

Integrated Program Review Kick-off

May 28, 2014

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Administrator's Message

- We heard you and clearly understand the impacts of a potential rate increase on the region.
- We share your concern and have worked hard to minimize increases to the IPR proposed spending levels.
- In response, we have kept our IPR related costs below the rate of inflation.
- In addition, we have included a rigorous undistributed reduction.
- However, we have additional challenges impacting our future rates.
- We have upward rate pressure due to such items as our Fish & Wildlife obligations and Residential Exchange.
- The change in 2016/17 power rates also reflects a one-time benefit in the 2014/15 rates, a reduction of \$85 million due to debt management actions.
- As we begin this IPR process, we look forward to your suggestions on proposed spending levels and are open to other ideas to mitigate rate pressure.

Integrated Program Review

- The IPR is designed to engage the region in a rigorous review of BPA's programs designed to meet its mission in both the near- and long-term.
- The IPR process allows interested parties to review and comment on all relevant Federal Columbia River Power System expense and capital spending level estimates in the same forum.
- Comments received during the process will be considered when developing final program levels and revenue requirements for the 2016-17 rate case.

BPA's Mission

BPA's mission is to create and deliver the best value for our customers and constituents as we act in concert with others to assure the Pacific Northwest:

- An adequate, efficient, economical and reliable power supply;
- A transmission system that is adequate to the task of integrating and transmitting power from federal and non-federal generating units, providing service to BPA's customers, providing interregional interconnections, and maintaining electrical reliability and stability;
- Mitigation of the Federal Columbia River Power System's impacts on fish and wildlife; and
- Rates that are set as low as possible consistent with sound business principles.

IPR Near-Term

There are both near-term and long-term aspects to the IPR. In the near-term:

- Draft program spending levels for fiscal years 2016 and 2017 have been thoroughly reviewed and scrubbed to find additional cost reductions, and are now ready for public review and comment.
- BPA's internal review tried to identify the lowest possible program levels that still allow us the ability to run the business and deliver on our mission.
- Reductions in actual program deliverables and scope will need to be considered if additional reductions in program spending levels are to be found.
- BPA's goal is to keep rates as low as they can be based on sound business principles.

IPR Long-Term

- Even though there is a desire to focus primarily on the program spending levels for the next rate period, **BPA encourages participants to think longer-term** about BPA's cost structure, spending priorities and potential trade-offs needed to preserve the extraordinarily valuable federal power and transmission system for decades to come.
- BPA has identified long term goals that we believe need to be considered when discussing fiscal years 2016-17 proposed spending.

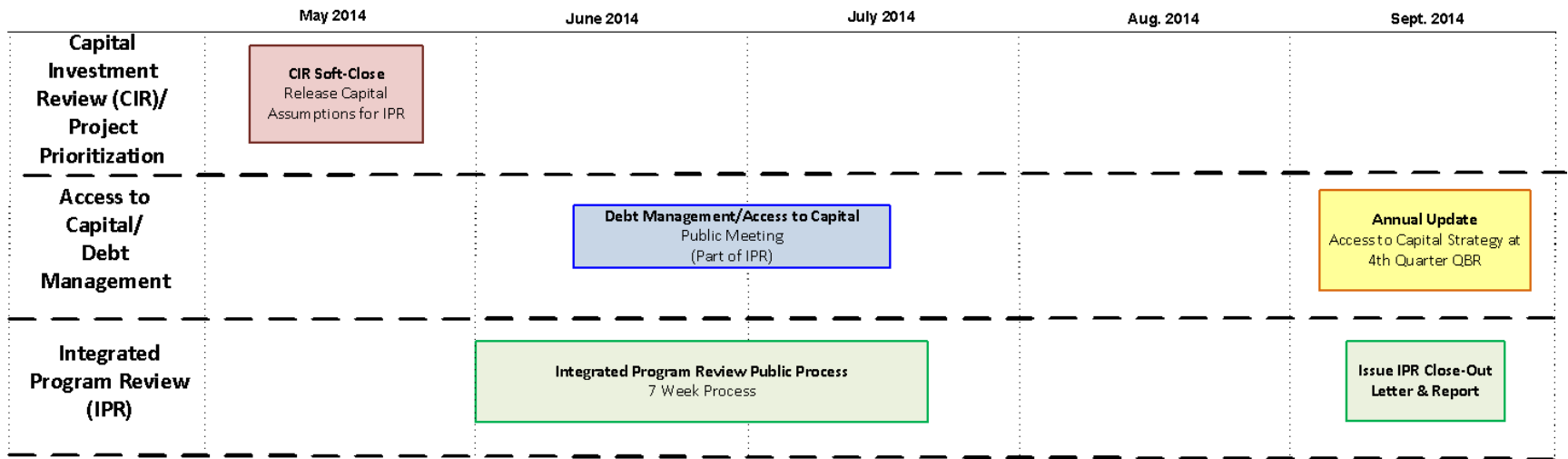
IPR Long-Term

BPA's long-term goals include:

- Providing low cost hydropower and transmission to the Northwest by positioning BPA's cost structure and long-term rates to be competitive post-2028;
- Developing strategies that enable the system to operate more efficiently and reliably;
- Developing a stable and sustainable path with respect to asset health and long-term rate impacts;
- Balancing BPA's commitment to energy efficiency with efforts to maintain system assets and meet other capital requirements;
- Maintaining commitment to future fish and wildlife mitigation while maintaining stable funding levels;
- Positioning for the future with long-term focused debt management of the existing debt portfolio; and
- Planning for succession behind a workforce nearing retirement.

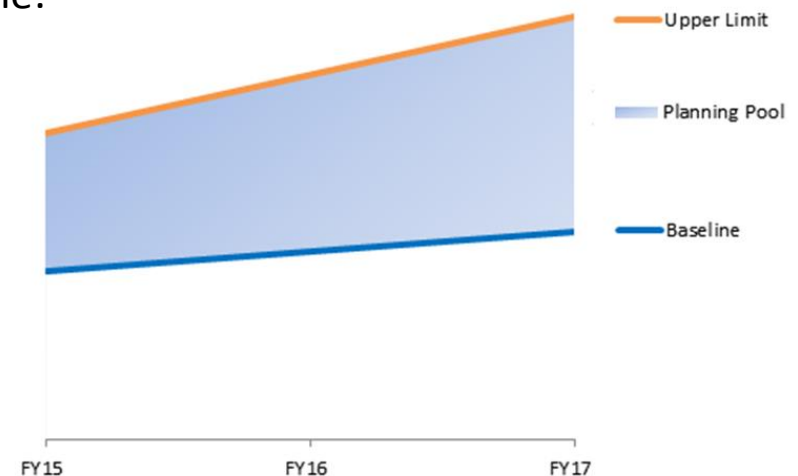
Introduction of the IPR for 2016 & 2017

- Today's meeting focuses on key elements in proposed expense spending levels for Power, Transmission and Agency Services FY 2016-2017 costs.
- BPA is also introducing a new process for developing these proposed spending levels and will share more information about that effort.
- These proposed IPR levels reflect BPA's current thinking, however they will benefit from further review and discussion by participants.
- This meeting follows the CIR kickoff meeting of Feb 2014 that introduced proposed capital spending levels.



Revised IPR Spending Level Development Process

- Based on prior stakeholder feedback, BPA revised the way spending levels were initially developed for this IPR process.
- Instead of inflating prior budgets as has been done in prior IPRs, the FY 2013 expense actuals were inflated and used as the starting point, or Baseline.
- An Upper Limit (or ceiling) was then calculated based on the inflated BP-14 rate case.
- The difference between the Baseline and the Upper Limit created a “Planning Pool”.
- There are four distinct Planning Pools – Power, Transmission, Chief Operating Officer, and Deputy Administrator.
- The Pool Managers had the ability to more strategically distribute their pool to their respective programs and departments to fund new initiatives, projects, or staffing that were not included in the calculation of the baseline.
- Any increases to costs in excess of the baseline required justification to Pool Managers.
- After applying undistributed reductions based on an analysis of BPA’s underspending and using the new methodology, IPR proposed spending levels are \$42.7 million lower than past practices.



Power

Overview

The Integrated Program Review focuses on program and internal costs that make up approximately 45% of Power Services' overall revenue requirement.

In the 2016-17 rate period, BPA is proposing a \$12 million increase in average annual IPR funding levels, a 0.6% increase to rates. This increase in funding is below the rate of inflation and is driven by:

- The need to continue investing in maintenance of the Federal Columbia River Power System, and
- Obligations for fish and wildlife mitigation.

These increases are somewhat offset by:

- A decrease in the funding levels required for the Columbia Generating Station, and
- \$20 million in undistributed reductions from Power Services.

