher-priced portion of power would likely exacerbate the oversubscription issues (see Power Markets, Revenues and Subscription Fact sheet). Finally, a robust market test should achieve the bulk of the Cost Review goal without creating the substantial problems connected with putting a higher price on this portion of the subscription inventory.

**Customer Comment:**

*WNP-2 will never be cost effective, but BPA continues to insist on operating it.*

*Implement the Cost Review recommendation.*

*Political pressure forced the Cost Review panel to soften its WNP-2 recommendation; however, customers supported full implementation.*

BPA has committed to subject WNP-2 operating costs to a market test. This biennial test will determine whether the market value of the WNP-2 output recovers annual operating costs of the plant. As recommended in the Cost Review, BPA will evaluate plant termination if operating costs are projected to exceed revenues achievable at market prices by more than the termination costs.

---

**Cost Review Recommendation #8:**

*Reduce Administrative and Other Internal Support Service Costs.*

*(FY2002-06 Annual Average)*

BPA Cost Baseline (Oct. 97): \$15.4 million/year - PBL portion of corporate overhead  
Cost Review Recommendation (Mar. 98): \$6.9 million/year - PBL portion of corporate overhead  
Cost Review Annual Savings: \$8.5 million/year - direct PBL savings  
Issues '98 Decision (Aug. 98): \$8.6 million/year - direct PBL savings  
\$5.9 million/year - indirect PBL savings from  
lower BPA transmission costs  
\$14.5 million/year - total PBL savings

**Cost Review Recommendation:**

Further reduce the cost of BPA administrative and other internal support service costs, including financial, human resources, information management, procurement, strategic planning, public affairs, legal services and other internal service costs, by an aggregate 50 percent from 1996 actual levels. Achieve through redesign of shared services, benchmarking, adoption of industry "best practices,"

implementation of enterprise software and outsourcing of non-core functions where economic.

### **BPA Implementation Plan:**

Adopt recommendation.

- Shared services redesign focuses on fundamental service activities across BPA, i.e., within each business line as well as within corporate.
- Savings from this effort will, therefore, lead to lower corporate costs and lower business line costs.
- Initial implementation of shared services redesign, including a reorganization of corporate shared services (the Business Services Group), is set for FY 1999. Full implementation will be completed by start of FY 2002. The precise breakdown of savings in corporate and the business lines will not be available until the redesign is complete.
- Also included in the cost savings here are reductions in administrative activities not a part of the shared services redesign effort, such as strategic planning, public affairs and legal services.
- Currently, BPA assumes the \$31.7 million savings total will be applied as an average annual reduction to the FY 2002-2006 cost baselines and that the savings are achieved proportional to the distribution of corporate overheads to the business lines.
- BPA anticipates making a final decision on an enterprise software package in FY 1999, with implementation following immediately.

### **Customer Comment:**

*No comments received.*

---

### **Cost Review Recommendation #9:**

*Obtain legislation to improve administrative effectiveness and efficiency.*

*(FY2002-06 Annual Average)*

Cost Review Recommendation (Mar. 98): \$7.0 million/year - PBL savings

Cost Review Annual Savings: \$7.0 million/year - PBL savings

Issues '98 Decision (Aug. 98): not assumed

### **Cost Review Recommendation:**

Obtain legislative changes in the areas of personnel management and procurement to improve administrative flexibility and ability to manage internal costs.

### **BPA Implementation Plan:**

Adopt this recommendation by developing draft legislation in consultation with customers, constituents, employees, unions, the administration and the Northwest delegation. Such legislation would remove statutory barriers to improving the efficiency and effectiveness of human resource management and procurement and property management. These changes would give BPA greater flexibility to mold its internal administrative operations to the needs of the changing electricity industry and markets.

- Savings are estimated at \$10 million per year in total, approximately \$7 million of which would reduce PBL expenses.
- Issues '98 expense projections do not include these savings at this time. Although the Transition Board is now addressing this proposal, legislation has not yet been drafted, and regional, administration and congressional support is not yet clear.
- BPA cannot include these savings in its rate proposal until there is reasonable assurance that legislation will be enacted.

