



Building on a Northwest Legacy

TO BPA CUSTOMERS, CONSTITUENTS, TRIBES AND STAKEHOLDERS:

Thank you for participating in this very collaborative Integrated Program Review.

When I was sworn in as the 15th administrator of the Bonneville Power Administration in February, I encouraged the region to come together to meet the collective needs of the Northwest in the most reliable, cost-effective and environmentally sustainable way possible. Based on the level of collaboration that I witnessed over the past year and the number of comments we received during the IPR, we as a region are well on our way to meeting that challenge.

In January, I met with a large group of customers and constituents to discuss the strategic drivers influencing BPA's program spending levels and Power and Transmission rates for fiscal years 2016 and 2017. At that time, we were forecasting double-digit rate increases for both Power and Transmission.

The drivers affecting Power rates included continued low net secondary revenues and increased principal and interest payments associated with past capital spending. In addition, we faced steadily increasing program expenses in Fish and Wildlife, Corps and Reclamation O&M, and the Residential Exchange Program. The primary drivers impacting Transmission rates included increased capital-related costs to sustain an aging transmission system and to expand the transmission system to meet regional needs. One of the key Corporate drivers discussed was the work going on with DOE's Human Capital Management office. This work will result in BPA HCM costs that are no higher than those included in the Initial IPR spending levels for FY 2015-17.

The meeting provided an excellent opportunity for us to hear from a panel of our customer utility general managers about the issues and economic challenges they are facing in their service territories and the impacts that our rate decisions have on their customers. Their comments were an important reminder that many of our utility customers serve parts of the region that are still experiencing significant economic hardship. Customers clearly wanted to ensure that we brought forth our lowest possible spending levels to keep rates as low as possible.

After that meeting, we spent the next several months scrubbing our program levels before our May 2014 IPR Initial Publication. Even though we reduced the forecasts from those provided at the January meeting, you asked us to find additional savings.

We, too, were not satisfied with the rate increase projections presented at the IPR kick-off meeting in May. Therefore, after reviewing all the comments received during the IPR public comment period, we conducted yet another round of program-level reviews, including a thorough review of our undistributed reduction.

In addition to keeping both Power and Transmission program level rate increases below the rate of inflation, the final report shows that we were able to identify additional Power program-level savings for fiscal years

2016 and 2017. Those savings include: the repeal of the spent-fuel disposal fee that the U.S. Department of Energy charged Energy Northwest's Columbia Generating Station, saving an average of \$7.4 million a year; a reduction in BPA's forecast for the joint-funded Northwest Energy Efficiency Alliance budget, saving BPA about \$2.5 million a year; and refinancing of Energy Northwest regional cooperation debt for 2014-17, saving about \$29 million a year on average.

With these savings we anticipate the Power rate increase can be held at slightly less than 7 percent, although some uncertainty remains until the release of the initial proposal for the 2016 rate case.

Additional reviews of Transmission program levels presented in the IPR Initial Publication confirmed that program levels are as low as they can go and still meet the needs of the region. However, in one area, we have decided that an additional expenditure is necessary. We have decided to move forward with purchasing property insurance for all transmission substations, the Ross Complex, Dittmer and Munro Control Centers, Celilo Converter Station, and office buildings and contents. Transmission lines and towers would not be covered. We believe the inclusion of property insurance for Transmission is prudent fiscal and financial management of the Transmission assets. This is estimated to cost about \$4 million per year.

Changes to Transmission's IPR program spending levels were limited to the addition of property insurance in FY 2016-17. The increased program spending has been offset by lower capital related costs, resulting in an average rate increase around 5.5 percent from BP-14. As noted above, uncertainty remains until the Initial Proposal is released.

We also took another look at both our capital spending and treatment of financial reserves. After further review of the decisions we made at the conclusion of the Capital Investment Review (CIR) process, we plan to continue with the capital spending levels from the May 23rd CIR letter. Meanwhile, as you suggested, we will continue to strive for improvements in our new capital prioritization process. We also recently held two financial reserves workshops to start discussions with the region about the development of a possible use-of-reserves policy. However, we do not anticipate proposing the use of reserves for rate mitigation in the next rate period.

The decisions reflected in our final report demonstrate our commitment to the needs of the Northwest, including keeping rates as low as possible. At the same time, we have made decisions that will enable us to meet our other strategic priorities including developing a long-term capital investment strategy to maintain and enhance the Federal Columbia River Power System; partnering with the region to meet fish and wildlife objectives; modernizing the Columbia River Treaty; moving ahead with energy efficiency and demand response programs; and bringing nonfederal sources of balancing capacity and flexibility into BPA operations.

Thank you, once again, for your thoughtful participation.

Sincerely,

/s/ Elliot E. Mainzer

Elliot E. Mainzer
Administrator and Chief Executive Officer

2014 Integrated Program Review

Final Close-out Report

October 2014

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1. INTRODUCTION

1.1 WHAT WE HEARD

BPA would like to thank all of you – customers, tribes, stakeholders, special interest groups and constituents – for your thoughtful participation in the 2014 Capital Investment Review (CIR) and the 2014 Integrated Program Review (IPR). Your contributions to the collaborative discussion in meetings and written comments have provided valuable input and insight for BPA’s executive team as it evaluated BPA’s the region’s needs while establishing final IPR spending levels for FY 2016 and 2017 for inclusion in the BP-16 Initial Proposal.

