2010 INTEGRATED PROGRAM REVIEW

DRAFT CLOSE-OUT REPORT

July 9, 2010

On May 11, Administrator Stephen J. Wright sent a letter to the region discussing the economic situation in the Northwest region and the unfortunate 2010 hydro conditions and resulting financial impacts. With that context he described expectations for the Integrated Program Review (IPR) process, which had just begun, and its importance to the region in preparation for BPA's upcoming rate setting process. Your participation in the IPR has been instrumental in guiding our areas of program emphasis, which lead to developing the expected costs going into the next rate case.

The first IPR process began in March 2008 and concluded in June 2009. BPA received feedback from several participants pertaining to ways to improve future IPR processes, and we have incorporated many of those suggestions in this IPR. General feedback suggested providing detailed reduction scenarios, long term asset strategies, staffing (FTE) information, greater executive involvement and more details surrounding proposed program spending and risk would be beneficial. As a result, BPA has provided significantly more information during the current IPR and staff continues to actively respond to requests for additional workshops and information.

In the current IPR process thus far, BPA has conducted eighteen technical workshops and one general manager meeting with BPA executives in attendance. Workshops have provided participants with an opportunity to review, discuss, and comment on Power, Transmission and Agency Services programs and have included detailed review of asset strategies and associated spending levels. During workshops, participants have requested additional material be provided via follow-up postings or workshops. In general, requests for additional information have pertained primarily to human capital management, historical spending and trends, accounting methods, Agency Services programs, compliance costs, and Wind Integration. BPA has responded to the majority of requests for additional information during subsequent workshops or via electronic postings at http://www.bpa.gov/corporate/Finance/IBR/IPR/. The public comment period for the IPR opened on May 10, 2010 and will remain open until July 29, 2010.

During the May 10th Overview workshop, participants showed a strong desire to have a draft decision report for review and discussion at the July 13th general manager meeting. In response, BPA made a commitment to make available an update identifying potential changes to the preliminary IPR spending levels as well as thoughts on the direction proposed spending levels may take in the IPR Final Close-Out Report, based on feedback received from participants through mid-June. At the June 8th General Manager meeting participants requested the status update be provided in advance of the July 13th meeting. BPA agreed to provide the update as much in advance as possible, so we have made an effort to get this out quickly. While we believe the proposed changes shown here are of good quality, we recognize the possibility of errors in translating the programmatic decisions made into detailed and allocated reductions by organizations.

BPA appreciates participation by the region and the valuable feedback provided thus far. As we begin to look forward to the upcoming rate period, we find the agency in continued financial decline due to another year of poor hydro conditions. BPA recognizes the significant impact a large rate increase could have on BPA utility customers, ratepayers and the Northwest economy at this time and is working collaboratively with the U.S. Army Corps of Engineers (Corps), the Bureau of Reclamation (BOR), Energy Northwest (EN) and the region to explore ways to mitigate the risk of a significant increase in the upcoming rate period.

Although BPA believes the preliminary spending levels identified during the initial 2010 IPR process are appropriate and prudent from both a long- and a short-term perspective, BPA executives also believe that it is important to provide information on what could be eliminated or suspended in the event that planned spending needs to be reduced. This draft report takes into account comments received and describes potential changes to BPA's preliminary IPR program levels for Fiscal Year (FY) 2012-13.

Concurrent with the IPR process, BPA held three workshops on debt management issues. While BPA's debt management decisions are not made in the IPR process, they do impact the level of BPA's overall costs, and customers and constituents have provided comments both outside of and within the IPR process. In order to provide more comprehensive information, this draft report describes BPA's current thinking on debt management issues, but does not make any decisions associated with debt management.

There will be another general manager meeting on July 13th from 9:00 a.m. to 12:00 p.m., with Administrator Steve Wright in attendance, to discuss and receive comments on strategies and proposed spending levels outlined in this draft report. The public comment period closes July 29th, after which final decisions will be made; participants are encouraged to submit written comments prior to the close of comment.

