

Agency Services Compliance & Governance

Agency Services – Compliance & Governance

(\$ in thousands)

AGENCY COMPLIANCE & GOVERNANCE	2009 Actuals	2010 SOY	2011 Rate Case	2011 IPR	2012 IPR	2013 IPR
Total	3,524,719	3,557,311	3,771,878	5,123,745	5,159,426	5,191,449

Program Description

Bonneville Power Administration’s (BPA) Governance & Compliance Program oversees agency compliance and governance functions. The program is managed by Agency Compliance & Governance Organization in consult with the Office of General Counsel and affected programs, and maintains a comprehensive program to assure compliance with applicable regulatory rules and standards by:

- ✓ Monitoring and commenting on developing regulations that apply to BPA.
- ✓ Building and maintaining relationships with regulatory bodies.
- ✓ Implementing management controls and reporting.
- ✓ Shaping and monitoring internal compliance policies and procedures.
- ✓ Working cooperatively to provide direction to business units concerning compliance processes and procedures.
- ✓ Interpreting regulatory rules and standards, in consult with the Office of General Counsel, as necessary.
- ✓ Coordinating review and testing of business unit controls and compliance.
- ✓ Communicating and training of BPA employees and contractors.

Strategic Objectives

- I3 - Governance and Internal Controls
- I1 - Systems and Processes
- S2 - FCRPS Operations and Expansion
- I2 - One BPA

Agency Services – Compliance & Governance

Key Products and Outputs

Agency Compliance and Governance assures:

- ✓ An effective governance structure.
- ✓ Adequate controls over financial reporting.
- ✓ Clear policies and guidelines for directing day-to-day business operations.
- ✓ Certified and documented practices for reliable Transmission and Generation operations.
- ✓ Effective Equal Employment Opportunities program for all employees.
- ✓ Robust and consistent procurement and personal property policies.
- ✓ An ethics program, code of conduct and hot line for all employees.

Consistent with this direction, the Agency Compliance and Governance balanced scorecard contains:

- 14 Stakeholder Perspective measures.
- 6 Financial measures.
- 8 Internal Operations measures.

Comparison to 2008 IPR Program Levels

Agency Compliance and Governance did not exist during the 2008 IPR. In 2009 Regulatory Affairs, Supply Chain Policy and Governance and Civil Rights were combined to become Agency Compliance and Governance. Then in 2010, two small activities were transferred from Transmission and Information Technology - Reliability Compliance and Records Management, respectively. The table to the right presents the comparison between 2008 and 2010 IPR materials:

	IPR 2008			IPR 2010				
	2009	2010	2011	2009	2010	2011	2012	2013
	(\$'s millions)							
Agency Compliance and Governance				\$ 3,525	\$ 3,557	\$ 5,124	\$ 5,159	\$ 5,191
Regulatory Affairs	\$ 2,327	\$ 2,426	\$ 2,530					
Supply Chain Policy & Governance	667	696	726					
Civil Rights	725	758	792					
Total	\$ 3,719	\$ 3,880	\$ 4,048	\$ 3,525	\$ 3,557	\$ 5,124	\$ 5,159	\$ 5,191

differences from 2010 IPR Estimates
compared to 2008 IPR Estimates

(\$194)

(\$323)

\$ 1,076

Not included in the IPR 2008 Base for FY 2010 and 2011 are the following:

- Transfer of Reliability Staff from Transmission 2nd quarter FY 2010 to Agency Compliance and Governance = \$300 (full year equivalent amount)
- Transfer of Records Management Staff from IT mid FY 2010 to Agency Compliance and Governance = \$435 (full year equivalent amount)

Agency Services – Compliance & Governance

FY 2011 Program Spending Drivers

Compared to the IPR 2008 for FY 2011 or the IPR 2010 materials, there has been an increase for FY 2011. While there have been efficiencies achieved through consolidations of various compliance activities, there has also been an increased focus in compliance at BPA as a result of needing to remediate compliance gaps in:

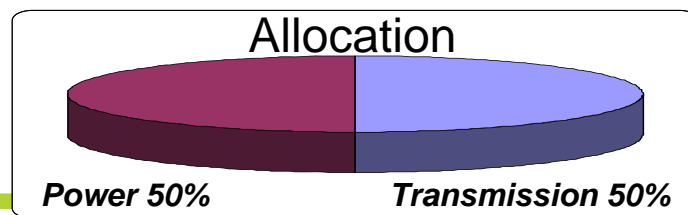
1. Information Management/e-Discovery: BPA is required to meet the 2006 amendments to the Federal Rules of Civil Procedure (FRCP) which codified the requirements for discovery of Electronically Stored Information (ESI). ESI is an “expansive” term—it encompasses “any type of information that is stored electronically” in “any medium.” In a lawsuit or claim, BPA must preserve all potentially relevant ESI. By necessity, this requires that BPA know where its ESI is created and stored, and how it is disposed of. In fact, in response to the new rules, the Department of Justice requires each federal agency to adopt clear and enforced data management policies. Failure to comply potentially may lead to adverse judgments and judicial sanctions representing material financial penalties to the agency.
2. Open Access Transmission Tariffs (OATT): FERC’s Order 888 outlined the requirements for OATT and BPA maintains that the agency is not subject to FERC jurisdiction, but has chosen to comply voluntarily. FERC has approved BPA’s OATT, so there is technically no risk of being in noncompliance with the requirements for OATT. However, BPA, at this time, potentially may not be complying with all of the provisions of the agency’s OATT. FERC has described what additional steps would need to be taken (beyond those already taken) to meet the requirements for a Reciprocity Tariff.

These initiatives along with further assurance that BPA is meeting all of its compliance responsibilities with regard to ethics, financial reporting, procurement policy management, transmission and power reliability and equal employment opportunity have caused staffing to increase from 22 BFTE in 2009 to a budgeted 29 BFTE. The increase from FY 2010 to 2011 include:

1. An increase of 6 BFTE along with the associated benefits and related costs result in a \$0.9 million increase.
2. Supplemental labor and service contract support result in a \$0.3 million increase.

FY 2012-13 Program Spending Drivers

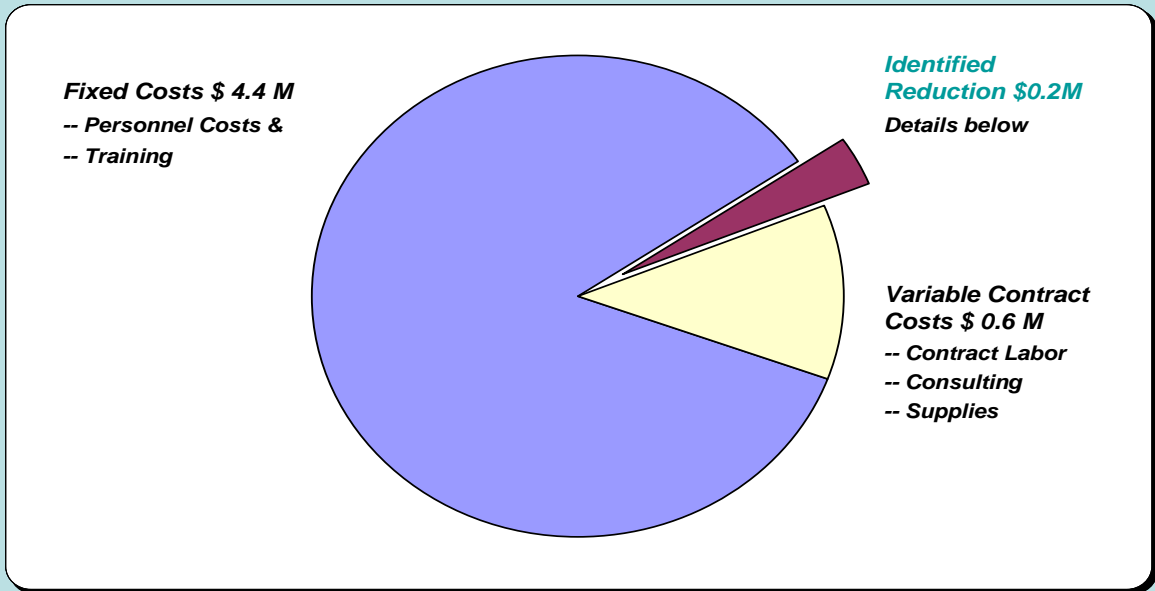
For FY 2012 and 2013, the very slight increases forecasted are because of inflation offsets with a continued effort to achieve further efficiencies.