BPA recognized common themes among the 20 written comments received. In general, participants’ comments recognize the need for investment and ongoing maintenance of the aging federal hydro and transmission system but question whether the proposed level of spending presented in the IPR Initial Publication is really necessary given the potential rate increases for FY 2016 and 2017. The following reflects the common themes heard about specific program areas.

Bureau of Reclamation and Corps of Engineers

- Participants recognized and understood the need to continue investing in the federal hydro system and supported proposed capital levels described in the Federal Hydro Asset Strategy during the CIR.
- Comments suggested concerns around the Corps and Reclamation being able to retain qualified staff.
- Participants questioned the Corps and Reclamation’s ability to complete the level of planned work reflected in their proposed spending levels.

Fish and Wildlife

- Comments indicated concern regarding the increasing fish costs.
- Participants were pleased to see the Fish and Wildlife program is in a mature stage.

Energy Efficiency

- Some participants expressed concern about the timing of the release of the Council’s Seventh Power Plan and adopting budgets prior to its release.
- Some participants suggested Energy Efficiency be fully and directly self-funded by customers.
- Some comments expressed concern about BPA’s approach for inputting a “ceiling” for funding to the Northwest Energy Efficiency Alliance.
- Two conflicting themes were heard about low-income weatherization, some comments described a genuine need for additional funding while others support the proposed IPR levels and noted concerns about the effect increasing costs would have on Northwest ratepayers.

Agency Services

- Funding for the Technology Innovation program was seen as worthwhile.
- Some commenters raised concerns over the increase in the Information Technology budget.
- Comments encouraged BPA to develop mechanisms to control the rapid growth in internal costs.

Transmission

- Proposed expense and capital investment levels were generally supported.
- Participants requested that BPA be mindful of the cost pressures it is passing on to its customers and that it allocates budget dollars to only those initiatives and projects that are clearly necessary to complete.

- Comments suggested that customers understand the need to continue maintenance of BPA's aging infrastructure.

Property Insurance

- Comments indicated concerns about obtaining property insurance for the BP-16 rate period.
- Participants supported the idea of property insurance but thought that more information and analysis is needed.

This list describes general themes that emerged from the comments. BPA's executive team reviewed and considered all the comments as it identified and evaluated potential changes to proposed IPR spending levels.

The [IPR Initial Publication](#) was released on May 23, 2014. Information presented here describes changes to proposed spending levels from the initial publication and responds to participant suggestions and key concerns. Details pertaining to cost estimates, drivers, goals, risks and statistics, as well as comparisons to previous IPR costs, can be found in the IPR Initial Publication.

Note: Proposed IPR spending levels shown in the IPR Initial Publication and subsequent material is referenced to as initial IPR spending levels in this document.

1.2 OVERALL SPENDING LEVELS

For this IPR process, BPA revised its approach for developing initial IPR spending levels compared to previous years and strived to be more strategic about the proposed spending levels. The IPR Initial Publication included proposed spending levels for each program that had already been thoroughly reviewed and scrutinized internally. This was a change from the process in previous years, where BPA started the IPR process with higher proposed spending levels and reduced them throughout the IPR process. BPA's process is described much more thoroughly in the IPR Initial Publication.

In this close-out report, BPA has incorporated an increase to Transmission spending levels to purchase property insurance for certain transmission assets and reductions to Power program spending levels for Columbia Generating Station (CGS) and Northwest Energy Efficiency Alliance (NEEA), but did not identify any further reductions for specific programs. Any further reductions to programs would not be fiscally prudent in the long term and could put successful program execution at risk. Instead, BPA focused attention on the size of the proposed undistributed reduction since it corrects for BPA's historical underspending. The proposed undistributed reduction and historical underspending are both discussed further in the next section.

1.3 UNDISTRIBUTED REDUCTION

BPA initially proposed an undistributed reduction of \$30 million after reviewing BPA's historical underspending. Some of the stakeholder comments suggested BPA take a more aggressive approach and increase the amount of the undistributed reduction. Based on these comments, BPA reviewed its previous analysis and further evaluated historical data to determine if a larger undistributed reduction should be proposed. Whereas in the initial analysis, BPA reviewed three years of IPR spending levels compared to actual spending levels and based our estimate on the underspending at the low end of the underspending range. In this further analysis, BPA included a fourth year and studied averages over the period. BPA also reviewed specific categories such as personnel, awards and contracts. This work caused BPA to also review its assumptions regarding cost-of-living allowances and the associated effects the three-year federal pay freeze and hiring impacts due to issues surrounding BPA's hiring practices had on BPA's underspending results. The executive team considered all of this additional work, as well as BPA's new budgeting approach, when it discussed the possibility of increasing the undistributed reduction. The result was to maintain the

undistributed reduction at \$30 million. An increased amount could place program delivery at risk and did not appear to be prudent.

1.4 DISCLOSURES

Future Adjustments

BPA conducts the discretionary IPR process in order 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 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 setting rates.