Power

Context

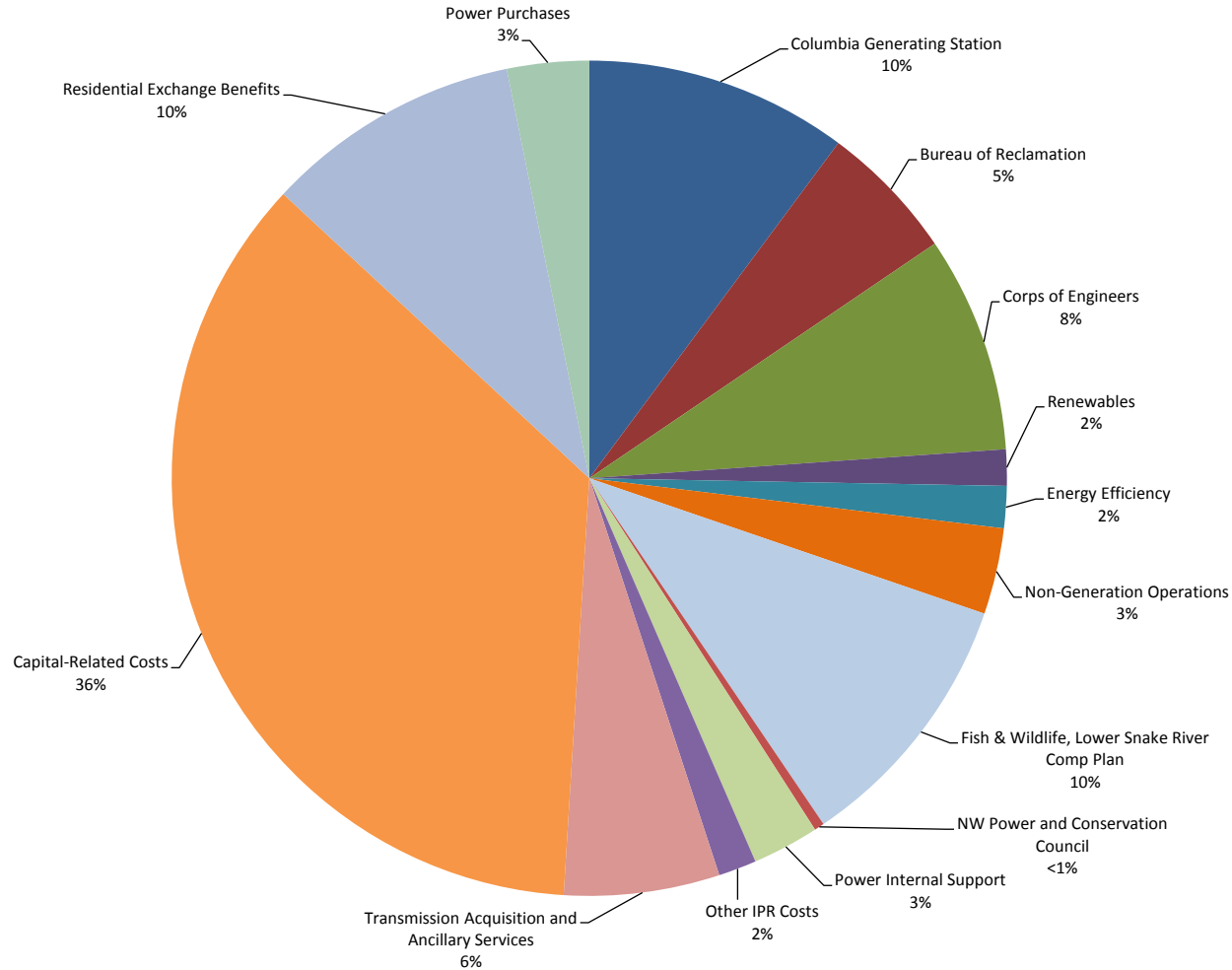
Non-IPR Costs account for the remaining 55% of Power Services' overall revenue requirement. In the 2016-17 rate period, BPA is forecasting these to increase by about \$149 million per year, a 7.7% increase to rates. While some of these projections will change, updated forecasts for these costs are included in this package. The main drivers behind these cost increases are:

- **Capital Related Costs:** Costs associated with past capital spending account for \$123 million of the projected annual average cost increase. As will be discussed later, this increase appears large because of \$85 million in one time actions that decreased the capital related costs embedded in the last rate case.

- **Other Non-IPR Costs:** BPA also currently projects about \$26 million per year in increased costs that are modeled in the rate case or are a function of past settlements such as:
 - Residential Exchange, and
 - Transmission Acquisition and Ancillary Services, particularly costs associated with Southern Idaho Load Service.

Power

Driver: Potential Power Revenue Requirement



Note: For FY 2016-2017, the two-year annual average revenue requirement (before credits) is \$2.951 billion, not including the \$20 million/year undistributed reduction. Total revenue credits and discounts are roughly \$0.791 billion, which includes secondary sales (including the slice value of secondary), low density discounts, irrigation rate discounts, generation input revenues, the 4(h)(10)(C) credit, and DSI revenues.

Preliminary Power Rate Effect for FY 2016-17

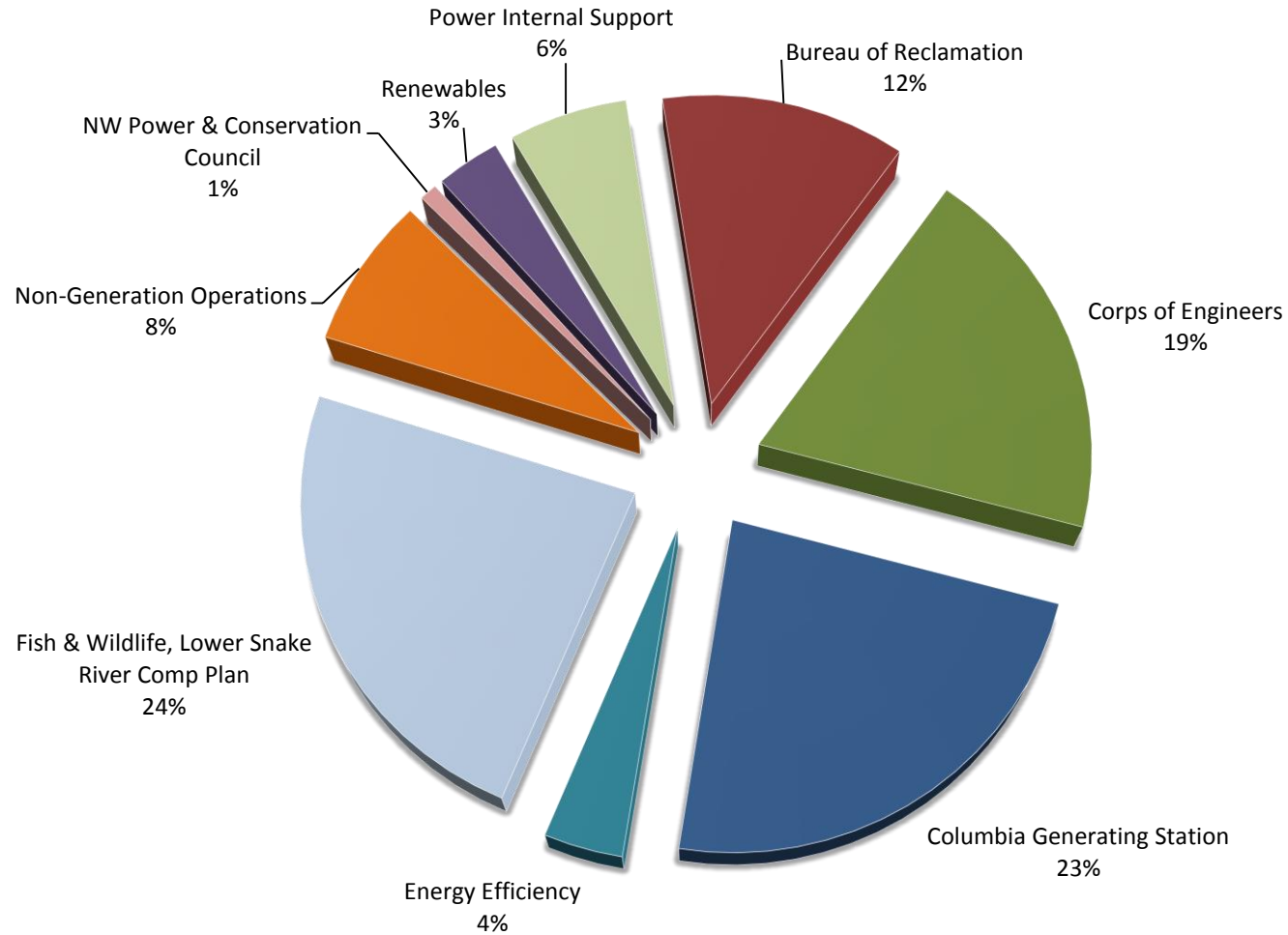
	A		B		C		D		E	
	Change from BP-14 to 2014 Jan Initial IPR (FY16/17)		Change from BP-14 to 2014 Proposed IPR (FY 16/17)		Change from 2014 Jan Initial IPR to 2014 Proposed IPR					
	%		%		%		%		%	
	Change		Change		Change		Change		Change	
	\$(Million)	in Rates	\$(Million)	in Rates	\$(Million)	in Rates	\$(Million)	in Rates	\$(Million)	in Rates
IPR COSTS										
1 Columbia Generating Station	4	0.2%	(19)	-1.0%			(22)			
2 Bureau of Reclamation	16	0.8%	16	0.8%			0			
3 Corps of Engineers	19	0.9%	19	1.0%			(0)			
4 Fish and Wildlife	15	0.8%	16	0.8%			0			
5 Energy Efficiency	3	0.2%	1	0.1%			(2)			
6 Internal Operations & Undistributed Reduction	9	0.4%	6	0.3%			(2)			
7 Other Costs & Undistributed Reduction ^{1/}	(6)	-0.3%	(27)	-1.4%			(21)			
8 IPR Sub-total	60	3.0%	12	0.6%			(47)			
9 Capital-Related Costs ^{2/}										
9a BP-14 Debt Mngmt Actions	85	4.2%	85	4.4%			-			
Non-IPR Rate Analysis Costs & Credits										
10 Rate Discounts	3	0.1%	8	0.4%			5			
11 Residential Exchange	16	0.8%	14	0.7%			(1)			
12 Transmission and Ancillary Services	4	0.2%	13	0.7%			8			
13 Net Power Purchase and Sale	(2)	-0.1%	(5)	-0.3%			(3)			
14 4(h)10(C)	4	0.2%	4	0.2%			-			
15 Generation Inputs	2	0.1%	2	0.1%			-			
16 DSI Sales	(10)	-0.5%	(10)	-0.5%			1			
17 Other Credits	(1)	-0.1%	(1)	0.0%			0			
18 Non-IPR Sub-total	16	0.8%	26	1.3%			10			
19 Total Net Revenue Requirement	209	10.4%	161	8.4%			(48)			
20 Load Change to Rate		0.2%		0.3%						
21 Total Change in Rate		10.6%		8.7%						-1.9%

^{1/} Includes Long Term Generating Projects, Operating Generation Settlement Payments (Colville), and Non-Operating Generation.

