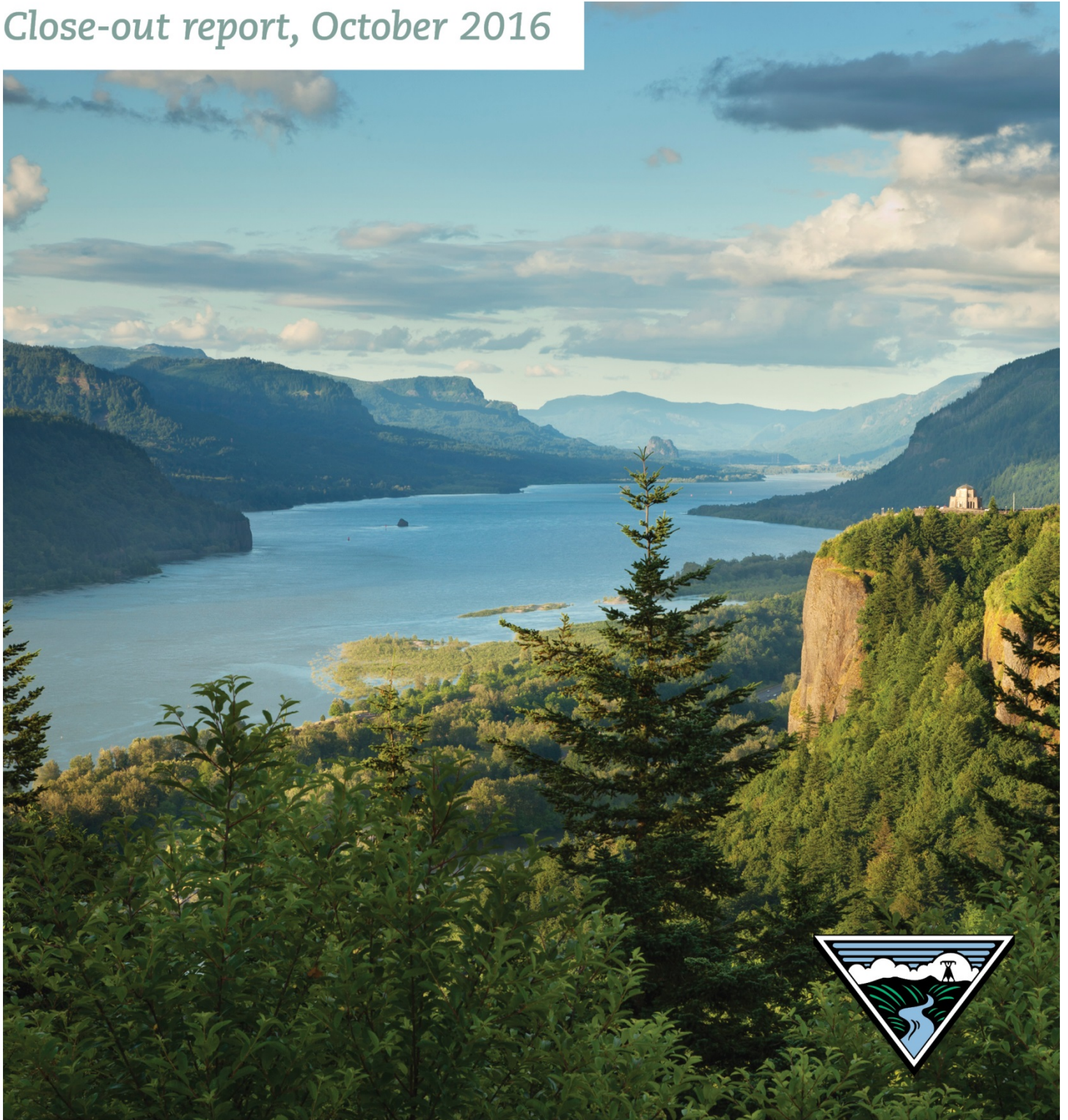


Integrated Program Review and Capital Investment Review

Close-out report, October 2016



Letter from the administrator

The Bonneville Power Administration has completed a public review and discussion of proposed spending levels for fiscal years 2017, 2018 and 2019. Through this process, called the Integrated Program Review and Capital Investment Review, we received valuable input and made important choices to address our customers' central concern about the rising costs of operating the federal power and transmission systems. The results outlined in this document reflect careful consideration of the need for affordable rates, balanced against the competing objectives of sustaining and modernizing aging federal assets and maintaining financial strength.

As a result of our customers' input and the hard work of BPA managers and staff, we have taken the first important steps toward changing the unsustainable rate trajectory of the past four rate periods. Our challenge now is to build on this progress. Through a sustained agencywide focus on operational efficiency, disciplined budgeting practices, aggressive cost management, revenue enhancements, and the active and meaningful engagement of our customers and other constituents in our decision-making processes, we have the capability to place BPA on a more sustainable rate trajectory. This is essential to maintaining our position as the wholesale provider of choice when our long-term contracts are up for renewal in the next decade.

Proposed spending levels reduced

Since we released our proposed spending levels in June, BPA has taken additional actions to lower proposed spending increases, including:

- Working with Energy Northwest to reduce proposed Columbia Generating Station operations and maintenance expenses by an additional \$1.5 million.
- Working with the Corps of Engineers and Bureau of Reclamation to reduce proposed expenses by an additional \$5 million.
- Increasing Energy Efficiency Incentive self-funding from 25 to 30 percent to reflect recent achievements, allow for increased customer flexibility and reduce BPA spending.
- Reducing Power's non-generation operations by \$3 million a year.

In all, compared to the expense spending levels proposed in June, we lowered spending increases by \$22.9 million in both 2018 and 2019. These averaged annual figures are comprised of \$18.5 million for Power Services and \$4.4 million for Transmission Services. In addition, we slowed the proposed ramp in hydro investments to reduce fiscal year 2017-2019 direct capital spending by \$74 million, and we shifted transmission investments to reduce spending by \$57 million in 2017.

In the initial IPR publication, I committed to strengthen Bonneville's enterprise program management capabilities. To that end, BPA launched a Business Transformation Office that will report directly to our chief operating officer. The core purpose of the new office is to ensure we effectively prioritize, scope and resource our most important strategic initiatives and apply the necessary program management expertise and discipline to ensure timely and cost-effective execution.

More work to do: Integrated Program Review 2

BPA is committed to working with customers and other constituents to identify additional cost reductions. I invite you to join us for further discussion and consideration of cost-management alternatives during IPR 2, starting with informational workshops this fall. We will focus this engagement on the areas listed below.

Commercial Operations Key Strategic Initiative

Implementing commercial operations improvements is one of Bonneville's top priorities as we seek to leverage opportunities and minimize risks of evolving markets and new technologies. BPA is refining its work plan and associated costs for this initiative. In IPR 2, we will present alternative investment strategies and seek your input on the benefits and risks associated with the alternative spending levels.

FCRPS operations and maintenance expense

We are working with the Corps and Reclamation to further scrutinize the costs to operate and maintain the Federal Columbia River Power System. In IPR 2, we will provide an opportunity to evaluate options to reduce O&M expenses, including non-routine extraordinary expenses, beyond the reductions already identified.