**Customer Comment:**

*No comments received.*

---

**Cost Review Recommendations #10/11:**

*Federal Power Act conformance (cost allocation and functionalization) and reduced transmission internal costs.*

*(FY2002-06 Annual Average)*

BPA Cost Baseline (Oct. 97): \$236.9 million/year - PBL transmission purchases  
 Cost Review Recommendation (Mar. 98): \$205.4 million/year - PBL transmission purchases

Cost Review Annual Savings: \$30.0 million/year - reduction (power)/increase  
 (transmission)

- from functional separation and FPA conformance \$1.5 million/year - from TBL cost reductions

Issues '98 Decision (Aug. 98): \$30.0 million/year - reduction (power)/increase  
 (transmission)

- from functional separation and FPA conformance \$1.5 million/year - from TBL cost reductions

**Cost Review Recommendation:**

Further reduce transmission internal O&M expenses through improved efficiencies. Conform to functional separation and FPA requirements, adjusting and correcting allocation, functionalization and interbusiness-line transaction costs between power and transmission business lines.

**BPA Implementation Plan:**

Assume recommended cost savings to BPA's power business line.

- BPA's transmission business line has established a continuous performance improvement effort that relies on benchmarking to identify specific initiatives for cost-efficiency improvements throughout the organization and has a good recent track record.
- The adjustment and correction moving \$30 million in estimated power costs to transmission is a very conservative assumption about interbusiness-line transactions and FPA conformance. These issues will be addressed in the upcoming rate case.

**Customer Comment:**



*BPA has suggested cost shifts from power to transmission. BPA should not assume FERC FPA regulation will agree.*

There are associated risks and challenges with implementation of most of the recommendations. As mentioned above, interbusiness-line transactions as well as FPA conformance issues will be discussed in the upcoming rate case. BPA's objective is to conform with FPA requirements for functionalizing costs.

---

### **Cost Review Recommendation #12:**

*Further reduce federal and non-federal debt service.*

*(FY2002-06 Annual Average)*

BPA Cost Baseline (Oct. 97): \$963 million/year  
 Cost Review Recommendation (Mar. 98): \$943 million/year  
 Cost Review Annual Savings: \$20 million/year  
 Issues '98 Decision (Aug. 98): \$20 million/year

### **Cost Review Recommendation:**

Further reduce federal and non-federal debt service expenses through refinancings, greater reliance on variable rate debt and other debt reduction actions.

### **BPA Implementation Plan:**

Adopt recommendation.

- Base for calculating savings: non-federal debt service and federal interest expense. Excludes interest credit on cash reserves and "capitalization adjustment" associated with Appropriations Refinancing Act.
- Achieving a full \$20 million annual savings in Power Business Line may well require issuance of additional unhedged variable rate exposure, which carries higher financial risk.

### **Strategies**

Refinance high-interest callable Treasury bonds.

- Limited restructuring of Treasury and Supply System debt for interest rate efficiencies. Issue Supply System variable rate debt up to asset/liability match.
- Redeem highest-cost fixed rate Supply System debt in open market while maintaining lower-cost variable rate debt.
- Reduce debt through revenue-financing new investment or accelerating repayment of existing debt to extent financial reserves and risk tolerances allow.

### **Key Assumptions**

Refinancings can be completed while interest rates are relatively low.

- Impact on stakeholders – Net Billing Participants are not materially affected by restructuring of

WNP-2 debt because all WNP-2 is debt still paid off by 2012.

- Bond counsel approval required for limited restructuring of WNP-2 debt.

### Customer Comment:

*No comments received.*

---

### Cost Review Recommendation #13:

*Account for previously identified “undistributed reductions.”*

*(FY2002-06 Annual Average)*

Cost Review Annual Savings: \$(19.4) million/year

Issues '98 Decision (Aug. 98): \$(19.4) million/year

### Explanation:

These were already included in the PBL baseline expense projections. Thus, while the Cost Review's specific recommendations total \$166 million for the Power Business Line, the net change from the power cost baselines is \$145.7 million.

---

### 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
-

**Bonneville Power Administration**  
P.O. Box 3621 Portland, Oregon 97208-3621  
DOE/BP-3107 October 1998 2M

---

Page created December 3, 1998 by Katie Leonard, [keleonard@bpa.gov](mailto:keleonard@bpa.gov).

---