^{2/} Includes Depreciation, Amortization, MRNR, Net Interest and Non-Federal Debt Service. Financing assumptions are based on current practice and do not reflect debt management actions proposed at the Oct. 23, 2013 Debt Management Workshop.

Power

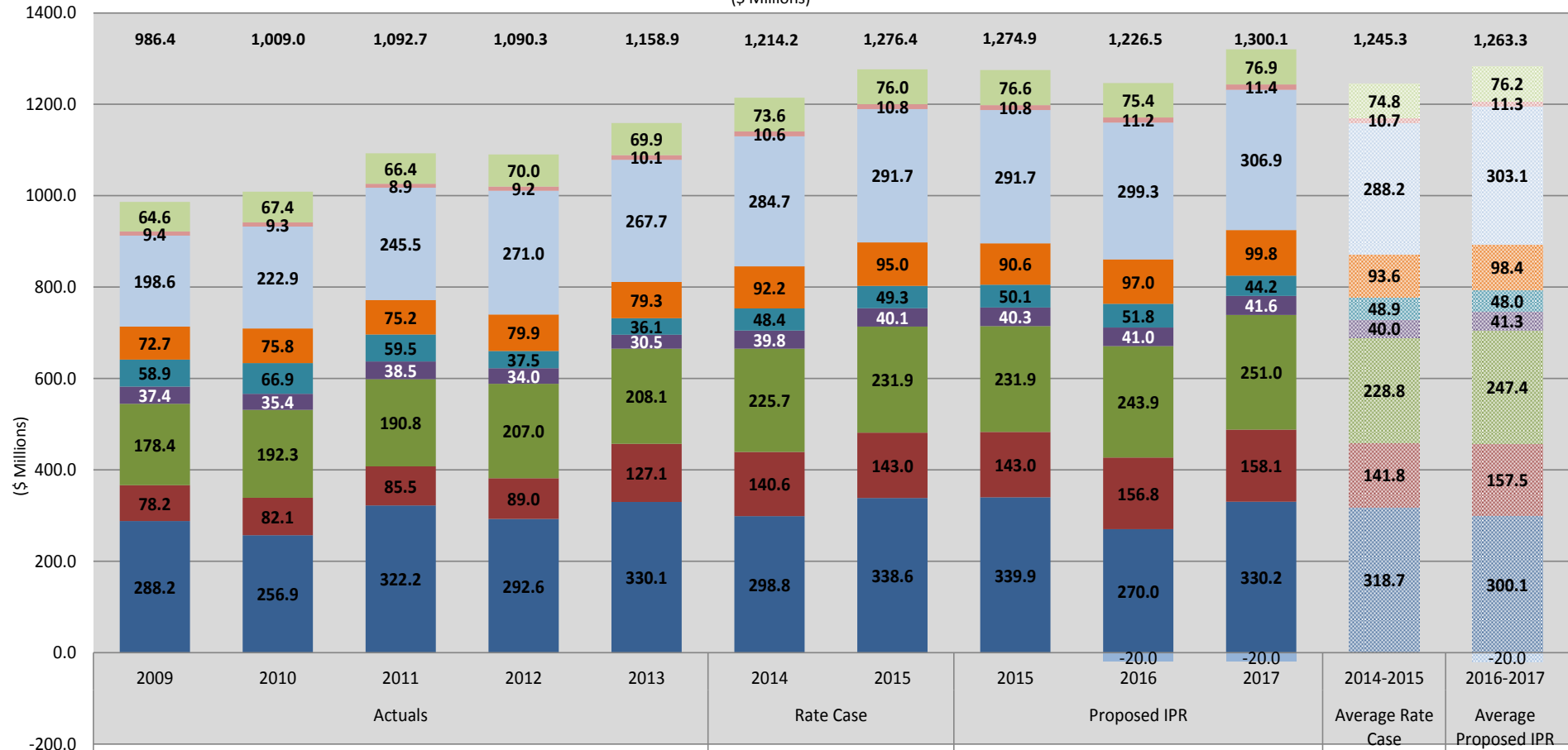
FY 2016-17 Average: Proposed



Power

Power Services Expense Summary

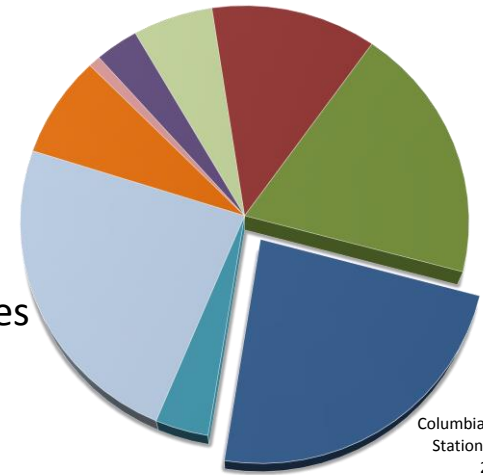
(\$ Millions)



- Columbia Generating Station
- Bureau of Reclamation
- Corps of Engineers
- Renewables
- Energy Efficiency
- Non-Generation Operations
- Fish & Wildlife, Lower Snake River Comp Plan
- NW Power & Conservation Council
- Power Internal Support
- Undistributed Reduction

Power

Columbia Generating Station



Proposed spending levels for the Columbia Generating Station (CGS) are based on Energy Northwest’s 2014 Long Range Plan (LRP) which addresses emerging equipment reliability issues.

- **2-Year Average Decrease from BP-14:** -\$19 million (a decrease from the previous LRP)
 - Note: These costs may come down further in response to late breaking news on DOE’s decision to zero out the nuclear waste fee.
- **Other Drivers for the change from BP-14**
 - Escalation of regulatory fees, labor, contracts and other costs.
 - Fuel costs included in proposed spending levels are based on fuel purchases per contracts/forecasts and not by escalating previous fuel purchases.
 - Increased cost of employee health and other benefits; increased state generation taxes; increased spares program funding; higher premiums for Nuclear Electric Insurance Limited (NEIL); higher decommissioning trust fund costs.

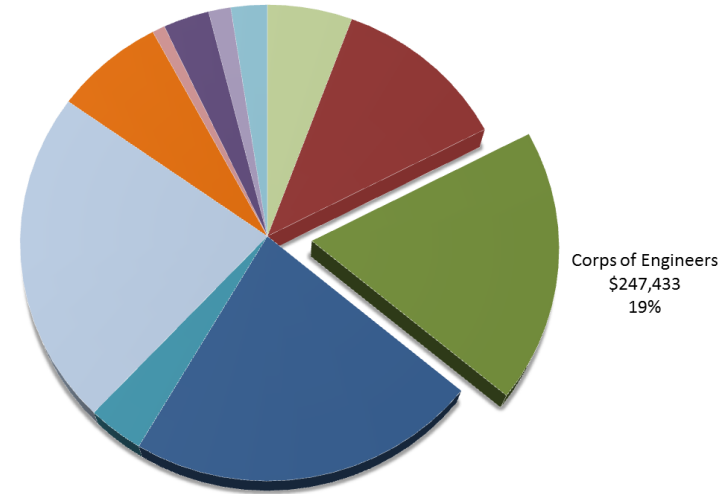
(\$ Thousands)	Actuals	Rate Case		Proposed IPR		
	2013	2014	2015	2015	2016	2017
Columbia Generating Station	330,066	298,751	338,558	339,863	270,048	330,173
Grand Total	330,066	298,751	338,558	339,863	270,048	330,173

- **Risks of operating at the proposed levels**
 - Include emergent reliability issues, length of refueling outages, unknown regulatory requirements, and increases in employee benefits.

Power

Corps of Engineers

Proposed spending levels for the Corps of Engineers (Corps) are consistent with levels identified in the 5-year O&M budget plan as presented in the 2012 IPR and confirmed through a rigorous baseline budgeting process. These processes determine the minimum funding required to meet operating reliability and performance requirements.



- **2-Year Average Increase from BP-14:** \$19 million
- **Drivers for the increase from BP-14**
 - Increased routine and non-routine maintenance requirements address declining hydroAMP equipment ratings and the continued risk of significant forced outages and loss of hydro generating capacity.
 - Since last IPR, there have been multiple forced outages at John Day, Bonneville Powerhouse 2, and McNary.
 - As identified in last IPR, costs continue to increase that are associated with non-routine extraordinary maintenance, cultural resource mitigation, WECC/NERC compliance, cyber and physical security, and labor.