The close-out of the IPR 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. While the IPR Close-out Letter and Report reflect the administrator's best estimate regarding the appropriate spending levels to assume in setting rates, these levels may be further modified by subsequent future events that lead to changing priorities or by subsequent executive or congressional actions. Thus, while the IPR 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.

Further, while BPA may intend to fund a program at a particular level during the next rate period, future events may change BPA's spending projections. These changes may result in increases or decreases to the spending projections contained in the IPR Close-out Report. In short, the end of the IPR process does not mark the end of BPA's decision-making process for establishing future budgetary levels. BPA will seek to share adjustments to spending projections contained in the IPR at Quarterly Business Reviews.

Financial Disclosure

FY 2013 actuals have been made publicly available by BPA and contain BPA-approved Financial Information.

FY 2014 and 2015 Rate Case forecast have been made publicly available by BPA and contain BPA-approved Financial Information.

FY 2015-2017 Initial IPR spending levels have been made publicly available by BPA on May 23, 2014, and reflect information not reported in BPA financial statements.

FY 2015-2017 Final IPR spending levels have been made publicly available by BPA on October 2, 2014, and reflect information not reported in BPA financial statements.

POWER SERVICES



2.1. POWER OVERVIEW

Through the Integrated Program Review (IPR), BPA engaged in a rigorous internal review and public discussion of Power Services’ program and internal costs. These costs, which make up approximately 45 percent of Power Services’ overall costs, support key generating infrastructure, regional energy efficiency programs and the protection, mitigation and enhancement of fish and wildlife.

In this close-out report, you will note that spending levels are largely unchanged from the IPR Initial Publication.

Based on public comments, BPA examined whether there were opportunities to limit or absorb proposed program cost increases. What we found is that further reductions are not prudent in light of the initial strict method of determining proposed spending levels combined with the \$24 million undistributed reduction included in the power revenue requirement. However, we did reflect nearly \$10 million per year in reductions due to a DOE decision to repeal the spent-fuel disposal fee it charges Energy Northwest and greater certainty on our Market Transformation costs from the Northwest Energy Efficiency Alliance.

After making these adjustments, this close-out report includes total IPR funding levels for Power Services that are less than 1% higher than BP-14. However, Power rates will depend not only on these final IPR program expenses, but on the approximately 55 percent of costs that are driven by past capital spending, gas and electricity prices, and FY 2015 financial results. As indicated in the IPR Initial Publication, these costs will still put considerable upward pressure on Power rates.