Summary of General Comments Received

During IPR workshops, BPA heard participants express some common themes regarding proposed spending levels. To summarize these themes, IPR participants generally:

- Support BPA's long term goals, but state that a rate increase coincident with changes in the power rate design could result in significant hardship.
- Understand the value the hydro and transmission assets provide and realize the importance of maintaining these assets for the long-term.
- Accept proposed capital spending levels for all programs but have a concern over BPA's ability to execute the planned program, given constrained resources.
- Recognize that the transmission system and hydro facilities require sufficient and well trained BPA staff and question BPA's future staffing and succession strategy with respect to its adequacy to support significant increases in program initiatives in the upcoming rate case, especially in Transmission.
- Need BPA to continue to ensure reliable, safe operation of the Federal system by setting appropriate programmatic levels that do not place undue burden on customers.
- Acknowledge that BPA faces added cost pressure and responsibilities due to wind integration and growing compliance requirements.
- Request that BPA identify and consider eliminating routine program activities that no longer produce sufficient benefit to the Federal System.
- Suggest that given current economic conditions and the expected Power rate increase, BPA must examine all proposed spending levels to ensure they are needed.
- Recommend that Agency Services re-examine programs and potential cost reductions due to what appears to be a significant increase since 2009.
- Support investigating potential debt management and risk mitigation tools that might be reflected in the FY 2012-13 rate case. These tools are being explored in public processes separate from, but concurrent with, the IPR.

While re-examining preliminary IPR spending levels for this update, BPA considered general verbal comments provided at IPR workshops between May 10th and June 21st, as well as written comments received prior to June 23rd from Northwest Requirements Utilities (NRU), Snohomish County PUD, Mission Valley Power, Northern Wasco PUD, the Confederated Tribes of the Colville Reservation and the Confederated Tribes of the Umatilla Indian Reservation. The formal comment period extends through July 29, and BPA will consider any comments received during that period prior to issuing the IPR Final Close-Out Report. Verbal comments received during IPR workshops generally focused on the themes discussed above. Written comments included the following:

- Recommend prioritizing Power and Agency Services programs and initiatives for FY 2012-13, allocating resources toward high priority programs, and deferring low priority programs.
- Support identifying efficiencies among key Agency Services programs by implementing a formal process similar to the prior Enterprise Process Improvement Program (EPIP).
- Recommend not purchasing property insurance during the FY 2012-13 rate period.
- Support increased Transmission spending if offset by increased revenues resulting from investments.

- Encourage re-evaluation of support provided to Columbia Grid.
- Expressed an interest in exploring options for restructuring Energy Northwest Debt.
- Encourage amortizing CGS fuel procurement over the fuel burn life instead of expensing at the time of purchase.
- Expressed an interest in a review of accounting treatment with customers, BPA staff, Corps, BOR and other entities concerning scheduled refurbishment of long term assets (non-routine extraordinary maintenance) on the federal system showing strong characteristics of capital investment instead of expense.
- Want costs for wear and tear to the Federal Hydro system resulting from providing ancillary services allocated to prevent undue burden on customers.
- Do not expect to bear costs attributed to summer spill that is not in accordance with best available science or the Biological Opinion (BiOp).
- Request a thorough review and justification of program increases in FY 2011 since these increases place additional pressure on rates and reserve balances.
- Support investment in aging hydro and transmission system; however, program increases should be funded over the long term.

Summary of Program Level Changes

Initial IPR spending levels were, for the most part, developed using FY 2011 IPR2 levels (used in the FY 2010-2011 final rate proposal) as a base, with adjustments for inflation, cost-of-living and an “efficiency factor” (reflecting an expectation that ongoing efforts around operational excellence will result in efficiencies and cost savings not anticipated in earlier planning) of 1.3 percent. Proposed spending levels as well as the reduction scenarios that were shared in workshops underwent rigorous internal review prior to release, with any deviation from the base assumptions requiring justification and approval by Senior Executives.