Workforce

The most fundamental step BPA can take to shape its future is to ensure its workforce is positioned to adapt to the demands of operating a modern utility. While our strategy will ultimately address long-term considerations about workforce size and composition, IPR 2 will focus on the immediate issue of accounting assumptions to reflect consistent, accurate budgeting for labor costs.

The steps we are taking in the 2018-19 rate period will have the immediate impact of shifting BPA off an unsustainable rate trajectory. But there is much work to do, and we face critical questions and uncertainties about the future of our industry. Last year, BPA initiated the Focus 2028 process to engage the region in a meaningful discussion about the forces shaping our operating environment and the choices we face to successfully maintain our role as our customers' wholesale provider of choice. Over the next few weeks, we will begin sharing details about how we intend to reinitiate the Focus 2028 dialogue and engage the region in the development of BPA's long-term strategic plan.

I look forward to working with you to make a positive impact on the future of the Pacific Northwest and the people we serve.

Sincerely,

A handwritten signature in black ink that reads "Ewert Maurer". The signature is written in a cursive style with a prominent loop at the end of the last name.

IPR/CIR close-out

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1. INTRODUCTION

The 2016 Integrated Program Review and Capital Investment Review kicked off in June with the initial publication and a series of workshops. Our constituents stayed engaged over the eight-week public process to review proposed spending levels and provide detailed comments to BPA. Over 60 comments were submitted during the comment period that closed in August.

BPA appreciates the participation from the region throughout the process. The engagement that started with Focus 2028 on investments and cost management was apparent in the focused and detailed comments received. Customers took a thorough look at managing spending this year, citing their own tough decisions on staffing levels and investments. They also asked us to take a tougher look at increases across the board and thoroughly evaluate the benefits of increasing spending above BP-16 levels. Some regional participants asked us to further fund fish and environment programs that benefit the Pacific Northwest. We had to balance these requests with the cost control requested by our customers and our mitigation obligations. Below is a summary of these comments.

Agency Services

- The \$40 million increase in proposed spending should be offset by planned reductions to other programs.

Budget development

- The budget should be set using a top-down approach with all increases in spending being offset by reductions to other programs.
- Reducing potential rate increases is not the same as keeping budgets flat or cutting them.
- BPA should show which initiatives or projects would be cut to reach a zero percent increase.
- Customers asked BPA to ensure load service is not compromised by keeping costs down.

Bureau of Reclamation and Corps of Engineers

- The proposed operations and maintenance expense increase adds no clear value to the hydropower system. Partners should demonstrate the costs and benefits while looking for additional efficiencies.
- BPA should not increase the proposed capital budget to \$300 million a year until there is a better-defined plan of long-term benefits with demonstrated value associated with upgrades.

Energy Efficiency

- Customers asked for a three-pronged approach to energy efficiency changes:
 - Outline the timeline and process to work with the region to reassess BPA's energy efficiency goals.
 - Increase the energy efficiency incentive self-funding percentage.
 - Apply customer proposed efficiencies and improvements by the next energy efficiency implementation manual update.
- Some constituents suggested that the energy efficiency budgets are insufficient and the existing self-funding percentage should not change.

Energy Northwest and Columbia Generating Station

- Further work should be done with Energy Northwest to find additional reductions in CGS operations and maintenance expense.

Fish and Wildlife

- Customers want to re-evaluate and limit nonmandated spending on fish and wildlife costs.
- Other constituents advocated for increased program funding for commitments as well as cost-of-living adjustments.

IPR 2

- BPA should identify which topics may be discussed in an IPR 2 process well in advance.
- Workshops and conversations with the region about IPR 2 topics should occur as information is available rather than waiting to hold workshops only in February.

Key Strategic Initiatives

- If the KSIs are BPA's top priorities, funding should be redeployed from existing programs.
- Greater transparency is needed on what projects and initiatives will be produced under each of the KSIs.
- The Commercial Operations KSI incremental spending of \$25 million is too high given there is no clear outline of initiatives that it would fund at this time.

Prioritization

- Additional information on transmission and federal hydro project prioritization would be useful to understanding benefits gained from capital investments.

Rate target

- There should be long-term rate goals for both power and transmission rates and BPA should adjust spending to align to them starting this rate case.

Transmission

- Increased spending for special salary rate increases for engineers should be absorbed.
- The Transmission capital program should be limited to sustain projects and eliminate expand projects.
- BPA should look for a balance between sustain, expand and non-wires efforts. Infrastructure upgrades that impact service to customers, such as substation facilities, are needed.

Undistributed reduction

- BPA should increase the amount of the proposed undistributed reduction but should identify specific areas where spending will be cut.

Workforce

- BPA should review its current FTE levels and allocation to work groups to justify if the current staffing levels are appropriate. In addition, BPA should evaluate the right balance of federal and contract workers in these decisions.

Since the release of the initial publication, BPA has found reductions to the proposed spending amounts through continued engagement with our federal partners and by taking a second look at our internal program costs. The following sections outline those changes and provide information on how those amounts were determined. BPA remains committed to bending the cost curve in the 2018-19 rate period and will continue to look for additional savings over the coming months, both through cost-management efforts internally and externally engaging with our partners.



2. POWER SERVICES

OVERVIEW

Power Services reduced the initial IPR proposal by \$15¹ million per year:

- Reduced proposed O&M expenses at Columbia Generating Station by \$1.5 million.
- Reduced proposed O&M spending at the Corps and Reclamation by a combined \$5 million.
- Reduced \$5 million in expense for energy efficiency by increasing self-funding.
- Reduced the Lower Snake River Compensation Plan by \$500,000 in 2019.

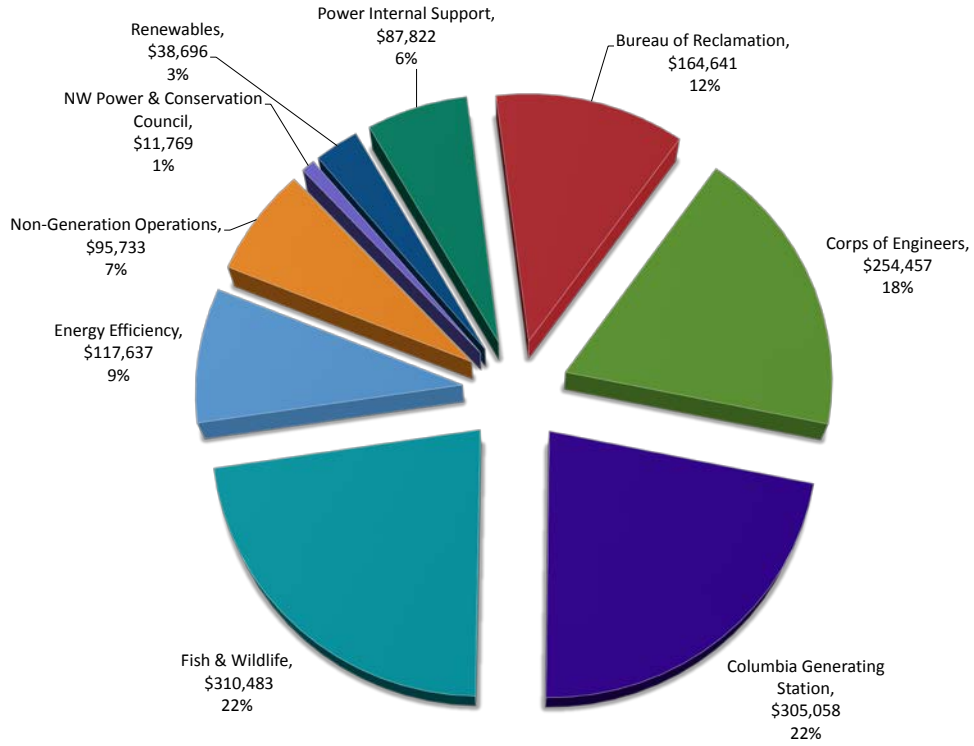
Power Services chose to slow down the planned ramp to a \$300 million annual capital program to better stage new projects and focus on execution, reducing the increase in proposed capital spending by an aggregate of \$74 million over 2017-2019.