FIGURE 1

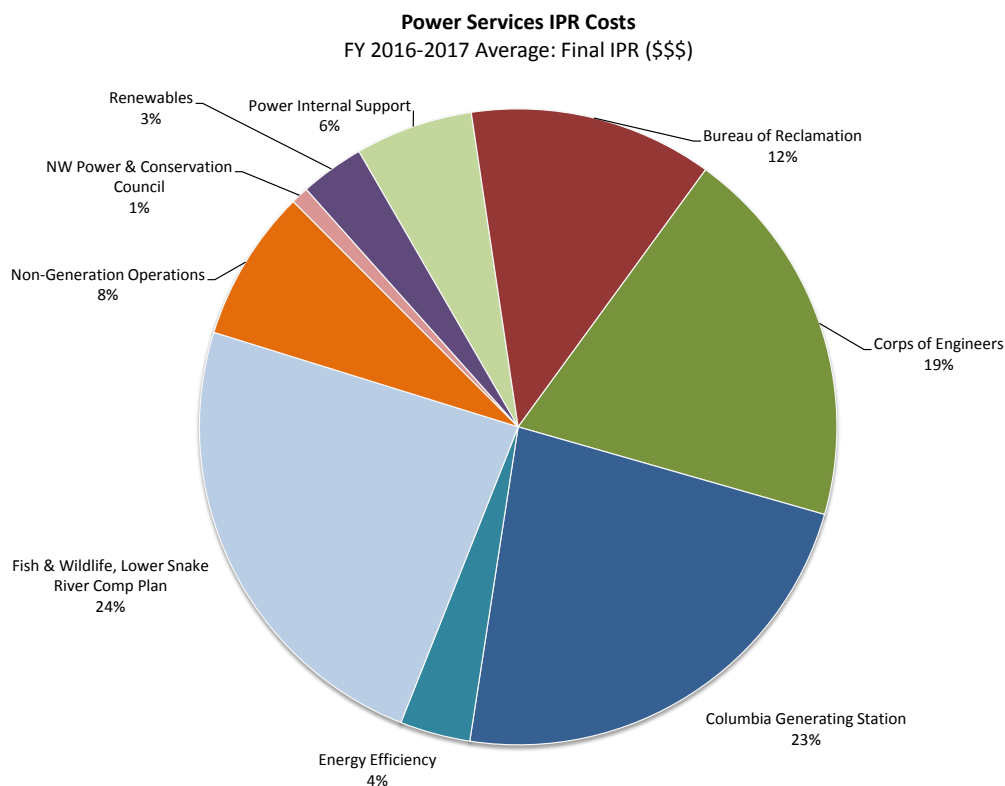


FIGURE 2 Power Services IPR Expense Summary

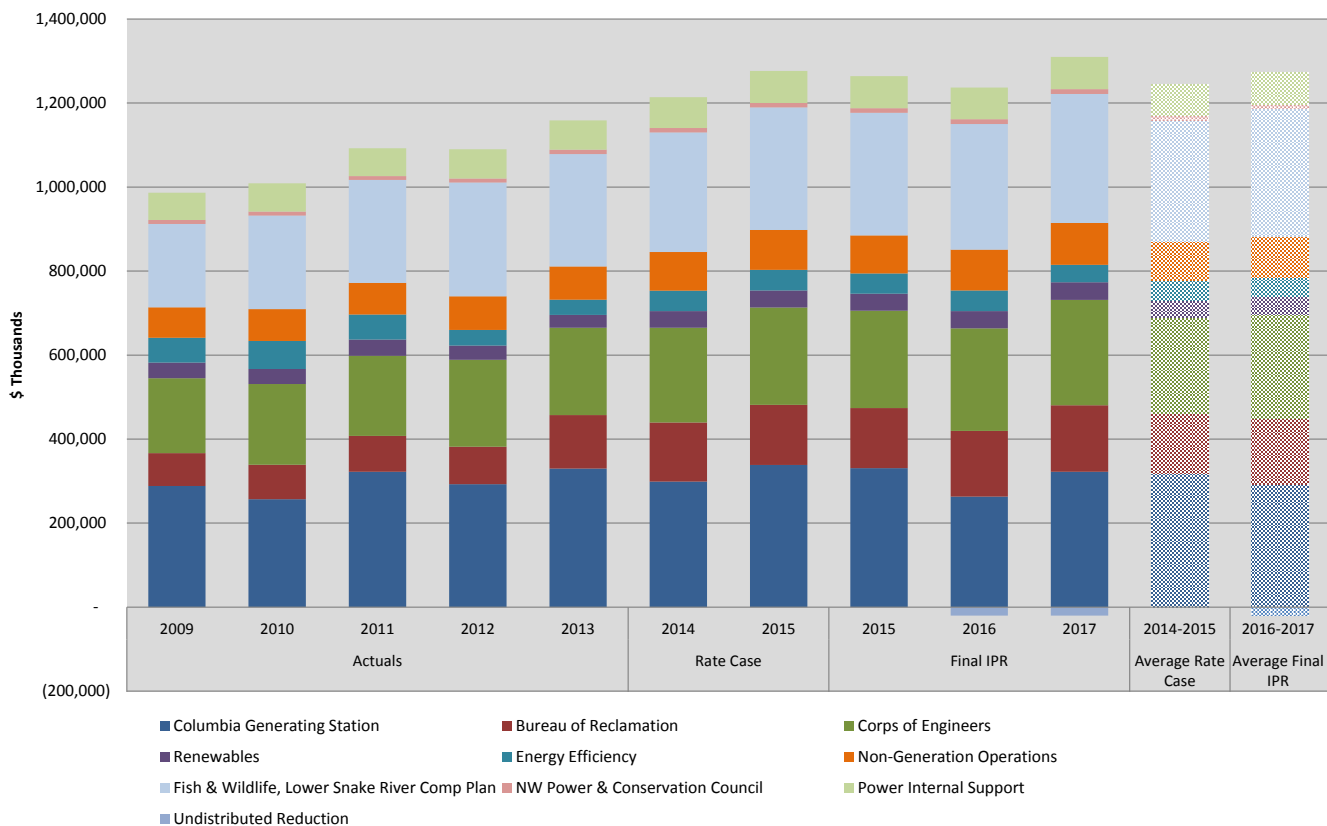


FIGURE 3 Power Services Summary Statement of IPR Program Expenses

(\$ Thousands)	2015			2016			2017		
	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta
Costs Described in IPR									
Columbia Generating Station	339,863	330,763	(9,100)	270,048	262,948	(7,100)	330,173	322,473	(7,700)
Bureau of Reclamation	143,033	143,033	0	156,818	156,818	0	158,121	158,121	0
Corps of Engineers	231,878	231,878	0	243,885	243,885	0	250,981	250,981	0
Renewables	40,331	40,331	0	40,987	40,987	0	41,641	41,641	0
Energy Efficiency	50,122	48,549	(1,573)	51,814	49,349	(2,465)	44,150	41,605	(2,545)
Non-Generation Operations	90,628	90,628	0	97,018	97,018	0	99,836	99,836	0
Fish & Wildlife, Lower Snake River Comp Plan	291,670	291,670	0	299,303	299,303	0	306,949	306,949	0
NW Planning & Conservation Council	10,784	10,784	0	11,236	11,236	0	11,446	11,446	0
Power Internal Support	76,644	76,644	0	75,413	75,413	0	76,854	76,854	0
Undistributed Reduction	0	0	0	(20,000)	(20,000)	0	(20,000)	(20,000)	0
Costs Described in IPR Total	1,274,953	1,264,280	(10,673)	1,226,521	1,216,956	(9,565)	1,300,152	1,289,907	(10,245)

2.2. CHANGES FROM INITIAL IPR LEVELS

This close-out report reflects \$9.9 million per year in savings from the elimination of the Department of Energy’s spent-fuel disposal fee (\$7.4 million) and more certainty regarding BPA’s Market Transformation contract spending levels (\$2.5 million).