Governance & Compliance – Reduction Scenario

AGENCY COMPLIANCE & GOVERNANCE	2012 IPR	2012 IPR Reduction Scenario	Delta	2013 IPR	2013 IPR Reduction Scenario	Delta
Total	5,159,426	4,978,266	181,159	5,191,449	5,009,747	181,702

Identified Reductions



Contract Support -- For FY 2012 & 2013 the average per year \$84,430 reduction is about a 13 percent reduction which would impact Agency Compliance and Governance’s ability to hire contract support to analyze where there are gaps in BPA’s compliance programs and develop plans to address those issues. An annual assessment of organization’s compliance activities is a best practice for implementing a culture of compliance. Also, NERC has a 2 year cycle for its reviews with FY 2013 as the next review date. This reduction could adversely impact BPA’s preparation for that review since an independent assessment will help identify the holes in BPA’s compliance activities.



OATT – For FY 2012 & 2013 the average per year of \$100,000 reduction, we will need to slow the pace of OATT implementation which potentially may impact BPA’s ability to meet FERC’s Order 888 requirements for Open Access Transmission Tariffs. At risk is assuring reciprocity and potentially, depending on the issue at hand, an adverse ruling by FERC that BPA is not meeting FERC’s requirements.

Agency Services – Compliance & Governance

FERC/NERC/WECC Costs:

- BPA's customers and interested parties requested that BPA identify its FERC/NERC/WECC costs.
- It is BPA's Goal to achieve a broad-based culture of compliance where employees understand the agency's compliance obligations, have the tools to meet these obligations, and act accordingly as a normal part of business practice.
- For FY 2012 and 2013, BPA will have a highly effective FERC/NERC/WECC compliance program that is built along the framework outlined by the Federal Sentencing Guidelines. This program will:
 - ✓ Enhance the reliability of BPA's Transmission and Power Services.
 - ✓ Reduce the potential for sanctions.
- The cost to remediate a Remedial Action Directive (RAD) can be costly; upwards to many millions.
- The incremental identifiable costs are presented below:

Agency Services – Compliance & Governance

	Group	Description	FY 2011	FY 2012	FY 2013
	(\$ 000's)				
Agency Compliance & Governance	Expense				
	<i>FERC Compliance</i>	Program Oversight and Assurance	765	783	801
		OATT Compliance	115	41	41
		Agency Compliance & Governance Expense Total	880	823	842
Internal Business Services	Expense				
	<i>Security & Emergency Management</i>	Physical Security	1,046	1,141	1,246
		Security Personnel	167	170	175
		Maintenance Estimates for Security Equipment	852	907	998
		Security Expense Total	2,065	2,218	2,419
	Expense				
	<i>Information Technology</i>	Transmission Line Maintenance & Vegetation Management Support	30	30	30
		Compliance Activities for Prowatch O&M	25	150	150
		Prowatch Phase II Project Expense Costs	300		
		IT Expense Total	355	180	180
	Capital				
<i>Information Technology</i>	Prowatch Phase II Project Capital Costs	900			
	IT Capital Total	900	0	0	

Agency Services – Compliance & Governance

	Group	Description	FY 2011	FY 2012	FY 2013
			(\$ 000's)		
	Expense				
Transmission	<i>All Transmission</i>		2,300	3,600	3,600
		Transmission Expense Total	2,300	3,600	3,600
	Expense				
Power	<i>All Power ^{1/}</i>		4,000	5,800	5,800
		Power Expense Total	4,000	5,800	5,800
	Expense				
General Counsel	<i>Transmission</i>		177	177	177
		General Counsel Expense Total	177	177	177
Expense Total			\$ 9,777	\$ 12,798	\$ 13,017
Capital Total			\$ 900	\$ -	\$ -

1/ FY 2012 and 2013 do not include the estimated \$1 million for the drawings necessary to support reliability self certification.

Future FERC/NERC/WECC Uncertainties: Standards are changing. The impact of these unknown changes *are not reflected* in BPA’s forecast.

- NERC’s potential move to result based standards.
- NERC’s critical infrastructure requirements.
- NERC’s CIP version 3 changes to compliance standards.
- NERC’s CIP version 4, determining how subsystems to the Bulk Electric System are determined.
- NERC’s other potential standards enhancements and changes.