Power Services approached these IPR and CIR spending levels with a renewed focus on cost management and cost competitiveness. With these objectives in mind, BPA took another look at cost drivers and reduced \$15 million per year in IPR costs from the proposed spending levels. Power Services also reduced non-IPR spending levels by \$3.5 million.

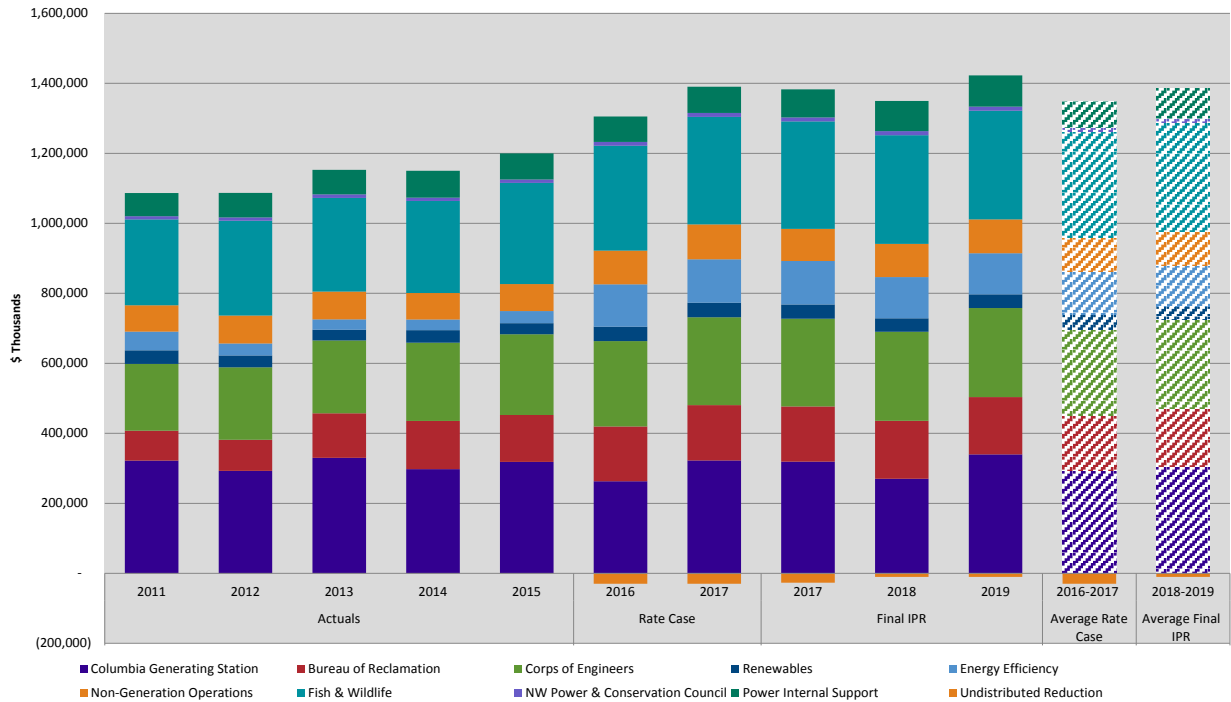
This is a first step toward reducing cost escalation, and over the coming months, we will work closely with our partners at the Bureau of Reclamation, Corps of Engineers and Energy Northwest to find potential additional savings to curb the growth in operations and maintenance costs. Power Services will also continue to look for ways to reduce internal costs as it plans and implements programs.

¹ The \$15 million also includes KSI reductions from proposed levels that are allocated to Power. The KSI changes can be found on Page 15.

Power Services Expense Summary FY 2018-19 average: Final IPR (\$ thousands)



Power Services IPR Expense Summary



Power Services Summary Statement of IPR and Other Program Expenses

(\$Thousands)	2017			2018			2019		
	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta
Costs Described in IPR									
Columbia Generating Station	319,053	319,053	0	271,669	270,169	(1,500)	341,447	339,947	(1,500)
Bureau of Reclamation	157,621	157,621	0	168,179	165,679	(2,500)	166,103	163,603	(2,500)
Corps of Engineers	250,981	250,981	0	256,957	254,457	(2,500)	256,957	254,457	(2,500)
Renewables	40,623	40,623	0	38,332	38,332	0	39,060	39,060	0
Energy Efficiency	124,060	124,060	0	122,592	117,677	(4,915)	122,512	117,597	(4,915)
Non-Generation Operations	94,158	91,871	(2,286)	98,298	95,007	(3,290)	99,249	96,459	(2,790)
Fish & Wildlife, Lower Snake River Comp Plan	306,949	306,949	0	310,483	310,483	0	311,002	310,483	(519)
NW Planning & Conservation Council	11,590	11,590	0	11,624	11,624	0	11,914	11,914	0
Power Internal Support	80,058	79,950	(108)	86,556	86,352	(204)	89,592	89,291	(301)
Undistributed Reduction	(29,700)	(26,600)	3,100	(10,000)	(10,000)	0	(10,000)	(10,000)	0
Costs Described in IPR Total	1,355,393	1,356,099	706	1,354,689	1,339,780	(14,909)	1,427,837	1,412,812	(15,025)
Other Costs									
Reimbursable Energy Efficiency Development	8,000	8,000	0	8,000	8,000	0	8,000	8,000	0
Legacy	590	590	0	590	590	0	590	590	0
Long-Term Contract Generating Projects	16,007	16,007	0	16,143	12,595	(3,548)	17,235	13,687	(3,548)
Non-Operating Generation	1,482	1,482	0	1,500	1,500	0	1,534	1,534	0
Operating Generation Settlement	22,234	22,234	0	22,612	22,612	0	22,997	22,997	0
Power Services Transmission Acquisition	198,150	198,150	0	213,469	213,469	0	213,684	213,684	0
Residential Exchange & IOU Settlements	295,540	295,540	0	315,984	315,984	0	318,350	318,350	0
Other Costs Total	542,004	542,004	0	578,298	574,751	(3,548)	582,390	578,842	(3,548)
Grand Total	1,897,397	1,898,103	706	1,932,988	1,914,531	(18,457)	2,010,226	1,991,654	(18,573)

2.1 Changes from initial IPR levels

Power Services reduced the initial IPR proposed costs by \$15 million per year. An additional \$3.5 million per year in non-IPR reductions came from the termination of a power purchase contract associated with long-term contract generating projects. The reductions in IPR proposed costs are described below.