TRANSMISSION SERVICES



3.1. TRANSMISSION OVERVIEW

As the pace of change in the compliance, maintenance and market transformation arenas increases, Transmission Services’ final expense levels for FY 2016-17 balance these challenges by keeping expenses at their lowest fiscally-responsible levels through dedicated cost-management strategies.

While no public comments were received that suggested changing the spending levels for Transmission expense programs, there were comments suggesting BPA consider using Transmission reserves to offset the projected Transmission rate increase. This feedback would be an issue for rate setting, not an IPR process. Also, BPA presented the concept of purchasing property insurance at an IPR workshop in June. Given the large number of expensive and aging transmission assets, Transmission’s final IPR program includes the addition of property insurance for all transmission substations, the Ross Complex, Dittmer and Munro Control Centers, Celilo Converter Station, and office buildings and contents. Transmission lines and towers will not be covered. Purchasing insurance minimizes cost and rate instability by reducing the financial consequences of unexpected loss of major assets.

FIGURE 4

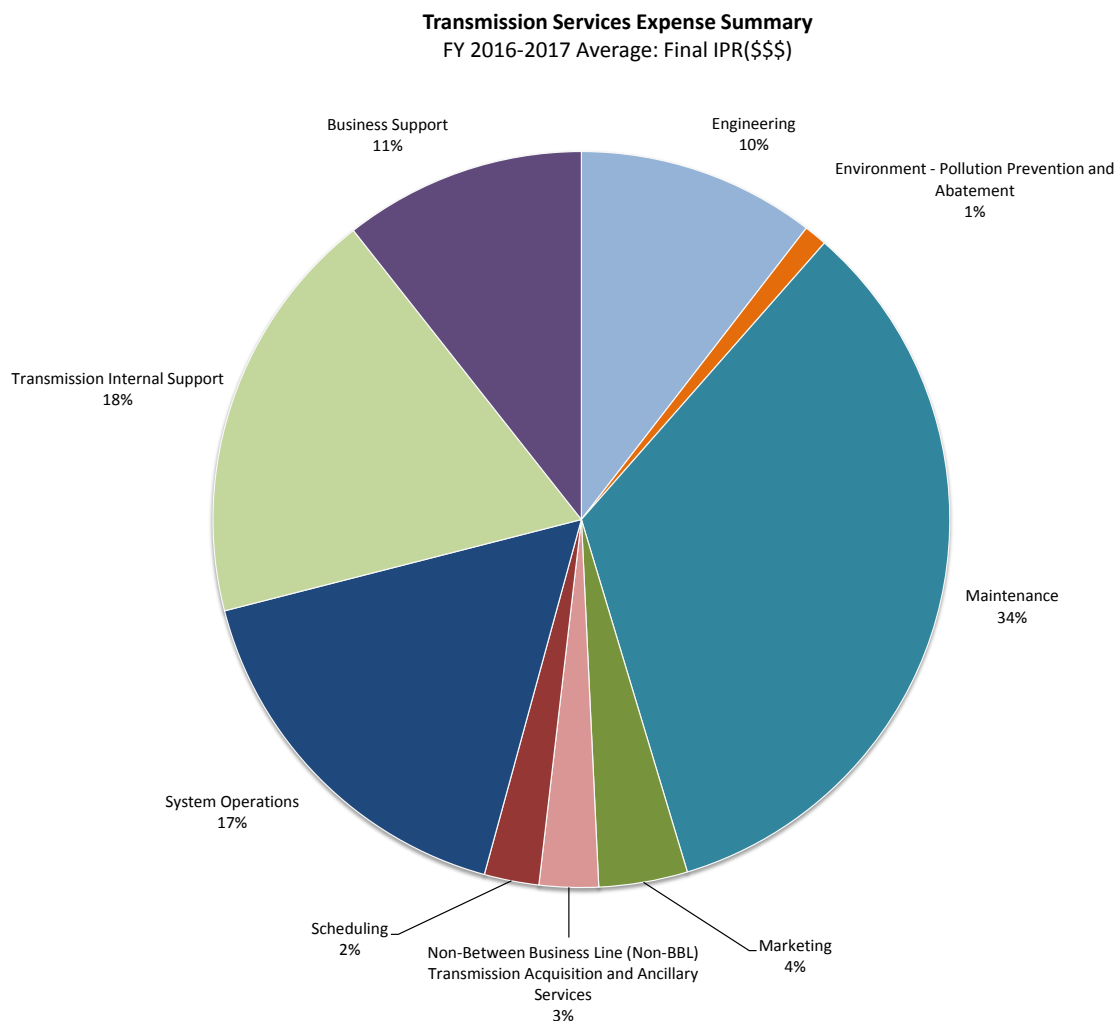


FIGURE 5

Transmission Services IPR Expense Summary

