



Department of Energy

June 4, 2013

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

FINANCE

In reply refer to: F-2

To Customers, Constituents, Tribes and Other Stakeholders:

On April 30 the Bonneville Power Administration (BPA) hosted an expedited Integrated Program Review 2 (IPR2) workshop to discuss potential adjustments to specific proposed spending levels based on new information, the timing of actual spending, and cost management initiatives.

Between March and August of last year, BPA hosted the Capital Investment Review (CIR) and the Integrated Program Review (IPR) in order to engage the region in a comprehensive review of our long-term capital forecasts and near-term expense spending levels for inclusion in the BP-14 Initial Proposal. Although the IPR had concluded, we recognized the need to remain open and flexible as Fiscal Year (FY) 2013 financial results unfolded and Access to Capital tools evolved. We saw a number of changes coming and determined that an IPR2 was needed.

We appreciate the stakeholder participation and thoughtful comments in the IPR2 process. IPR2 materials are available on BPA's webpage.

Based on the comments received, the Agency plans to adopt the following changes for FY 2014 and 2015.

- Federal Hydro has reshaped their 10-year CIR/IPR capital forecast to better reflect expected project ramp up and execution. This change moves planned capital spending into future years and therefore reduces FY 2014-15 planned spending by \$15 million and FY 2013 planned spending by \$10 million.
- Transmission has reduced their IPR capital forecast in FY 2014-15 by approximately \$170 million and in FY 2013 by approximately \$157 million. These reductions are being driven by a slower than anticipated ramp up to programmatic levels planned in the asset strategies for the System Protection & Control, Power System Control, and System Telecommunications programs, in addition to reshaping of several large expansion projects.
- Fish & Wildlife has reshaped its capital forecast through FY 2015 to reflect project delays in Accord hatchery construction. This change reduces capital spending in FY 2013 by \$7.2 million and increases capital in FY 2014-15 by \$9.4 million. The increase in FY 2014-15 includes shifting unused capital spending of \$2.3 million from FY 2012 into FY 2015, consistent with the flexibility offered in the Accord agreements.
- Energy Northwest (EN) has updated their Long Range Plan (LRP) for 2014. They also benchmarked their capitalization policy and concluded a more aggressive capitalization

policy was consistent with practices at other nuclear plants. As a result, planned expense levels in FY 2014-15 are declining by \$31.3 million due to capitalization of labor, offset by a debt service increase of \$6 million. Planned capital project spending is increasing by about \$71 million plus the \$31 million just described, for a total of \$102 million additional capital in FYs 2014 and 2015.

The adjustments described above better reflect actual planned spending levels and will be included in the BP-14 Final Proposal. These changes reflect total capital and expense reductions of \$192 million for FY 2014-15 compared to 2012 IPR. The enclosed table provides more detail on these reductions.

BPA had also proposed to offset the reduced expense at Columbia Generating Station (CGS) by shifting \$25 million of planned Fish & Wildlife (F&W) capital spending to F&W expense in FY 2014-15. This adjustment would have the effect of reducing the amount of regulatory assets and also neutralize or offset the rate effect of the CGS expense reductions. However, based on stakeholder comments BPA is not reflecting this proposal in the final IPR2 forecasts and not assuming it in the BP-14 Final Proposal. IPR2 participants understood that taking this action will result in higher debt service and therefore, higher rates in the future. We heard a strong interest in learning more about BPA's debt management strategy and will continue this conversation with the region this summer and fall.

Note that Energy Efficiency (EE) spending levels have not been updated for the IPR2 process. Due to the lack of a detailed reporting system in FY 2012 and our new interim reporting solution (IS 2.0) coming online earlier this calendar year, we are currently getting FY 2012 savings data from customers and are beginning to analyze it. We will be conducting a Post-2011 EE Review with updated spending and savings data at that time. We also will be using that data to inform the NW Power and Conservation Council's efforts to develop the Seventh Power Plan.

Thank you for your input in the IPR2, and I look forward to our continued dialogue.

Sincerely,

/s/ William K. Drummond

William K. Drummond
Administrator and Chief Executive Officer

Enclosure:
Spending Level Changes Table

Spending Level Changes
Final 2012 IPR to Final 2012 IPR2
(\$ millions)

	2013 Forecast			2014 Rate Case Forecast			2015 Rate Case Forecast		
	A	B	C	D	E	F	G	H	I
	Final IPR	Final IPR2	Delta	Final IPR	Final IPR2	Delta	Final IPR	Final IPR2	Delta
BPA Capital Programs									
1 Hydro	248	238	(10)	250	241	(9)	245	239	(6)
2 Transmission ^{1/}	688	531	(157)	740	658	(82)	730	641	(89)
3 Fish & Wildlife ^{2/}	67	60	(7)	60	60	-	42	51	9
4 Other ^{3/}	167	167	-	169	169	-	168	168	-
5 Sub-Total (unlapsed)	1,170	996	(174)	1,219	1,128	(91)	1,185	1,099	(86)
6 Lapse Factor ^{4/}	-	-	-	(52)	(47)	5	(51)	(46)	5
7 Total (lapsed)	\$ 1,170	\$ 996	\$ (174)	\$ 1,167	\$ 1,081	\$ (86)	\$ 1,134	\$ 1,053	\$ (81)

Columbia Generating Station (BPA Fiscal Year)

8 Operations & Maintenance ^{5/}	338	335	(3)	313	299	(14)	356	339	(17)
9 Non-Federal Debt Service	542	542	-	516	518	2	439	443	4
10 Total CGS	\$ 880	\$ 877	\$ (3)	\$ 829	\$ 817	\$ (12)	\$ 795	\$ 782	\$ (13)

BPA Expense Programs

11 Fish and Wildlife ^{2/6/}	276	276	-	285	285	(0)	292	292	-
12 Total Program Expenses	\$ 276	\$ 276	\$ -	\$ 285	\$ 285	\$ (0)	\$ 292	\$ 292	\$ -
13 Total Capital & Expense (row 7+10+12)	\$ 2,326	\$ 2,149	\$ (177)	\$ 2,281	\$ 2,183	\$ (98)	\$ 2,221	\$ 2,127	\$ (94)

Columbia Generating Station Capital Investment Levels (BPA Fiscal Year)

	2013 Forecast			2014 Rate Case Forecast			2015 Rate Case Forecast		
	A	B	C	D	E	F	G	H	I
	Final IPR	Final IPR2	Delta	Final IPR	Final IPR2	Delta	Final IPR	Final IPR2	Delta
14 CGS Capital Levels ^{7/}	\$ 53	\$ 53	\$ -	\$ 62	\$ 111	\$ 49	\$ 62	\$ 115	\$ 53

1/ Includes AFUDC and Overheads.

2/ The initial IPR2 proposal included shifting \$25 million of Fish and Wildlife capital spending to expense in FY 2014-15. These figures are not shown in this table because this proposal was not adopted in the final IPR2.

3/ Includes Energy Efficiency, Information Technology, Facilities and Security.

4/ The FY 2013 lapse factor has been removed since it was inadvertently included in the initial IPR2 proposal. Mid-year forecasts are not typically lapsed.

5/ Includes NEIL Insurance and Decommissioning Trust Fund contributions.

6/ Includes USFWS Lower Snake River Compensation Plan and Environmental Requirements.

7/ The Final IPR2 totals for CGS capital reflect Energy Northwest's updated Long Range Plan.