Columbia Generating Station

Since the initial IPR, Energy Northwest has identified a reduction of \$1.5 million a year in O&M proposed expenses. Further reductions will be sought in IPR 2.

Bureau of Reclamation and Corps of Engineers

BPA will continue to work with its federal partners to find ways to reduce expenses in spite of upward pressure from escalating labor costs. While we plan to look for further savings in IPR 2, the Corps and Reclamation have committed to a combined \$5 million per year in savings from the initial spending proposal.

Energy Efficiency

BPA worked with customers through Focus 2028 to evaluate various Energy Efficiency program changes. One of the changes described in the recent [close-out letter](#) is to increase the amount of funding BPA assumes utilities will direct to energy efficiency without BPA incentives, known as self-funding, from 25 to 30 percent. The change reduces IPR proposed spending by \$5 million each year and is not envisioned to negatively impact public power's energy efficiency achievement levels. The change will be closely monitored to ensure it does not negatively impact the ability of BPA and public power to achieve their energy efficiency goals.

Fish and Wildlife

BPA is committed to its fish and wildlife and other environmental responsibilities while also supporting an adequate, efficient, economical and reliable power supply. After re-evaluating proposed spending levels, the budget for the Lower Snake River Compensation Plan has been flattened, leading to a \$500,000 reduction in fiscal year 2019. Fish and Wildlife will continue to look for ways to execute programs more efficiently while delivering on our existing fish and wildlife mandates. In addition, BPA is using active cost management to absorb the substantial costs of emerging issues, including the new biological assessment and the Columbia River System Operations environmental impact statement. The costs of the Fish and Wildlife KSI are also absorbed within existing budgets.

Non-Generation Operations

As described in the Key Strategic Initiative and Agency Services sections, BPA decreased Power non-generation operations proposed cost increases associated with the Commercial Operations and Asset Management KSIs and power research and development. The power R&D reduction is Power Services' portion of the Technology Innovation reduction that is found within the Agency Services section.

Undistributed Reduction

Undistributed reductions are an instrument intended to address the historic gap between IPR funding levels and actual spending. Rather than increase the undistributed reduction above the initially proposed \$10 million, Power Services is focused on finding targeted program spending reductions and working with its partners to improve budget execution.



3. TRANSMISSION SERVICES

OVERVIEW

Transmission Services reduced the initial IPR proposal by an average of \$4.4² million per year, including a \$1 million reduction in research and development.

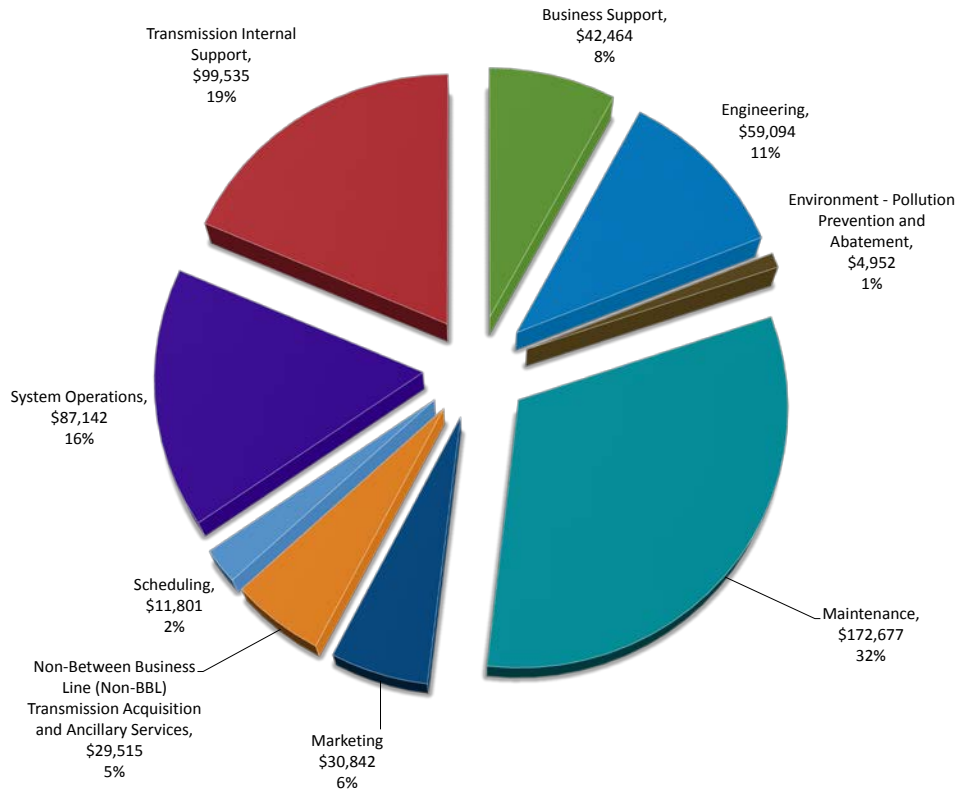
Transmission Services reduced transmission direct capital by \$57 million in 2017 due to the completion of several large capital projects.

During this IPR process Transmission Services placed significant emphasis on minimizing spending increases by focusing on mission-critical work and making investments that provide the greatest benefit to ratepayers. The organization recognizes more work is needed in this area and will continue to look for additional savings. In the interim, Transmission Services has identified an average of \$4.4 million per year in proposed program reductions from the initial IPR publication for fiscal years 2018 and 2019.

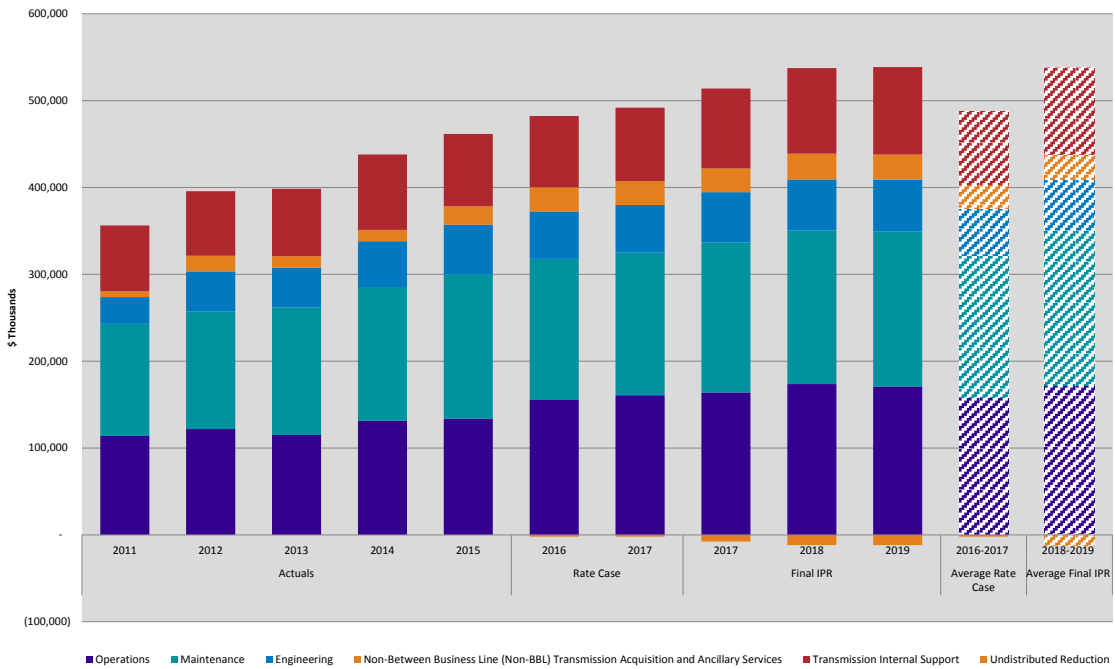
² The \$4.4 million also includes KSI reductions from proposed levels that are allocated to Transmission. The KSI changes can be found on Page 15.