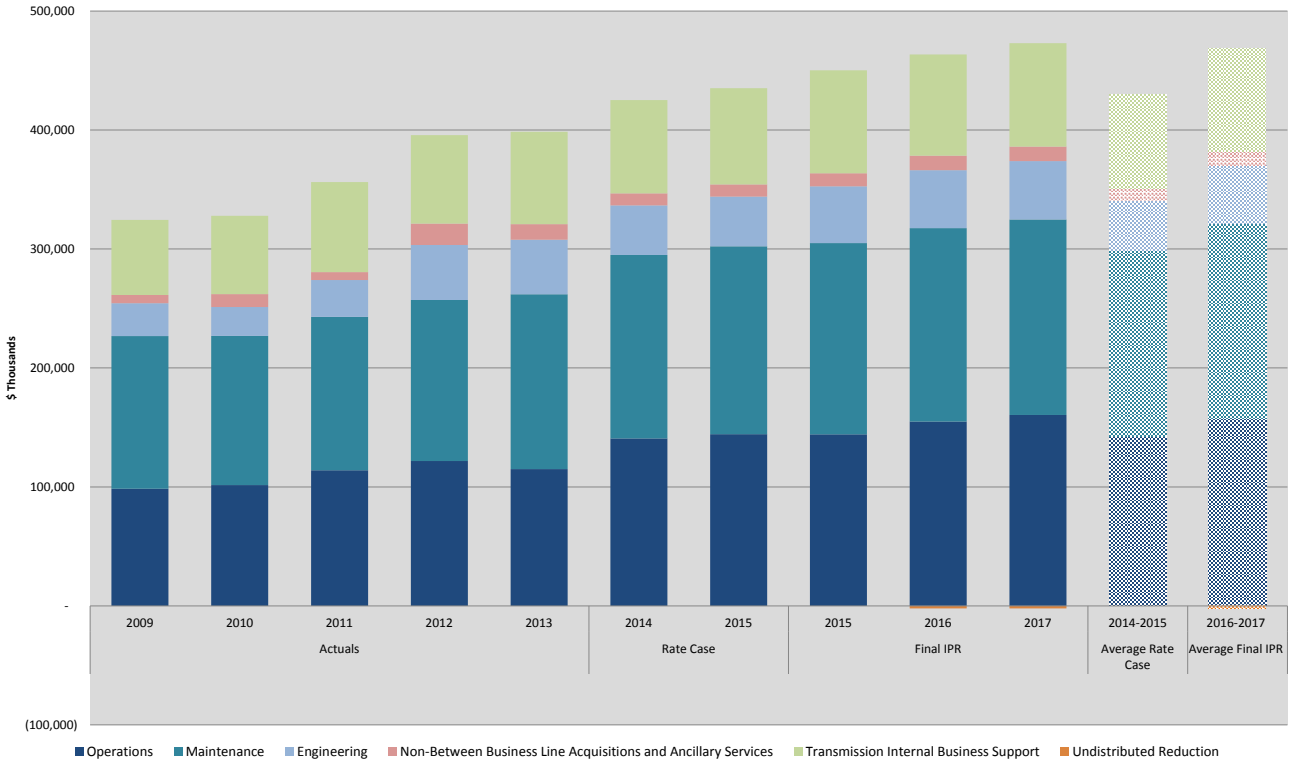


FIGURE 6

Transmission Services Summary Statement of IPR Program Expenses

(\$ Thousands)	2015			2016			2017		
	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta
Costs Described in IPR									
Operations	144,186	144,186	0	150,932	154,932	4,000	156,458	160,458	4,000
Maintenance	160,775	160,775	0	162,552	162,552	0	164,272	164,272	0
Engineering	47,709	47,709	0	48,746	48,746	0	49,147	49,147	0
Non-Between Business Line Acquisitions and Ancillary Services	10,924	10,924	0	12,138	12,138	0	12,153	12,153	0
Transmission Internal Support	86,569	86,569	0	85,106	85,106	0	86,915	86,915	0
Undistributed Reduction	0	0	0	(2,100)	(2,100)	0	(2,100)	(2,100)	0
Grand Total	450,164	450,164	0	457,373	461,373	4,000	466,845	470,845	4,000

3.2. CHANGES FROM INITIAL IPR LEVELS

The inclusion of property insurance resulted in an increase of \$4 million per year to the Transmission Operations program spending levels.

AGENCY SERVICES



4.1. AGENCY SERVICES OVERVIEW

Very few public comments were received pertaining to the Agency Services spending levels. As noted in the Transmission section of this close-out report, BPA has now included property insurance for Transmission assets. Insurance is managed through BPA’s Risk department in Agency Services. The insurance will be direct-charged to Transmission.