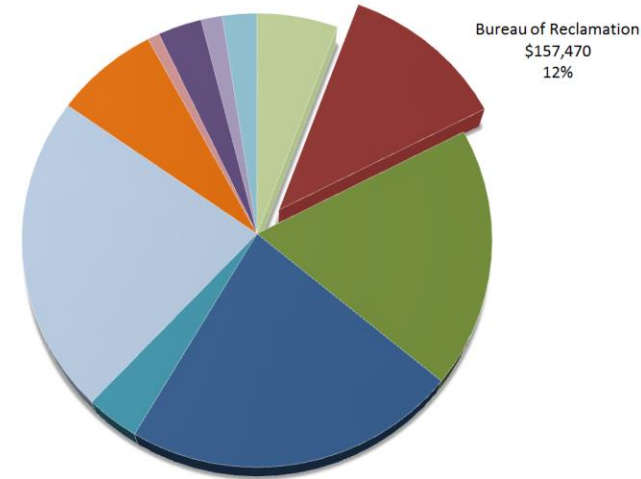
(\$ Thousands)	Actuals	Rate Case		Proposed IPR		
	2013	2014	2015	2015	2016	2017
Corps of Engineers	208,096	225,687	231,878	231,878	243,885	250,981
Grand Total	208,096	225,687	231,878	231,878	243,885	250,981

- **Risks of operating at the proposed levels**
 - As the Corps continues to manage non-routine extraordinary maintenance needs within proposed funding levels, there will continue to be reliability risk and increased O&M cost pressures.
 - Corps wages were frozen in November 2010, but when the freeze is lifted, at least the Trades and Crafts (T&C) employees' wages (~60% of Corps' staff) will be adjusted to regional prevailing wage levels.

Power

Bureau of Reclamation

Similar to the Corps, proposed spending levels for the Bureau of Reclamation are consistent with levels identified in the 5-year O&M budget plan as presented in the 2012 IPR and confirmed through a rigorous baseline budgeting process. These processes determine the minimum funding required to meet operating reliability and performance requirements.



- **2-Year Average Increase from BP-14:** \$16 million
- **Drivers for the increase from BP-14**
 - Like the Corps, Reclamation is facing increased routine and non-routine maintenance to address declining hydroAMP equipment ratings and the continued risk of significant forced outages and loss of hydro generating capacity.
 - Since last IPR, there have been multiple forced outages at Grand Coulee.
 - As identified in last IPR, costs continue to increase associated with non-routine extraordinary maintenance, cultural resource mitigation, WECC/NERC compliance, cyber and physical security, and labor.

(\$ Thousands)	Actuals	Rate Case		Proposed IPR		
	2013	2014	2015	2015	2016	2017
Bureau of Reclamation	127,116	140,601	143,033	143,033	156,818	158,121
Grand Total	127,116	140,601	143,033	143,033	156,818	158,121

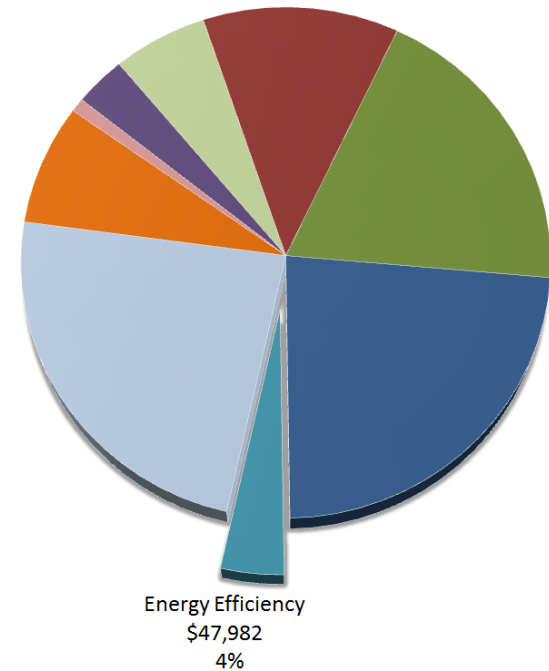
- **Risks of operating at the proposed levels**
 - As Reclamation continues to manage non-routine extraordinary maintenance needs within proposed funding levels, there will continue to be reliability risk and O&M cost pressures.

Power

Energy Efficiency

Proposed expense funding levels for the Energy Efficiency program are based on achieving public power’s share of the conservation savings targets set in the Council’s 6th Power Plan.

- **Increase from BP-14: \$1M**
- **These funding levels support:**
 - Research, data collection, and evaluation of non-programmatic savings;
 - Northwest Energy Efficiency Alliance (NEEA);
 - Low income and tribal grants for improving energy efficiency;
 - Reimbursable conservation program with other federal agencies (rate neutral);
 - Costs associated with legacy conservation projects; and
 - Technical services, customer service, savings calculators, and other support activities.



(\$ Thousands)	Actuals	Rate Case		Proposed IPR		
	2013	2014	2015	2015	2016	2017
Demand Side Management Technology	1	0	0	0	0	0
Conservation Acquisition	10,394	16,444	16,754	14,692	14,632	14,642
Low-income Energy Efficiency	5,025	5,155	5,252	5,252	5,336	5,422
Reimbursable Energy Efficiency Development	5,368	11,859	12,083	13,000	15,000	7,000
Legacy	773	1,031	1,050	605	605	605
Market Transformation	14,517	13,919	14,180	14,748	14,996	15,236
Demand Response & Smart Grid	-	-	-	1,825	1,245	1,245
Grand Total	36,078	48,408	49,320	50,122	51,814	44,150

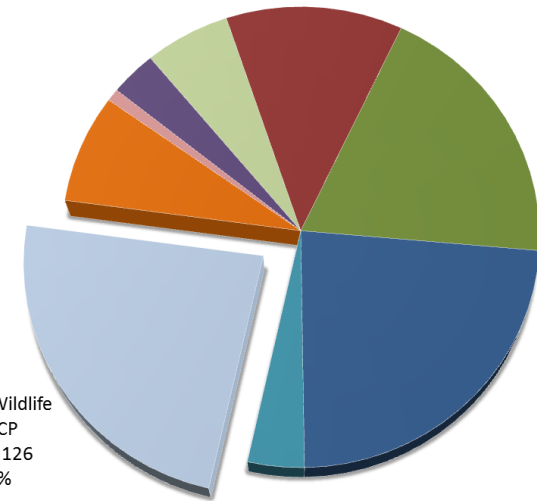
*Note: Demand Response and Smart Grid was previously embedded in Conservation Acquisition.

- **Risks of operating at the proposed levels**
 - Since most incentives are capitalized, these funding levels are likely to be adequate unless the 7th Power Plan calls for a significant ramp up of new programs.
 - BPA could also face pressure to increase its share of NEEA funding.

Power

Fish and Wildlife

The proposed spending levels for BPA’s Fish and Wildlife Program reflect levels expected to fulfill the agency’s obligations and commitments under the FCRPS and other biological opinions, the Northwest Power Act, the Columbia Basin Fish Accords, wildlife settlements, and other agreements.



- **Increase from BP-14:** \$16 million
- **Drivers for the increase from BP-14**
 - The proposed funding levels for FY2016-17 are consistent with the previous IPR. They reflect stable funding with negotiated levels of inflation adjustments through the term of the FCRPS BiOp and Fish Accords.

(\$Thousands)	Actuals	Rate Case		Proposed IPR		
	2013	2014	2015	2015	2016	2017
Fish & Wildlife	238,984	254,000	260,000	260,000	267,000	274,000
Lower Snake Hatcheries	28,700	30,670	31,670	31,670	32,303	32,949
Grand Total	267,684	284,670	291,670	291,670	299,303	306,949

- **Risks of operating at the proposed levels**
 - There is risk that commitments could exceed the proposed spending level in a given year due to the shape of spending (driven primarily by the flexibility allowed in the Fish Accords), despite overall costs remaining the same across multiple rate periods.
 - This funding level does not include support for certain maintenance and Best Management Practices activities at Lower Snake River Comp Plan facilities.