Transmission Services Expense Summary

FY 2018-19 average: Final IPR (\$ thousands)



Transmission Services IPR Expense Summary



Transmission Services Summary Statement of IPR and Other Program Expenses

(\$Thousands)	2017			2018			2019		
	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta
Costs Described in IPR									
Operations	163,034	163,953	919	174,772	173,609	(1,163)	171,983	170,891	(1,092)
Maintenance	172,828	172,828	0	176,893	176,893	0	178,365	178,365	0
Engineering	58,602	57,801	(800)	59,688	58,682	(1,006)	60,765	59,506	(1,260)
Non-Between Business Line Acquisitions and Ancillary Services	27,331	27,331	0	31,500	29,799	(1,701)	31,500	29,232	(2,268)
Transmission Internal Support	92,053	91,990	(63)	98,602	98,474	(129)	100,786	100,596	(190)
Undistributed Reduction/Other Income (Loss)	(7,668)	(7,668)	0	(11,831)	(11,831)	0	(11,825)	(11,825)	0
Costs Described in IPR Total	506,180	506,236	56	529,624	525,625	(3,998)	531,573	526,763	(4,810)
Other Costs									
Between Business Line Acquisitions and Ancillary Services	115,750	115,750	0	113,559	113,559	0	113,774	113,774	0
Reimbursables	9,922	9,922	0	9,929	9,929	0	9,936	9,936	0
Other Costs Total	125,672	125,672	0	123,488	123,488	0	123,710	123,710	0
Grand Total	631,851	631,907	56	653,112	649,114	(3,998)	655,284	650,474	(4,810)

3.1 Changes from initial IPR levels

Transmission Services achieved an average reduction of \$4.4 million per year in IPR costs compared to the initial proposed IPR spending levels. Additional reductions from non-IPR expenses were also incorporated in these final spending levels.

Transmission engineering research and development

Transmission Services expects to reduce Transmission engineering research and development by \$1 million per year. This will be achieved by efficiencies identified in the deployment of Technology Innovation funds. This is Transmission's portion of the Technology Innovation reduction that is found within the Agency Services section.

Transmission engineering salary

Many comments submitted about Transmission Services spending asked for the proposed engineering salary increases to be absorbed within existing spending levels. Transmission Services believes that the increased salary rate is crucial to recruiting and retaining skilled engineers who are key to Transmission Services' ability to deliver mission-critical programs and maintenance. Although we understand customer concerns on this item, at this time, we have been unable to identify any additional areas of spending decreases to offset this important investment in our workforce.



4. AGENCY SERVICES

OVERVIEW

Agency Services reduced the initial IPR proposal by \$7.7³ million per year, including by decreasing planned funding for the Technology Innovation program by \$2 million.

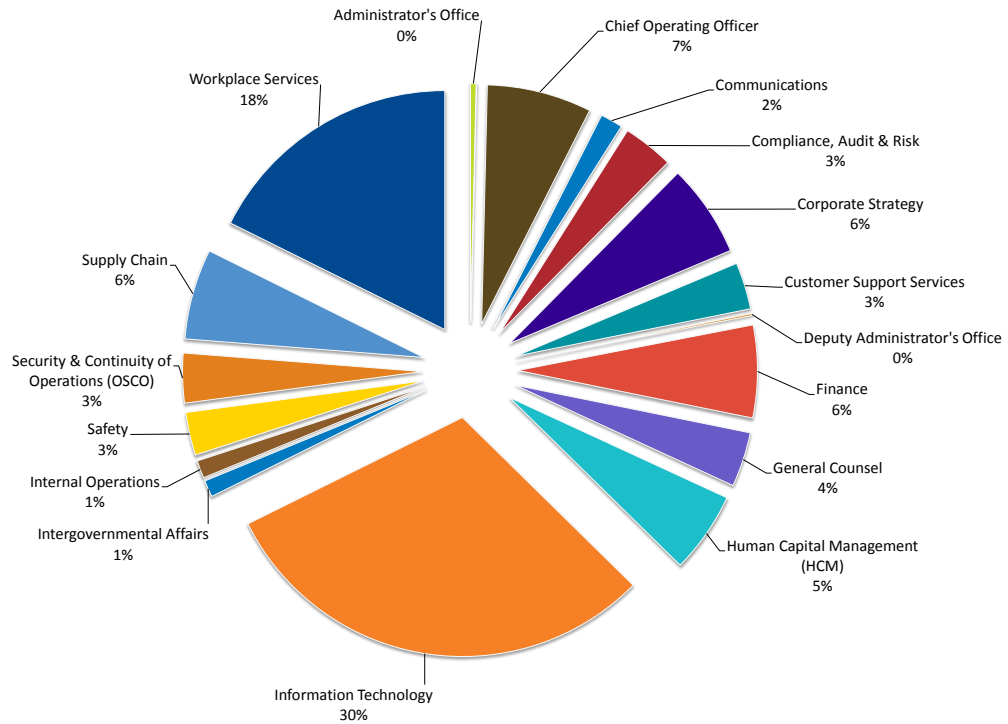
Agency Services reshaped planned capital spending for Facilities and Information Technology post-2019 to more accurately capture expected investments.

Agency Services presented initial spending proposals that reflected efficient operations without severely impacting the services necessary to support Power and Transmission Services. Each organization was tasked with detailing the trade-offs that would be necessary to lower proposed spending. After taking a second look at cost structures across the organization, Agency Services reduced proposed costs by \$7.7 million a year in 2018 and 2019, including reductions to KSI costs.