FIGURE 7

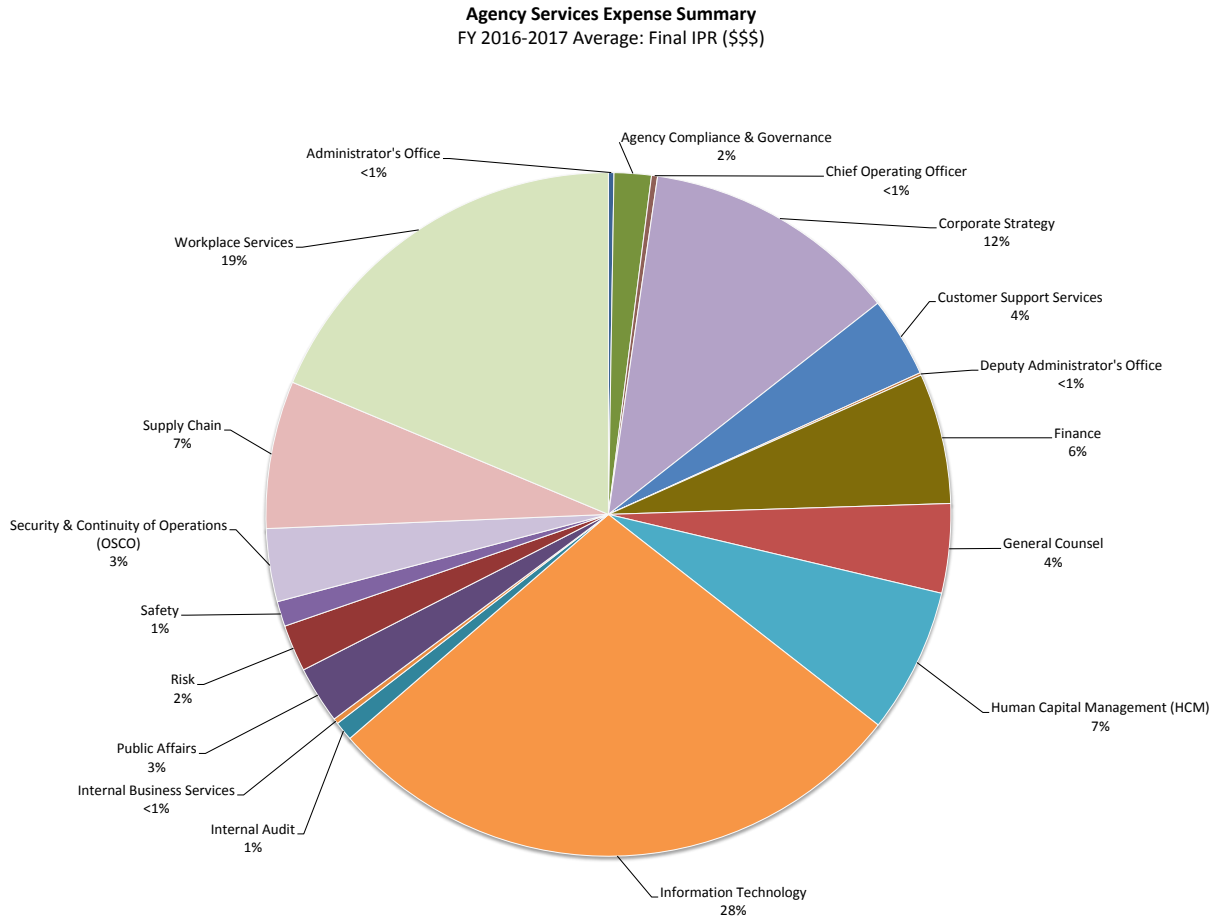


FIGURE 8

Agency Services Summary Statement of IPR Program Expenses

(\$ Thousands)	2015			2016			2017		
	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta	Initial IPR	Final IPR	Delta
Administrator's Office Total	773	773	0	791	791	0	809	809	0
Chief Operating Officer	855	855	0	870	870	0	885	885	0
Customer Support Services	11,193	11,193	0	11,560	11,560	0	11,845	11,845	0
Chief Operating Officer Total	12,048	12,048	0	12,431	12,431	0	12,730	12,730	0
Corporate Strategy Total	29,979	29,979	0	36,603	36,603	0	37,933	37,933	0
Agency Compliance & Governance	4,888	4,888	0	5,298	5,298	0	5,492	5,492	0
Deputy Administrator's Office	341	341	0	347	347	0	354	354	0
Internal Audit	2,652	2,652	0	2,756	2,756	0	2,817	2,817	0
Public Affairs	7,779	7,779	0	8,218	8,218	0	8,416	8,416	0
Risk	2,770	2,770	0	2,789	6,789	4,000	2,861	6,861	4,000
Deputy Administrator's Total	18,430	18,430	0	19,408	23,408	4,000	19,939	23,939	4,000
Finance Total	17,814	17,814	0	18,739	18,739	0	19,292	19,292	0
General Counsel Total	13,491	13,491	0	12,760	12,760	0	13,210	13,210	0
Information Technology Total	83,791	83,791	0	85,961	85,961	0	86,831	86,831	0
Human Capital Management (HCM)	20,543	20,543	0	20,867	20,867	0	21,343	21,343	0
Internal Business Services	759	759	0	774	774	0	793	793	0
Safety	3,343	3,343	0	3,628	3,628	0	3,697	3,697	0
Security & Continuity of Operations (OSCO)	10,304	10,304	0	10,525	10,525	0	10,711	10,711	0
Supply Chain	20,751	20,751	0	21,284	21,284	0	21,685	21,685	0
Workplace Services	55,947	55,947	0	56,955	56,955	0	58,101	58,101	0
Internal Business Services Total	111,647	111,647	0	114,033	114,033	0	116,330	116,330	0
Undistributed Reduction	0	0	0	(7,600)	(7,600)	0	(7,600)	(7,600)	0
Grand Total	287,973	287,973	0	293,126	297,126	4,000	299,475	303,475	4,000

5. CAPITAL INVESTMENT LEVELS

The Final IPR assumptions for capital spending are unchanged from the proposed IPR amounts that were identified in the May 23rd CIR Letter. BPA intends to continue on-going efforts to improve the prioritization of capital investments. Additional information regarding the capital spending levels can be found on the [Capital Investment Review webpage](#).