Power

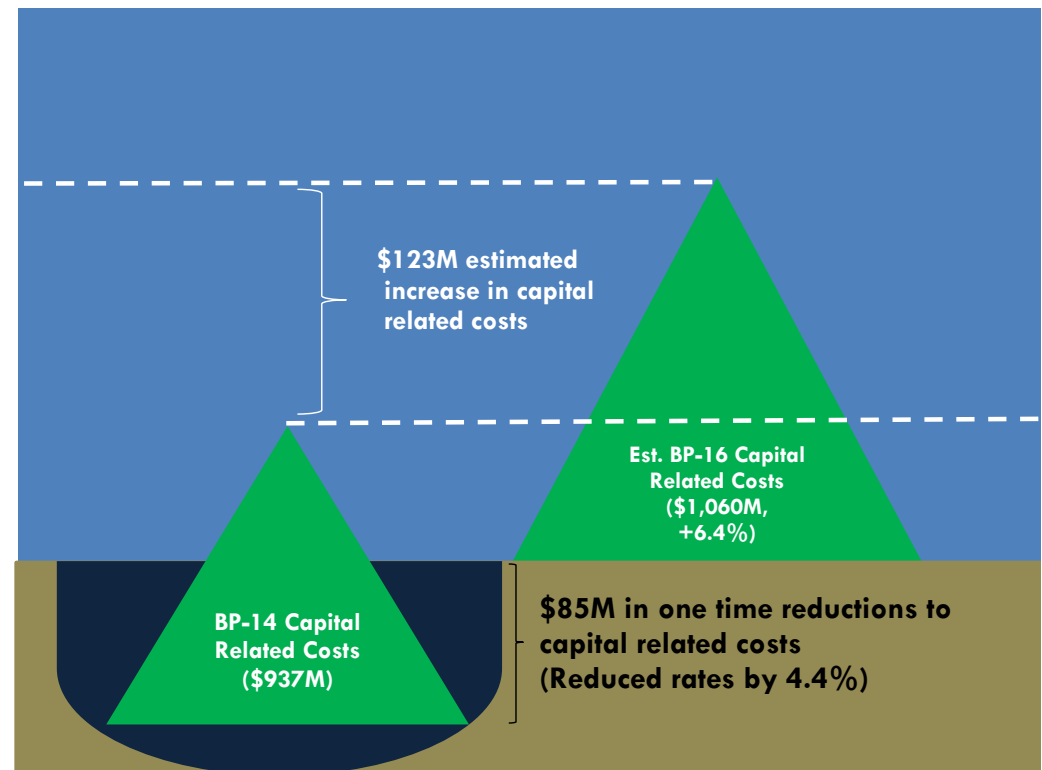
Debt Management

2-year average increase over BP-14: Proposed capital related costs are \$123 million higher than BP-14 (\$11 million lower than in the January 8 Building the IPR Framework packet).

BP-14 capital related costs were reduced by \$85 million from a one-time debt management action designed to provide rate relief in BP-14. Proposed capital related costs would have been \$38 million higher than BP-14 if the \$85 million reduction in BP-14 had not occurred.

Drivers for the increase over BP-14:

- \$85 million annual average catch up from BP-14 one-time debt management rate relief;
- Capital costs have increased due to the ramp-up in capital investments to sustain an aging infrastructure
- Both interest expense and depreciation are increasing as a result.



Power

Debt Management

Potential additional reductions:

- BPA and Energy Northwest (EN) are considering moving toward integrated debt management for the benefit of the region.
- The integrated management strategy includes refinancing and restructuring of Energy Northwest debt, hereinafter referred to as Regional Cooperation Debt.
- The potential opportunities from Regional Cooperation Debt refinancings germinated in discussions among regional stakeholders, EN and BPA over the past year.
- Refinancing and restructuring Regional Cooperation Debt would restructure ~\$3.2 billion (\$1.7 billion WNP 1 and 3, \$1.5 billion CGS) of outstanding debt. In its place, BPA would repay a like amount of high-interest Federal debt, creating substantial interest savings with no increase to FCRPS total debt outstanding.
- The interest rate spread between BPA's highest rate federal debt and forecast BPA/EN interest rates for the proposed extended debt is currently about 3.45 percent.
- The proposed refinancings would:
 - 1) decrease interest expenses;
 - 2) accelerate overall FCRPS principal repayment;
 - 3) help maintain or reduce the weighted average maturity of the total debt portfolio;
 - 4) restore U.S. Treasury borrowing authority; and
 - 5) help reduce the amount of the proposed rate increase in BP-16 by a range between \$15 million and \$25 million per year. The lower range is if the refinancings are limited to debt maturing on or after July 1, 2015. The higher range is if refinancings can be implemented to include regional cooperation debt maturing on July 1, 2014.

Transmission Overview

Transmission Services' 2014 IPR revenue requirement seeks to implement a strategic framework, built upon a foundation of technological innovation and regulatory compliance, that delivers products and solutions for Northwest customers balancing the following strategic challenges:

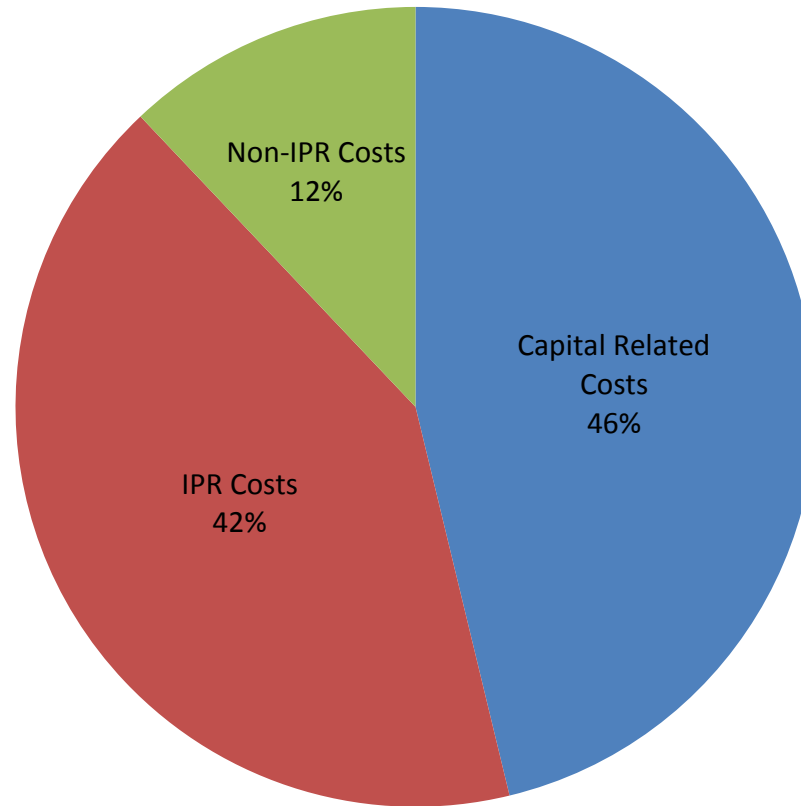
- Maintaining and improving the reliability and capacity of an FCRTS with an average component age approaching 50 years;
- Resources need to keep pace with evolving mandatory compliance reliability standards and market transformation;
- Acquisition of new (non-federal) sources of balancing energy required to integrate variable generation resources;
- Responding to customer and marketplace needs by exploring new ways to provide Transmission service, including new market constructs such as EIM, intra-hour scheduling, and demand response;
- Keeping rates at their lowest fiscally-responsible level while maintaining forward momentum on BPA and regional strategic priorities

For the FY 2016-17 rate case period, Transmission is estimating a rate increase of 6.1%.

*The 6.1 percent increase reflects the average increase of all rate segments

Transmission

Potential Transmission Revenue Requirement



Preliminary Transmission Rate Effect for FY 2016-17

Expenses	A		B		C		D		E		F	
	Change from BP-14 to Jan Initial IPR (FY 16/17)		Change from BP-14 to 2014 Proposed IPR (FY 16/17)		Change from BP-14 to 2014 Proposed IPR (FY 16/17)		Change from Jan Initial IPR to 2014 Proposed IPR		Change from Jan Initial IPR to 2014 Proposed IPR		Change from Jan Initial IPR to 2014 Proposed IPR	
	\$(Million)	% Change in Rates	\$(Million)	% Change in Rates	\$(Million)	% Change in Rates	\$(Million)	% Change in Rates	\$(Million)	% Change in Rates	\$(Million)	% Change in Rates
1 Operations	1	0.1%	11	1.0%	10							
2 Maintenance	6	0.5%	7	0.6%	1							
3 Engineering	1	0.1%	7	0.6%	7							
4 Internal Support & Undistributed Reduction	4	0.3%	4	0.4%	1							
5 IPR Sub-total	12	1.0%	30	2.6%	18							
6 Ancillary Services ^{1/}	7	0.7%	13	1.1%	6							
7 Use of Reserves for Rate Relief ^{2/}	20	1.8%	20	1.7%	0							
8 Non-IPR Sub-total	27	2.4%	33	2.9%	6							
9 Capital Related Costs ^{3/}	82	7.2%	24	2.1%	-58							
10 IPR & Non-IPR Change (Row 5+8+9)	121	10.6%	87	7.6%	-34				-34		-3.0%	
11 Revenues		-0.3%		-1.5%							-1.2%	
12 Total Change in Rates (Row 10+11) ^{4/}		10.3%		6.1%							-4.2%	

1/ The Ancillary Services forecast has been modified to reflect levels filed in the Errata to BP-14 Final Proposal.