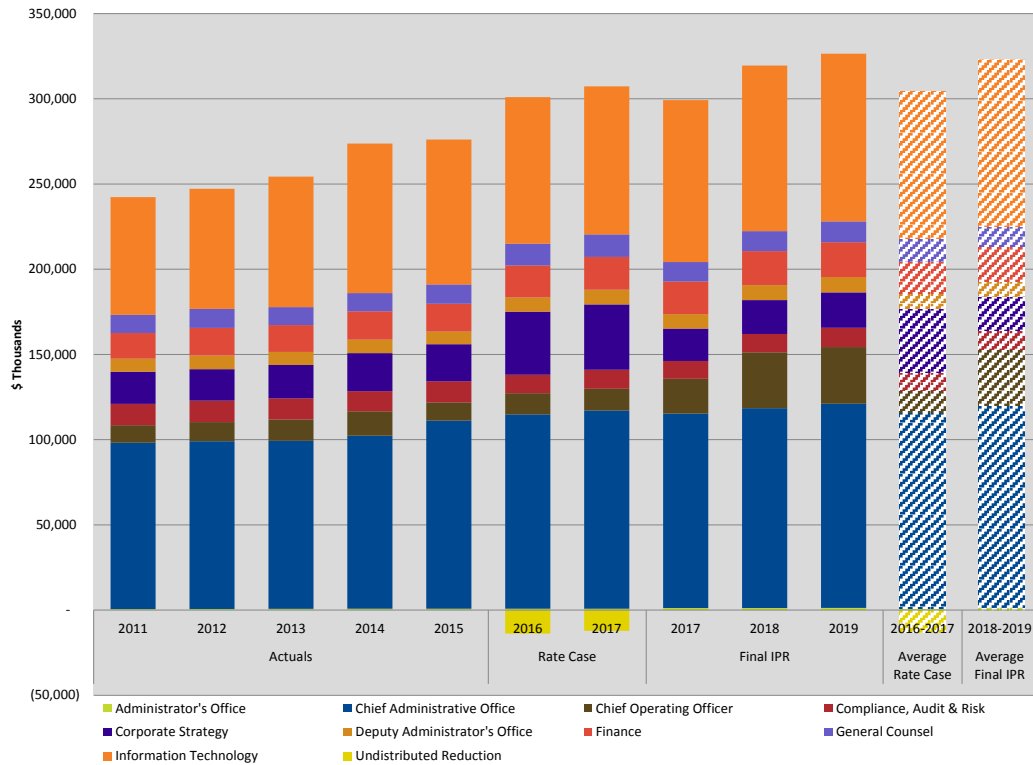
³ The \$7.7 million also includes roughly \$6 million in KSI changes, outlined on Page 15, which are allocated to Power Services and Transmission Services.

Agency Services Expense Summary

FY 2018-19 average: Final IPR



Agency Services IPR Expense Summary



Agency Services Summary Statement of IPR and Other Program Expenses

(\$Thousands)	2017			2018			2019		
	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta
Administrator's Office Total	1,154	1,154	0	1,200	1,200	0	1,240	1,240	0
Human Capital Management (HCM)	17,210	17,210	0	17,550	17,550	0	17,898	17,898	0
Internal Operations	3,748	3,748	0	3,822	3,822	0	3,896	3,896	0
Safety	9,115	9,115	0	9,291	9,291	0	9,473	9,473	0
Security & Continuity of Operations (OSCO)	10,531	10,531	0	10,732	10,732	0	10,940	10,940	0
Supply Chain	19,151	19,151	0	19,550	19,550	0	19,950	19,950	0
Workplace Services	54,660	54,360	(300)	56,429	56,279	(150)	57,831	57,681	(150)
Chief Administrative Office Total	114,415	114,115	(300)	117,373	117,223	(150)	119,988	119,838	(150)
Chief Operating Officer	12,711	10,711	(2,000)	27,792	22,792	(5,000)	27,843	22,843	(5,000)
Customer Support Services	9,707	9,707	0	10,048	10,048	0	10,405	10,405	0
Chief Operating Officer Total	22,418	20,418	(2,000)	37,840	32,840	(5,000)	38,248	33,248	(5,000)
Compliance, Audit & Risk Total	10,467	10,467	0	10,773	10,773	0	11,350	11,350	0
Corporate Strategy Total	20,983	18,983	(2,000)	21,830	19,830	(2,000)	22,691	20,691	(2,000)
Communications	4,657	4,657	0	4,796	4,796	0	4,949	4,949	0
Deputy Administrator's Office	385	385	0	404	404	0	418	418	0
Intergovernmental Affairs	3,494	3,494	0	3,594	3,594	0	3,693	3,693	0
Deputy Administrator's Total	8,536	8,536	0	8,794	8,794	0	9,059	9,059	0
Finance Total	19,390	19,149	(240)	20,373	19,920	(453)	21,106	20,438	(667)
General Counsel Total	11,357	11,357	0	11,751	11,751	0	12,142	12,142	0
Information Technology Total	95,012	95,012	0	97,136	97,136	0	98,446	98,446	0
Undistributed Reduction									
Grand Total	303,732	299,192	(4,540)	327,070	319,468	(7,603)	334,269	326,451	(7,817)

4.1 Changes from initial IPR levels

Agency Services reduced the Technology Innovation program proposal by \$2 million per year, which is split evenly between Power Services and Transmission Services expenses. BPA's Technology Innovation program funds research, development and demonstrations of technologies that could add future value to BPA's business. BPA can control the scale of its Technology Innovation program and has elected to limit its funding to offset funding needs in other areas. BPA will continue to pursue opportunities to maintain the strength and effectiveness of its Technology Innovation program with this reduced funding level.



5. KEY STRATEGIC INITIATIVES

OVERVIEW

BPA reduced incremental proposed funding for Key Strategic Initiatives by about \$6⁴ million per year in 2018 and 2019:

- Reduced the Asset Management KSI proposed expenses by \$600,000 in FY 2018 and \$100,000 in FY 2019.
- Reduced the proposed Commercial Operations KSI costs by \$5 million per year.
- Reduced the proposed costs for the Long-term Financial and Rates KSI by an average of \$600,000 per year.

Key Strategic Initiatives define and support the specific transformational actions BPA will take to execute on its top strategic priorities. Additional background information on the KSIs and priorities can be found on Page 4 of the [summary section in the initial publication](#). While actual spending levels are reflected in the previous sections, BPA believes it is worth calling out specific changes to KSI spending given the level of interest in workshops, follow-ups and comments.

This year BPA launched a Business Transformation Office to ensure that we effectively execute on the transformational work of our KSIs and deliver the full benefits of this work to our customers. The BTO will report directly to the chief operating officer and be embedded within the commercial business units. The advantages of having this new office are expected to include better prioritization and efficient use of existing resources; rigorous business case development and business readiness; a more consistent, disciplined approach to program management; and the establishment of a common enterprise architecture to maximize interoperability and minimize operations and maintenance costs associated with IT investments.

Over the past three years, BPA has taken on major cultural change initiatives associated with safety, management excellence, employee engagement, and diversity and inclusion. All of these efforts have produced meaningful improvements through a shared vision and deep commitment to

⁴ The Key Strategic Initiatives expenses have been included in expense changes in Power Services, Transmission Services and Agency Services.

delivering positive results. The BTO is intended to strengthen BPA’s culture in the areas of prioritization, execution and operational excellence – all of which will be critical to achieving long-term competitiveness and financial strength.