FIGURE 9

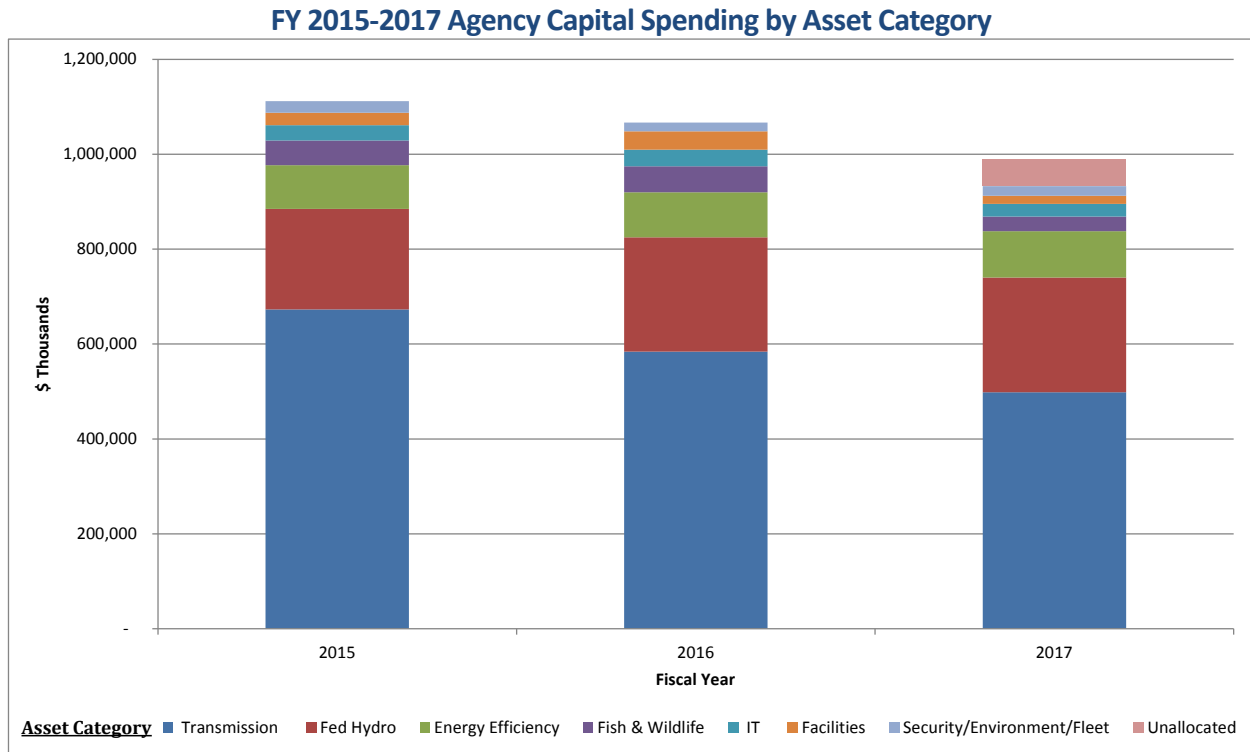


FIGURE 10

FY 2015-2017 Capital Investment Levels by Asset Category

(\$ Thousand)	Final IPR		
	2015	2016	2017
Costs Described in IPR			
Transmission	673,069	584,111	498,374
Fed Hydro	211,829	240,790	241,908
Energy Efficiency	92,000	94,800	97,600
Fish & Wildlife	51,807	54,807	30,795
IT	32,262	34,900	26,624
Facilities	26,427	38,876	17,005
Security/Environment/Fleet	24,465	18,585	20,570
Unallocated			56,000
Grand Total	1,111,859	1,066,869	988,876

6. DEBT MANAGEMENT

In the BP-16 rate case, BPA intends to assume the net effects of the refinancing of Energy Northwest regional cooperation debt for 2014-17. The regional cooperation debt refinancing was discussed at BPA's June 17th Debt Management workshop. The Energy Northwest Executive Board approved a motion to support the regional cooperation debt refinancing in August. The proposal included refinancing regional cooperation debt and using the proceeds originally collected in rates for that debt to pay down a like amount of high interest rate U.S. Treasury debt. The net result of these debt management actions is an estimated savings of up to \$29 million annually in FY 2016 and 2017. Refinancing of the 2014 debt has already occurred, and refinancing of subsequent debt is expected to take place in the following years.

As stated in BPA's Access to Capital Strategy document, BPA is pursuing third-party conservation financing for funding of approximately 70% of EE's capital program (EEI portion). The target date for implementation is BPA start of year 2016. Third-party conservation financing will be utilized for funding of conservation program investment until, and when other funding approaches such as capital to expense are evaluated regionally, and a decision is officially made whether or not to pursue this alternate funding mechanism.

BONNEVILLE POWER ADMINISTRATION

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