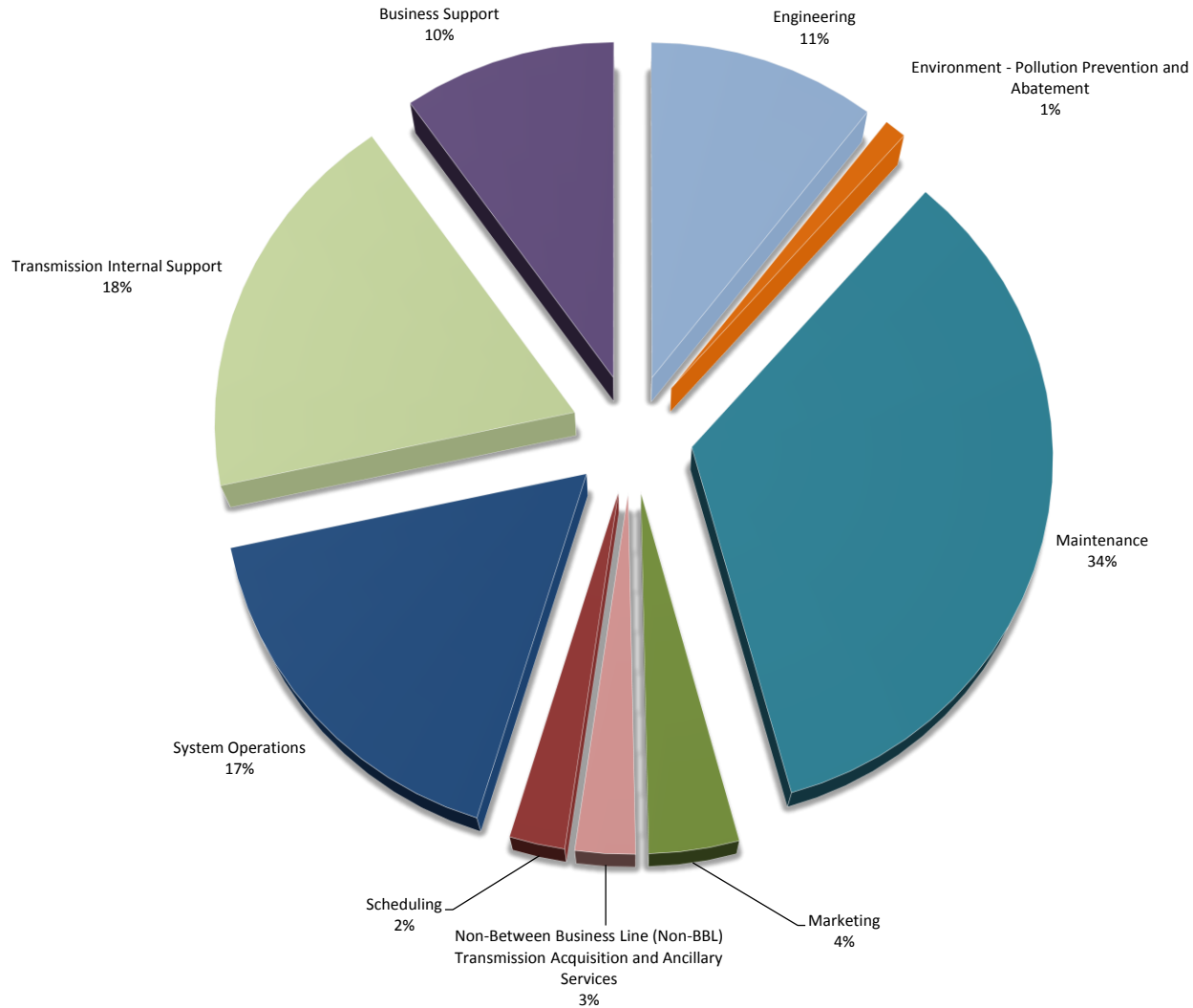
2/ Use of reserves in BP-14 included \$20 million/yr for rate mitigation.

3/ Includes Net Interest Expense, Depreciation/Amortization and Minimum Required Net Revenues.

4/ Change in rates reflects average across all segments.

Transmission

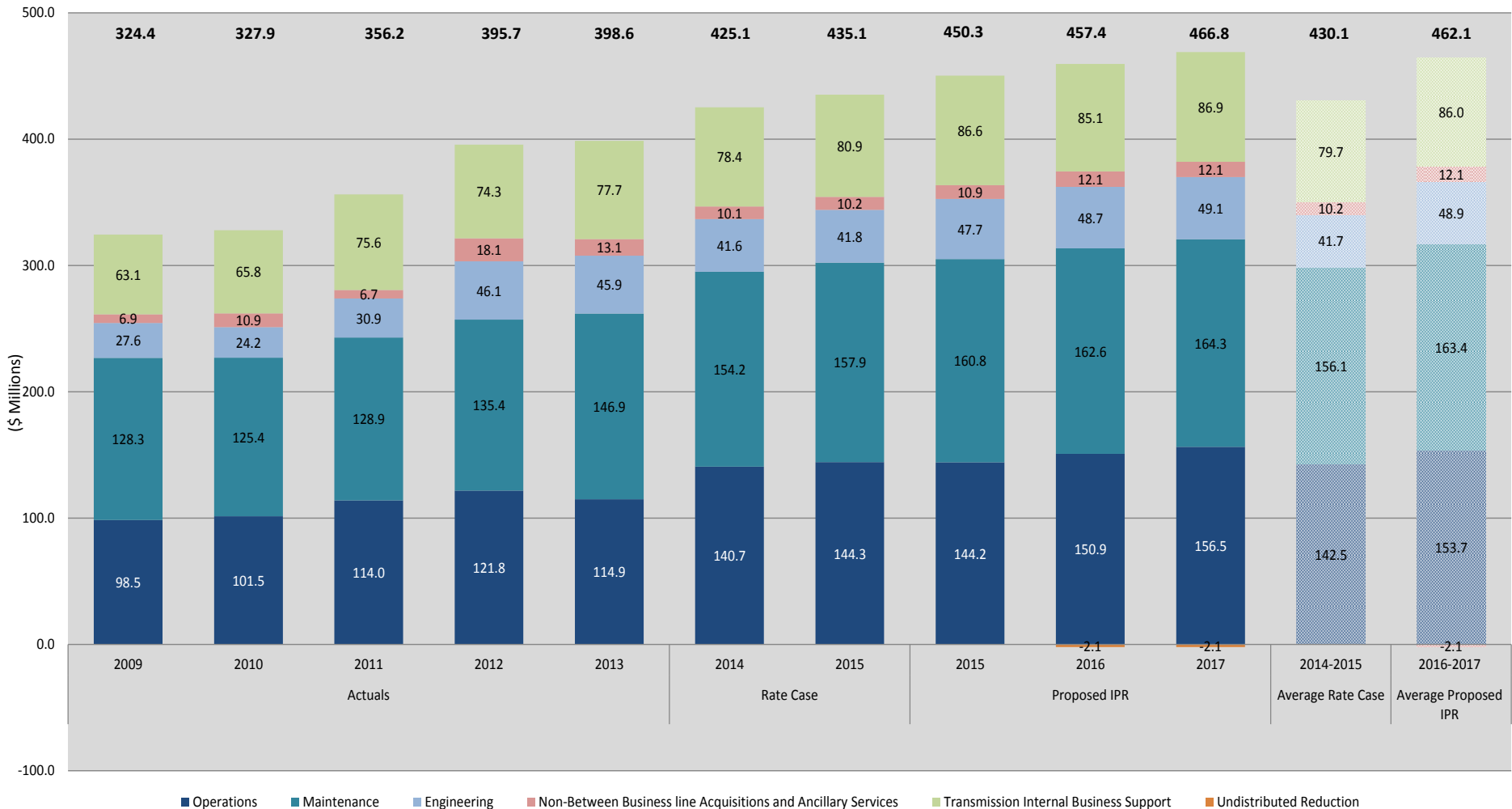
FY 2016-17 Average: Proposed IPR



Transmission

Expense Summary

(\$ Millions)

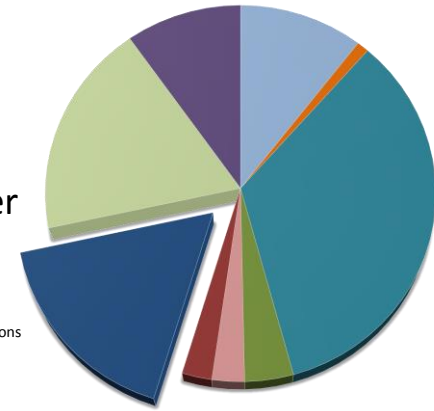


Note: Transmission Operations includes System Operations, Scheduling, Marketing and Business Support programs. Maintenance includes System Maintenance and Environment programs.

Transmission Program Highlights

Operations: System Operations

System Operations is responsible for the safe and reliable operation of the Federal Columbia River Transmission System. It provides services ranging from control center operations to system topology studies, IT, automation and communications systems and support, and substation operations. System Operations includes the IT, Power System Dispatching, Control Center Support, Technical Operations, and Substation Operations sub-programs.



- **2-year average (FY16-FY17):** \$78.5 million
- **Change from BP-14:** \$8.8 million/yr

Drivers for requested funding level:

- Increased Balancing Authority and Transmission Operator roles, responsibilities and complexities associated with response to real-time system events, integration of enhanced outage coordination, support for emerging BPA and regional strategic initiatives
- Resources and systems for monitoring and controlling the power grid, improving and maintaining dispatcher tools, and compliance with mandatory NERC and WECC standards.

System Operations (\$ Thousands)	Actuals	Rate Case		Proposed IPR		
	2013	2014	2015	2015	2016	2017
Information Technology	9,115	7,415	7,568	10,339	10,377	10,558
Power System Dispatching	12,155	13,589	14,123	13,402	13,536	13,671
Control Center Support	14,062	18,562	19,298	18,388	18,572	18,757
Technical Operations	4,410	6,745	6,974	10,885	14,094	14,195
Substation Operations	21,750	22,307	22,815	21,070	21,399	21,817
Grand Total	61,490	68,618	70,779	74,084	77,977	78,999

Risks of funding below the proposed level:

- Increased system reliability risks including increased probability of outages and curtailments, non-compliance with mandatory standards, including NERC CIP Version 5, limits on access to emerging tools, systems and trained resources to manage emerging system and market complexities, reduced ability to troubleshoot and maintain critical control center assets.