Key Strategic Initiatives Expense Summary

(\$Millions)	2017			2018			2019		
	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta
KSI Incremental									
Asset Management	2.9	2.1	(0.8)	2.4	1.8	(0.6)	1.4	1.3	(0.1)
Long-Term Finance & Rates	1.2	1.0	(0.2)	1.9	1.4	(0.5)	2.0	1.3	(0.7)
Commercial Operations	10.0	8.0	(2.0)	25.0	20.0	(5.0)	25.0	20.0	(5.0)
Total Incremental Expense	14.1	11.1	(3.0)	29.3	23.2	(6.1)	28.4	22.6	(5.8)

5.1 Changes from initial IPR levels

Asset Management Key Strategic Initiative

The Asset Management KSI is critical to our priority of executing sustainable and affordable investments to maintain and modernize the federal power and transmission system. Work is already underway to create robust asset registers. Since the initial IPR publication, we were able to reduce the incremental cost of this KSI by \$800,000 in FY 2017, \$600,000 in FY 2018 and \$100,000 in FY 2019. These reductions are a result of the progress made on the federal hydropower asset register by BPA, the Corps and Reclamation, as well as BPA’s Facilities organization absorbing the incremental costs of creating an asset register within its existing planned spending. Consistent with the initial proposal, some incremental spending will be necessary to develop an asset register for Transmission. This is a crucial tool that will enable better accounting of and more effective investment in the federal transmission system. Further reductions to planned spending would cause a serious delay in our ability to deliver this register.

Business Information Systems Key Strategic Initiative

BPA heard comments to look for ways to reduce incremental spending for the Business Information Systems KSI. We have taken a second look at the projects the KSI will fund and determined that reducing spending in this area would delay projects that are foundational to the Asset Management and Commercial Operations KSIs. BPA is already absorbing about 70 percent of the costs associated with this KSI but will continue to look for ways to more efficiently deliver on these projects.

Commercial Operations Key Strategic Initiative

We received many comments concerning the incremental spending level for the Commercial Operations KSI given the lack of detail outlined during IPR. We acknowledged the need for more time to develop the business case and refine the associated costs, and have since reduced the incremental proposed spending for this KSI by \$5 million per year based on rate pressure and affordability concerns. We will continue to develop the business case, with the Business Transformation Office making this KSI its number one priority in the coming months. We are committed to sharing our progress and holding further discussion on commercial operations investment alternatives during IPR 2.

Long-Term Financial and Rates Key Strategic Initiative

BPA reviewed incremental spending for the Long-Term Financial and Rates KSI and identified cost reductions of \$200,000, \$500,000 and \$700,000 in fiscal years 2017, 2018 and 2019, respectively, from the initial publication. As plans have matured, BPA determined it can execute the initiatives for this KSI more efficiently. We still believe the additional incremental spending is needed to move forward on programs, such as the cost management initiative.

Workforce Key Strategic Initiative

BPA heard concerns that workforce levels may not be the right size and composition to meet business needs. We believe the initial publication represented a careful evaluation of the workforce we will need to complete work over the next few years. But we also know our workforce modernization initiative will be important to understanding the workforce needs we will have in the future, and we also need to evaluate how different employment levels may impact BPA's ability to execute work. Spending for this KSI will be absorbed by redeployment of funds within existing programs, as proposed in the initial IPR publication.

BPA will also continue to absorb cost increases associated with the Fish and Wildlife KSI and the Safety and Occupational Health KSI within existing programs.

6. CAPITAL

BPA re-examined its initial capital levels to ensure we reflected the most accurate assumptions both in the short term and long term. Based on updated information and customer comments, BPA reduced proposed direct capital spending in hydro investments to reduce fiscal year 2017-2019 direct capital spending by \$74 million, and shifted transmission investments to reduce spending by \$57 million in 2017. The capital table also shows an increase to the capital indirects that are not an increase to the asset category project spending identified in the initial publication. Rather, they represent an update to capitalized Transmission overheads to reflect standard operating conventions that were not included in the analysis supporting the initial publication. The final assumptions also reflect better information on projected capital spending post-2019.

Capital Investment Levels by Asset Category

(Millions \$)	Final CIR				Final CIR						
	2017	2018	2019	FY 17-19 Total	2020	2021	2022	2023	2024	2025	2026
Asset Category Direct Spending											
Transmission Direct	315	317	311	943	456	473	482	441	421	417	432
Federal Hydro	206	236	258	700	281	306	331	338	344	351	358
Facilities	22	18	35	75	22	26	26	28	12	22	16
Security	8	6	8	22	7	7	7	7	5	6	6
Fleet	6	7	7	20	8	8	8	9	9	10	10
IT	25	25	25	75	12	12	12	12	12	12	12
Fish & Wildlife	45	51	44	139	38	34	29	29	36	37	37
Environment	5	6	6	17	6	6	6	6	6	6	6
Direct Total	633	665	693	1,991	829	871	901	869	845	859	876
PFIA	23	16	16	54	15	15	15	15	15	15	15
Transmission Indirects	55	56	57	169	58	59	60	61	62	62	63
Corporate Overheads	62	60	62	184	63	64	65	67	68	69	71
AFUDC	50	32	30	111	30	31	31	30	30	30	30
Grand Total	823	828	858	2,509	995	1,040	1,072	1,042	1,020	1,036	1,055

(Millions \$)	Deltas from Initial CIR				Deltas from Initial CIR						
	2017	2018	2019	FY 17-19 Total	2020	2021	2022	2023	2024	2025	2026
Asset Category Direct Spending											
Transmission Direct	(57)	-	-	(57)	-	-	-	-	-	-	-
Federal Hydro	(29)	(22)	(23)	(74)	(25)	(25)	(7)	(6)	(7)	(7)	(7)
Facilities	-	-	-	-	(3)	1	1	3	(14)	(5)	(12)
Security	-	-	-	-	-	-	-	-	-	-	-
Fleet	-	-	-	-	-	-	-	-	-	-	-
IT	-	-	-	-	9	-	7	5	(3)	(3)	(3)
Fish & Wildlife	-	-	-	-	-	-	-	-	-	-	-
Environment	-	-	-	-	-	-	-	-	-	-	-
Direct Total	(86)	(22)	(23)	(131)	(19)	(24)	1	2	(24)	(15)	(22)
PFIA	8	1	1	9	-	-	-	-	-	-	-
Transmission Indirects	7	14	15	35	18	28	28	29	29	29	30
Corporate Overheads	14	17	20	50	22	33	34	35	35	36	37
AFUDC	-	-	-	-	-	-	-	-	-	-	-
Grand Total	(59)	10	12	(37)	21	36	63	65	40	51	44

• Increases to Transmission and Corporate capital indirects have been updated from the 2014 CIR planning assumption to expected values. The 2014 CIR assumed Transmission overheads equaled 25% of project forecast. The 2016 CIR indirects reflect planned spending amounts.

6.1 Power Services capital

Power Services has proposed moving toward a \$300 million a year investment in federal hydropower assets but has slowed the pace of ramping up investments in response to concerns expressed in comments. Over the coming months, Power Services plans to engage the region in robust dialogue about the work of the Asset Investment Excellence Initiative and the business case for higher capital spending on the Federal Columbia River Power System.

6.2 Transmission Services capital

The reduction of \$57 million for proposed Transmission direct capital spending in FY 2017 is due to the completion of several large expansion projects in addition to a shift to focus on work to sustain the system. Sustain capital projects are generally lower dollar investments and focus on existing assets.