In light of BPA’s financial condition, the state of the Northwest economy, and the comments BPA has received thus far, BPA believes it is appropriate to identify possible changes to initial IPR spending levels for FY 2012-13. See Tables 1 and 2. Programs requiring further review and reduction have been prioritized by their level of impact on rates and by comments received by customers. With snow pack in short supply for FY 2010 and reserves available to cover costs dwindling, BPA believes it is appropriate to identify two sets of proposed reductions. The first consists of spending reductions that would be taken under any circumstances. The second set includes reductions identified as “suspended”. Suspended amounts are elements BPA believes continue to have merit but are being reduced in light of BPA’s continued poor financial results due to low hydro conditions and in light of the state of the regional economy. Unless conditions change significantly, the suspended amounts will not be included in program levels for rate setting purposes. If BPA’s secondary revenues and overall financial results exceed expectations in FY 2011-2013 then, at the discretion of the Administrator the suspended amounts may be reinstated. This IPR draft report identifies areas in which BPA is considering program spending reductions and/or suspensions.

Program Reductions

This draft report identifies and describes potential average annual program spending reductions ranging from $125-130 million in FY 2012-13 from initial IPR spending levels. Of the $120-125 million in FY 2012-13, roughly $120-125 million consists of reductions in Power Services and Power-related Agency Services proposed IPR expense levels and around $1-5 million in Transmission Services and Transmission-related Agency Services proposed IPR expense levels. Reductions to Power Services spending levels are primarily the result of proposed debt restructuring actions, capitalization of conservation acquisition, exclusion of property insurance and reductions to Agency Services support costs. Transmission Services reductions are primarily the result of reductions to Agency Services spending levels.

Program Suspensions

BPA has also identified and described in this draft report potential average annual program suspensions of around $10-15 million in FY 2012-13, of which $1-5 million is roughly estimated to be allocated to Power and $5-10 million to Transmission. Suspended IPR program levels may be reinstated if financial conditions improve in FY 2012-13.

At this point in time BPA has not identified any program spending reductions or suspensions to the proposed capital programs for FY 2012-17.

Table 1 is a summary of potential changes in Power spending levels for FY 2012-13, comparing the initial proposed IPR spending levels to the proposed IPR spending levels set forth in this status update.

Table 2 is a summary of potential changes in Transmission spending levels for FY 2012-13, comparing the initial proposed IPR spending levels to the proposed IPR spending levels set forth in this status update.

Table 3 is a summary of potential changes in Agency Services spending levels for FY 2012-13, comparing the initial proposed IPR spending levels to the proposed IPR spending levels set forth in this status update.

Table 4 displays *estimated* average annual program spending reductions and suspensions from initial IPR expense spending levels for FY 2012-13.

Table 5 displays the difference in Power expenses between the average of the 2010 rate case (WP-10) spending levels for FY 2010-11 and the average of the initial proposed IPR spending levels for FY 2012-13.

Table 1 – Proposed Changes to Power Services FY 2012-13

Power Expenses by Program	Initial 2012 IPR	Draft 2012 IPR	Delta	Initial 2013 IPR	Draft 2013 IPR	Delta
Renewable Energy	44,312	43,292	(1,020)	45,101	44,080	(1,021)
Energy Efficiency	47,250	47,250	-	48,150	48,150	-
Columbia Generating Station	319,866	319,866	-	375,045	375,045	-
Corps and Bureau	327,672	327,672	-	342,591	342,591	-
Long-term Generating Projects	27,389	27,389	-	27,654	27,654	-
Operating Generation Settlement	21,928	21,928	-	22,148	22,148	-
Residential Exchange	268,647	268,647	-	268,647	268,647	-
Non-Operating Generation	1,938	1,938	-	1,948	1,948	-
Trans Acquisition & Ancillary Srvcs	173,340	173,340	-	172,317	172,317	-
Fish & Wildlife	289,852	289,852	-	295,226	295,226	-
Non - Generation Operations	88,908	87,081	(1,827)	90,151	88,241	(1,910)
Total	**1,611,102**	**1,608,255**	**(2,847)**	**1,688,978**	**1,686,047**	**(2,931)**