Transmission Program Highlights

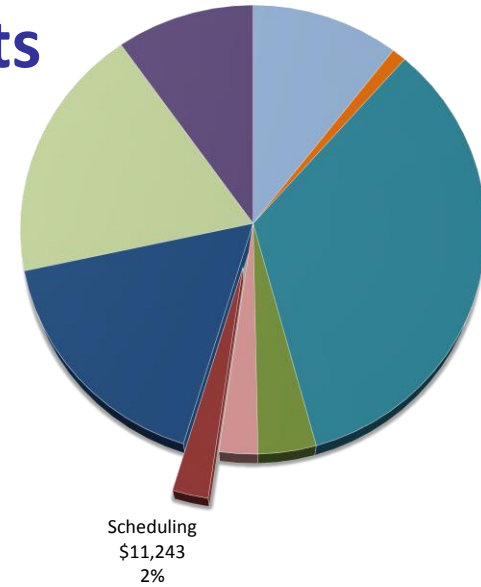
Operations: Scheduling

BPA’s Transmission Scheduling program provides overall management of Transmission scheduling, reservation transaction processing and analytical support for the long-term and short-term Transmission sales, consistent with BPA's Open Access Transmission Tariff (OATT), business practices and procedures. It includes the Reservations, Pre-Scheduling, Real-Time Scheduling, After-the-Fact Scheduling, and Technical Support sub-programs.

- **2-year average: \$11.2 million**
- **Change from BP-14: -\$1.5 million/yr**

Drivers for requested funding level:

- Preparation for permanent staffing and operation of the new Munro Scheduling Center to provide full redundancy in emergency situations.
- Integrated automation projects for tariff compliance, Network Open Season(NOS) and Generation Integration (GI) responsibilities.
- Implementation of FERC Order 764 (15-minute scheduling), implementation of Network Integration Transmission Service (NITS) on OASIS that meets NAESB and tariff requirements and customer needs.



Scheduling (\$ Thousands)	Actuals			Proposed IPR		
	2013	2014	2015	2015	2016	2017
Reservations	4,160	5,697	5,816	1,328	1,362	1,383
Pre-Scheduling	240	246	252	261	268	276
Real-Time Scheduling	3,879	5,436	5,537	4,708	5,038	5,169
Technical Support	432	1,007	1,031	4,064	4,161	4,259
After-the-Fact Scheduling	236	224	229	273	281	289
Grand Total	8,948	12,611	12,865	10,634	11,110	11,376

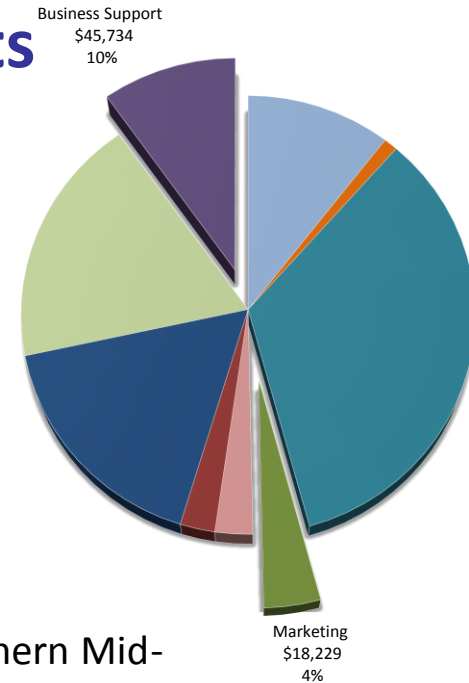
Risks of funding below the proposed level:

- Potential violation of NERC, NAESB and FERC standards due to increasing complexity of intra-hour scheduling, system congestion management in shorter scheduling intervals and increasing transaction volume; impaired ability to continue or rapidly recover scheduling operations if a major regionally-disruptive event occurs.

Transmission Program Highlights

Operations: Business Support & Marketing

Transmission Services' Business Support program is responsible for overall administrative support, including management, legal, logistics, security, and aircraft services. The Transmission Marketing program provides frontline customer service and support by negotiating, updating and managing Transmission contracts, responding to customer issues and inquiries, and revising and establishing BPA policies and business practices in response to changing market needs and compliance responsibilities.



- **2-year average (Business Support): \$45.7 million (Marketing): \$18.2 million**
- **Change from BP-14 (Business Support): \$3.9 million/yr (Marketing): -\$70k/yr**

Drivers for requested funding level:

- New jointly-funded Puget Sound Area Northern Intertie (PSANI) and Northern Mid-Columbia Transmission improvement projects.
- Transmission's share of Agency Demand Response project.
- Integrated automation projects associated with tariff, NOS and GI.
- Compliance with NERC reliability standards and BPA's OATT filing with FERC.

Business Support (\$ Thousands)	Actuals	Rate Case		Proposed IPR		
	2013	2014	2015	2015	2016	2017
Grand Total	28,423	41,402	42,201	41,830	43,811	47,657

Marketing (\$ Thousands)	Actuals	Rate Case		Proposed IPR		
	2013	2014	2015	2015	2016	2017
Grand Total	16,081	18,098	18,501	17,639	18,033	18,426

Risks of funding below the proposed level:

- Risks of NERC, WECC, NAESB or FERC non-compliance (required mitigation actions, financial consequences), inability to fully support implementation of NERC CIP Version 5, risks to customer satisfaction goals due to inability to implement initiatives that benefit customers.

Transmission Program Highlights

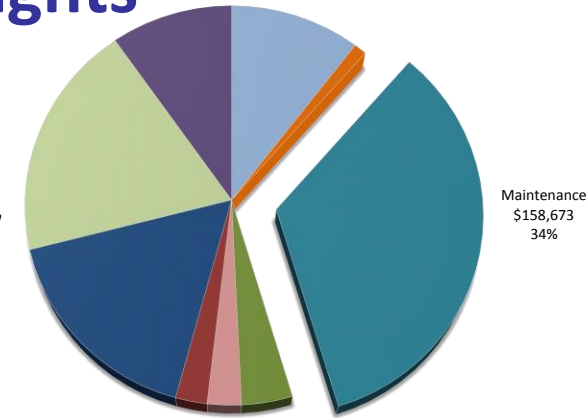
Maintenance

The BPA Maintenance program is responsible for maintaining about three-fourths of the Northwest Region's high-voltage transmission assets, including 15,100 circuit-miles of Transmission lines and towers, 299 substations, 195,000 acres of right-of-way corridors and 11,860 miles of access roads.

- **2-year average: \$158.7 million**
- **Change from BP-14: \$7.1 million/yr**

Drivers for requested funding level:

- Rapidly-evolving mandatory compliance responsibilities.
- Planning to address maintenance backlog for equipment that is not associated with current compliance standards.
- Application of municipal stormwater fees to BPA properties (*U.S. v. City of Renton* decision)
- Development of Asset Register, fiber inventory, Asset Data Management (ADM) projects, cost share for Facilities Asset Management (FAM) program.



Maintenance (\$ Thousands)	Actuals			Proposed IPR		
	2013	2014	2015	2015	2016	2017
Non-Electric Maintenance	25,204	27,303	27,853	30,054	30,750	31,424
Substation Maintenance	27,726	31,121	31,777	27,937	28,566	29,043
Transmission Line Maintenance	26,572	26,139	26,820	26,804	27,054	27,482
System Protection Controls	11,869	13,096	13,381	13,046	13,541	13,741
Power System Maintenance	17,623	16,904	17,582	17,654	18,239	18,507
Joint Cost Maintenance	123	1	1	109	111	113
System Maintenance Management	7,076	6,434	6,574	9,816	9,954	9,556
ROW Maintenance	7,298	8,428	8,597	10,008	10,098	10,162
Heavy Mobile Equipment Maintenance	(125)	0	0	0	0	0
Technical Training	2,211	3,201	3,269	2,314	2,368	2,418
Vegetation Management	17,928	17,135	17,471	18,465	17,181	17,039
Grand Total	143,506	149,763	153,324	156,207	157,861	159,485

Risks of funding below the proposed level:

- Non-compliance with multiple NERC and WECC standards, increased risk of equipment failure, system outages, reduced capacity, and curtailments.

Transmission Program Highlights

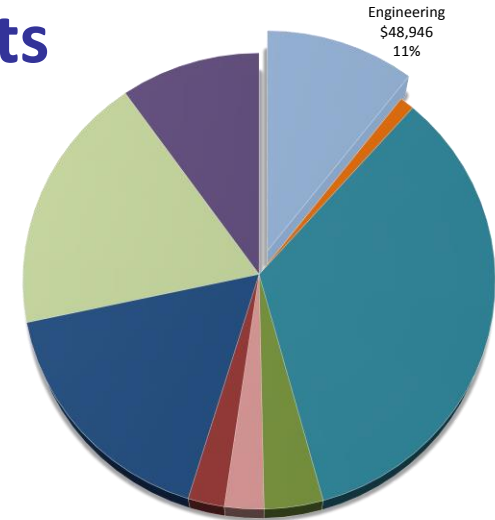
Engineering

Proposed Engineering spending levels are consistent with the levels identified in the 2012 IPR and confirmed through a rigorous baseline budgeting process and available funding pool exercise. These processes were used to determine minimum funding levels needed to meet compliance-driven requirements.