6.3 Agency Services capital

Facilities and Information Technology capital programs have been reshaped for FY 2020 through FY 2030. There were no changes in the total spending levels over this time period, but this change provides more of an average spending profile over time, even though facilities and IT spending can vary substantially between years.

7. CONCLUSION AND NEXT STEPS

The spending levels we have outlined in this document will be used for fiscal years 2017 through 2019. These expenses will be included in the initial proposal for the BP-18 Rate Case that BPA will release in November.

BPA is planning to hold an IPR 2 process to discuss potential changes to funding levels after the rate proceedings have begun. IPR 2 is not an opportunity to look at all IPR and CIR spending levels. It is a targeted process to review specific areas where we think there may be opportunities for additional savings relative to the spending levels described in this document. BPA currently plans to address expenses and capital for the Bureau of Reclamation and the Corps of Engineers as well as expenses for the Columbia Generating Station in IPR 2. BPA will provide additional supporting information and analysis regarding the proposed increased capital spending for the federal hydropower projects. We will also provide opportunities for meaningful input on the Commercial Operations and Workforce KSIs.

The IPR 2 process is a shorter process compared to the IPR due to its scope and the need to fit within the timeline of the rate case. BPA heard concerns that customers needed more time to engage on IPR 2 topics, so we are looking to hold working sessions on IPR 2 topics starting in the late fall. These sessions will allow for a discussion of the costs and benefits, risks and rewards of different spending alternatives and will provide for meaningful input into final decision-making for the 2018-19 rate period. For customers who cannot attend these workshops, we will provide a summary of what was discussed in the IPR 2 kickoff letter in January. The actual IPR 2 process will take place in February with workshops and a comment period. We expect to release a close-out from that process no later than April 2017.

8. DISCLOSURES

8.1 Future Adjustments

BPA conducts the IPR/CIR process to solicit and consider regional input on BPA's financial priorities for the upcoming rate period. Through this collaborative process, BPA and regional parties can have a meaningful dialogue regarding BPA's initial program spending levels. At the conclusion of the IPR/CIR process, BPA issues a close-out letter and report in which BPA describes how its program funding and spending projections were informed by the parties' comments. The projected program levels described in the close-out letter and report reflect the administrator's best estimate regarding the appropriate spending levels to assume in establishing revenue requirements.

The closeout of the IPR/CIR process does not mark the consummation of BPA's decision-making process on budgetary levels because further adjustments to BPA's spending projections may occur after the conclusion of the IPR/CIR. While the IPR/CIR close-out letter and report reflect the administrator's best estimate regarding the appropriate spending levels to assume in setting revenue requirements, these levels may be further modified by subsequent future events that lead to changing priorities or by subsequent judicial, executive or congressional action. Thus, while the IPR/CIR serves the important role of receiving regional input on the priorities for BPA spending, the resulting final program levels are only recommendations that may be subsequently modified.

BPA will share adjustments to spending projections at Quarterly Business Reviews.

8.2 Financial Disclosure

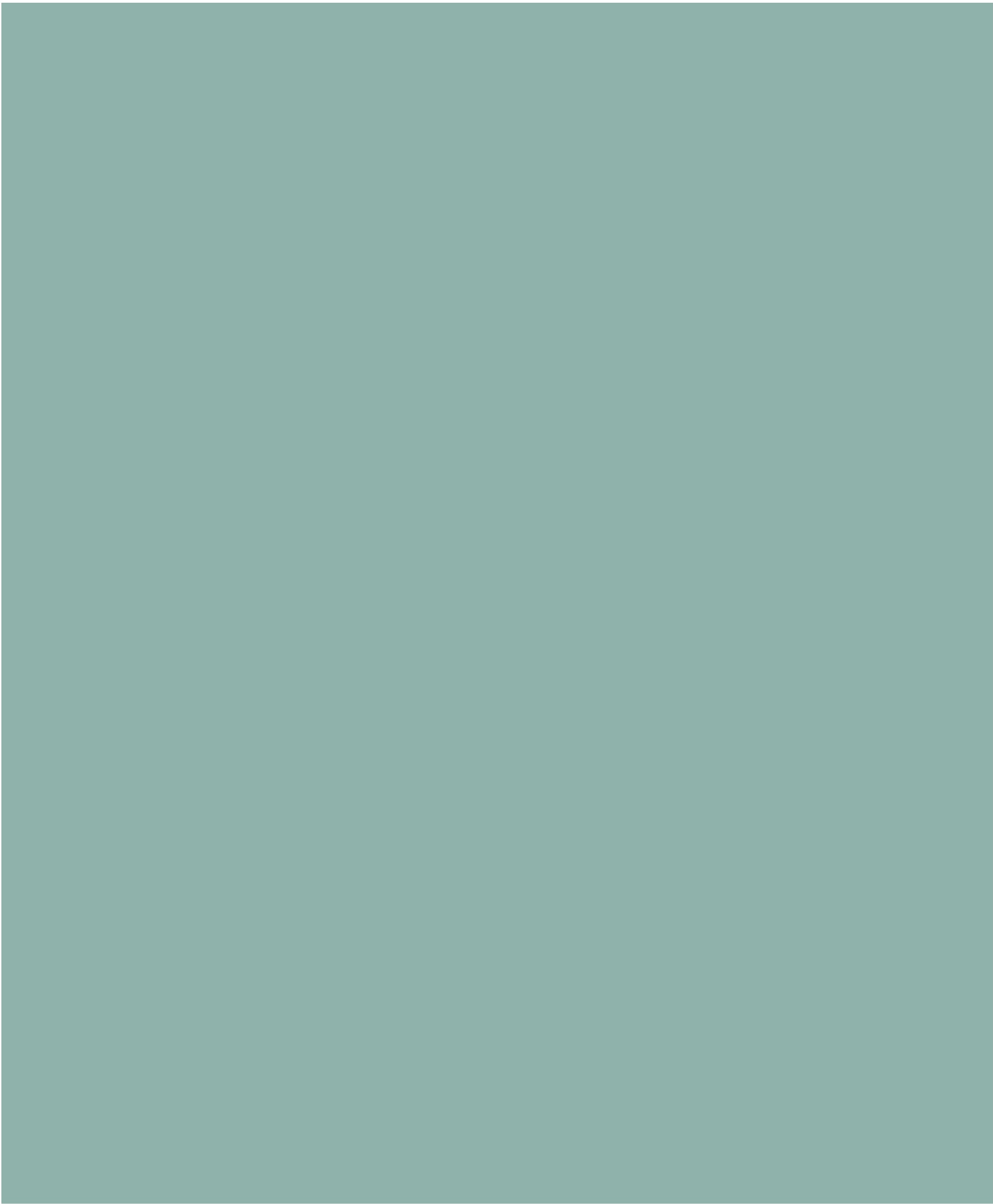
FY 2015 actuals have been made publicly available by BPA and contain BPA-approved financial information.

FY 2016–17 forecasts for rate case and start-of-year have been made publicly available by BPA and contain BPA-approved financial information.

FY 2017–19 proposed IPR levels were made publicly available by BPA on June 10, 2016, and reflect information not reported in BPA financial statements.

FY 2017–19 Final IPR spending levels were made publicly available by BPA on Oct. 12, 2016, and reflect information not reported in the BPA financial statements.

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