Table 2 – Proposed Changes to Transmission Services FY 2012-13

Transmission Expenses by Program	Initial 2012 IPR	Draft 2012 IPR	Delta	Draft 2013 IPR	Draft 2013 IPR	Delta
System Operations	62,918	62,590	(328)	64,832	64,486	(346)
Scheduling	12,822	12,772	(50)	13,042	12,991	(51)
Marketing	17,864	17,600	(264)	18,207	17,940	(267)
Business Support	43,745	35,979	(7,766)	44,875	37,044	(7,831)
Maintenance	150,425	150,023	(402)	154,468	154,040	(428)
Engineering	34,522	32,414	(2,108)	35,579	33,425	(2,154)
Non-BBL Acquisition & Ancillary Services	13,484	13,484	-	13,618	13,618	-
Total	**335,780**	**324,862**	**(10,918)**	**344,621**	**333,544**	**(11,077)**

Table 3 – Proposed Changes to Agency Services FY 2012-13

Department	Initial 2012 IPR	Draft 2012 IPR	Delta	Initial 2013 IPR	Draft 2013 IPR	Delta
EXECUTIVE OFFICE	$2,151	$2,071	($81)	$2,195	$2,113	($82)
RISK	$21,992	$6,636	($15,356)	$22,082	$6,725	($15,357)
AGENCY COMPLIANCE & GOVERNANCE	$5,159	$5,088	($71)	$5,191	$5,119	($72)
PUBLIC AFFAIRS	$18,804	$18,479	($324)	$19,263	$18,937	($326)
INTERNAL AUDIT	$2,512	$2,370	($142)	$2,568	$2,426	($143)
FINANCE	$16,581	$15,876	($704)	$16,907	$16,245	($662)
CUSTOMER SUPPORT SERVICES	$11,262	$11,087	($176)	$11,502	$11,323	($179)
GENERAL COUNSEL	$11,894	$11,241	($652)	$12,551	$11,896	($655)
INTERNAL BUSINESS SERVICES	$893	$884	($8)	$908	$900	($9)
BUSINESS & PROCESS ANALYSIS	$1,442	$1,430	($13)	$1,468	$1,455	($13)
SAFETY	$2,647	$2,613	($34)	$2,702	$2,667	($35)
HUMAN CAPITAL MANAGEMENT	$19,545	$18,674	($871)	$19,362	$18,558	($803)
SUPPLY CHAIN SERVICES	$22,272	$21,997	($275)	$22,867	$22,587	($280)
SECURITY & EMERGENCY RESPONSE	$8,976	$8,934	($41)	$9,012	$8,970	($42)
WORKPLACE SERVICES	$52,882	$52,417	($465)	$53,531	$53,065	($466)
INFORMATION TECHNOLOGY	$70,225	$69,400	($825)	$71,902	$71,068	($835)
CORPORATE STRATEGY	$27,471	$24,825	($2,646)	$28,535	$25,827	($2,708)
Total	$296,707	$274,023	($22,685)	$302,548	$279,881	($22,667)