- **2-year average: \$48.9 million**
- **Change from BP-14: \$7.2 million/yr**

Drivers for requested funding level:

- Continued implementation of the STAR sub-program to meet NERC compliance responsibilities and improve processes and procedures.
- Implementation of LiDAR, an integrated model that will allow BPA to optimize asset replacement and Transmission system expansion options.
- Compliance work associated with Optical Multi-gigabit Ethernet Transport (OMET), synchrophasors, and the expanded suite of control center cyber-assets covered under NERC CIP Version 5.



Engineering (\$ Thousands)	Actuals			Rate Case		Proposed IPR	
	2013	2014	2015	2015	2016	2017	
Research and Development	6,657	7,782	7,940	9,452	9,522	9,555	
TSD Planning and Analysis	16,060	14,013	13,289	15,934	16,486	16,738	
Capital to Expense Transfers	7,068	4,124	4,202	4,247	4,307	4,351	
NERC/WECC Compliance	13,056	12,015	12,561	14,331	14,636	14,654	
Environmental Planning and Analysis	1,241	1,166	1,189	1,560	1,599	1,642	
Engineering Line Rating	1,794	2,539	2,589	2,184	2,195	2,207	
Grand Total	45,876	41,638	41,769	47,709	48,746	49,147	

Risks of funding below the proposed level:

- Decreased ability to support BPA’s capital infrastructure program, which could lead to NERC and FERC compliance issues; inability to complete the initial phase of the LiDAR survey work; other compliance issues.

Transmission

Debt Management

2-year average increase over BP-14: Proposed capital related costs are \$24 million higher than BP-14 (\$58 million lower than in the January 8 Building the IPR Framework packet).

Drivers for the increase over BP-14:

- Over the past five years, capital related costs have increased due to the ramp-up in capital investments to sustain an aging transmission system and expand the transmission system to meet regional needs.

Agency Services

Overview



Agency Services is the term used to refer to all of the corporate organizations.

These costs are ultimately covered by Power and Transmission rates.

Corporate organizations either directly charge into Power and Transmission O&M programs, if there is a direct benefit to the program, or costs are shared and are charged to Power Services and Transmission Services via the Agency Services G&A and Business Support allocations.

Agency Services

Goals & Objectives

Agency Services has the following *near-term goals*:

- Provide governance and support to the business units at the lowest possible cost;
- Continuously improve processes and controls while maintaining a flexible environment to accommodate evolving industry requirements;
- Support BPA initiatives to successfully integrate renewable electricity generation and mitigate for oversupply conditions; and
- Improve the efficiency, and effectiveness of the federal workforce.

The cost estimates for Agency Services include the following *long-term objectives*:

- Develop a sustainable strategy for meeting long-term balancing requirements for the BPA balancing authority that honors the non-power constraints on the Federal hydrosystem and BPA's statutory obligations;
- Meet the demands of a changing energy industry by managing business operations efficiently and effectively through standardized, continuously-improved systems and processes.
- Implement succession planning strategies; and
- Improve BPA's ability to recover from a disruption and ensure the agency is able to recover essential mission functions.

Agency Services

Challenges and Risks

Agency Services faces the following *challenges and constraints*:

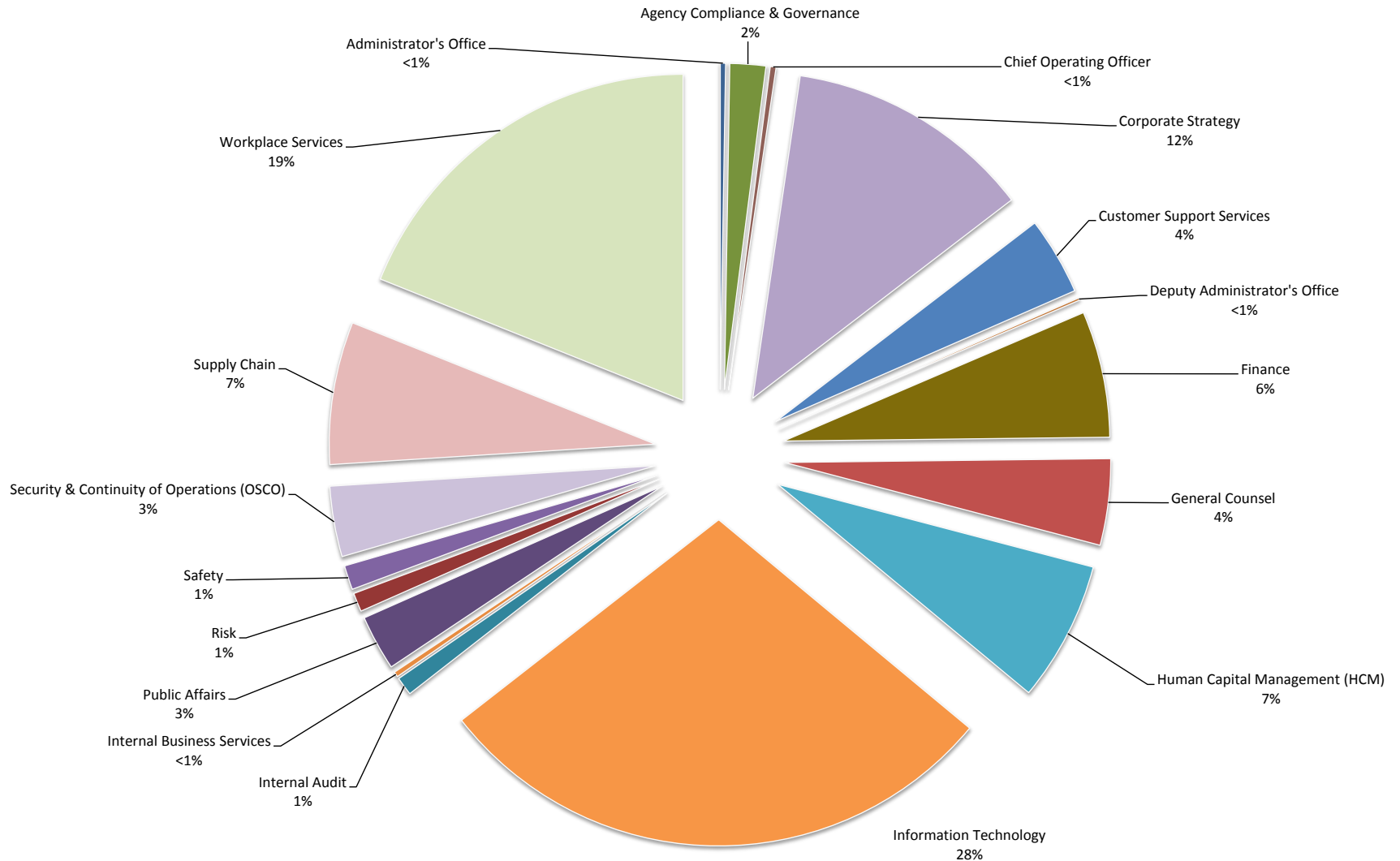
- Rapid evolution of the energy industry and increased cost of meeting Federal requirements;
- Limited flexibility to respond to and implement new policies and requirements;
- Limited borrowing authority;
- Ensuring a continuous pipeline of skilled employees for succession planning needs;
- Market shifts in IT spending from capital to expense; and
- Economic impact on availability of contract resources.

The following services could be at *risk or impacted* if Agency Services operates below the proposed levels.

- Having staff that is the right size and composition with the right skills and competencies, at the right time, to fill behind the aging and retiring Federal workforce. Examples include safety, environmental services, governance, and supply chain.
- Employing the technology tools that could increase efficiency across the agency. Examples include project management, contracting and billing, finance and analysis and security.
- Having the funding flexibility for maintaining certain mission critical facilities.

Agency Services

Agency Services Expense Summary



Integrated Program Review

Next Steps

- Beginning May 28, participants can submit questions and/or request for specific meetings to BPAFinance@bpa.gov by June 6.

2014 Integrated Program Review

IPR Kickoff Meeting

Materials Released:

- Initial Publication
- FY 2015-17 Expense and Capital Estimates

May 28

Participants Submit Questions and/or Request for Specific Discussion Meetings

Requests for IPR program-specific discussion meetings and/or clarifying questions can be submitted to BPAFinance@bpa.gov between May 28-June 6.

May 28 – June 6

IPR Discussion Meetings

Save the Dates

June 18-19

IPR Close-Out Letter and Report

The IPR process concludes July 1.

BPA will release an IPR Close-Out Letter and Report following consideration of your comments and feedback presenting capital and expense levels for FY 2015-2017 that will be included in the BP-16 rate case.

July-September

IPR Comment Period

Opportunity to comment on expense and capital estimates for FY 2015-2017. Public Comments and feedback will help influence expense and capital levels that will be included in the BP-16 rate case.

May 28 – July 1

Upcoming Workshops

- June 17th
 - Debt Management
- June 18th - IPR
 - Morning: Columbia Generating Station and Energy Efficiency
 - Afternoon: Open for additional topics
- June 19th - IPR
 - Morning: Federal Hydro and Fish & Wildlife
 - Afternoon: Transmission
- July 16th
 - Reserves

Contacting Us with Questions or Comments

Comments can be sent to:

Participants can submit comments on BPA's Initial IPR Publication and proposed IPR levels during an eight week public comment period beginning May 28, 2014 and concluding July 1, 2014. Comments can be submitted online; by email; or by mail to: BPA, P.O. Box 14428, Portland, OR 97293-4428.

Please send questions to:

BPAFinance@BPA.gov

Thank you



Integrated Program Review

Financial Disclosure

This information has been made publicly available by BPA on May 27, 2014 and contains information not reported in agency financial statements.