Table 4 – Average Annual FY 2012-13 Estimated Reductions & Suspensions

	Program Reductions/Cuts			Suspended Programs		
	A	B	C	A	B	C
$ in millions, corporate costs reflected in business units	POWER	TRANS	TOTAL (P+T)	POWER	TRANS	TOTAL (P+T)
1 Total Estimated Award Reductions	$ -	$ -	$ -	$ (0.88)	$ (2.71)	$ (3.59)
2 COLA Assumption/Benefits Adjustment	$ (0.94)	$ (2.42)	$ (3.36)	$ -	$ -	$ -
3 Estimate Allocation Reductions	$ (1.42)	$ 1.42	$ -	$ -	$ -	$ -
4 Property Insurance	$ (10.00)	$ -	$ (10.00)	$ -	$ (5.00)	$ (5.00)
5 Technology Innovation (R&D)	$ -	$ -	$ -	$ (1.00)	$ (1.00)	$ (2.00)
6 Debt Management Actions	$ (100.00)	$ -	$ (100.00)	$ -	$ -	$ -
7 Non-IBS Organizations Reductions	$ (0.30)	$ (0.30)	$ (0.60)	$ (0.79)	$ (0.71)	$ (1.50)
8 IBS Organizations Reductions	$ (0.33)	$ (0.79)	$ (1.12)	$ (0.08)	$ (0.10)	$ (0.18)
9 CGS (Fuel Purchases)	$ (10.00)	$ -	$ (10.00)	$ -	$ -	$ -
Total Est. Reductions & Suspensions	$ (122.99)	$ (2.09)	$ (125.08)	$ (2.75)	$ (9.52)	$ (12.27)

Table 5
Power -- Analysis of Net Revenues and Expenses
Summary of Changes, Rate Case to March 2010 IPR Data

$ Millions

	Expenses	A Change from Avg 10/11 to Avg 12/13	B % Change in Rates (based on Column A)	C Proposed Program Reductions (FY 12/13 Avg)	E Proposed Program Suspensions (FY 12/13 Avg)
1	Non-federal Debt Service	70.0	4%	(100.0)	-
2	Columbia Generating Station	56.1	3%	(10.0)	-
3	Net Interest Expense	44.9 to 54.9	3%	-	-
4	Fish and Wildlife/USF&W/Planning Council	32.9	2%	-	-
5	Bureau of Reclamation	25.9	1%	-	-
6	Corps of Engineers	25.8	1%	-	-
7	Depreciation and Amortization Expense	9.9 to 13.8	1%	-	-
8	Hydro Projects Insurance	10.0	1%	(10.0)	-
9	Power Non-Generation Operations	8.2	0%	(1.2)	(0.6)
10	G&A	6.4	0%	(1.8)	(1.1)
11	Purchased Power Expenses	?	?	?	?
12	Residential Exchange	?	?	?	?
13	DSI Service	?	?	?	?
14	Other expenses, net	-1.3	0%	-	-
15	Transmission Acquisition	-4.3	0%	-	-
16	Renewable and Conservation Generation*	-37.2 to 90.7	-2% to 5%	-	(1.0)
17	Net Change in Expenses	$247 to 389		(123.0)	(2.7)

*Renewable and Conservation Generation changes from Avg 10/11 to Avg 12/13 (column A) reflect proposed decision to fully capitalize conservation acquisition using a 13-year amortization period. This assumption results in reductions net of increased amortization and interest totaling approximately $33 million per year.

Power Services direct internal operating costs and Agency Services costs allocated to Power Services are shown on lines 9 and 10 of Table 5 above. These internal operating costs were increasing from $131 million by about 11 percent in the IPR Proposal from the average in FY 2010-11 rates. Proposed reductions in Agency

Services costs would bring proposed internal operating costs down to $141 million or an increase from FY 2010-11 rates of that increase down to about 7 percent or $10 million.

Non-Federal Debt Service, Net Interest Expense, Depreciation and Amortization

The forecasts of Power debt service (Federal and non-Federal) for FY 2012-13 are about $100 million per year higher than FY 2010-11 levels. Approximately $70 million of this is an increase in non-Federal debt service, as shown on line 1. The remaining $30 million is included in the higher (Federal) Net Interest Expense (line 3 of Table 5). The increase to non-Federal debt service was expected, resulting primarily from various debt management actions, many of which extended principal or deferred payment of principal for EN debt and repaid Federal debt earlier. The increase in Federal interest results from higher outstanding Federal debt due to funding increased capital expenditures. As a direct consequence of these debt service increases, Federal amortization will decrease by an average of $24 million per year. However, Federal amortization is a cash requirement and is not part of this table. Given the amount of change resulting from these factors and the potential impact on power rates, BPA is engaging the public in a Debt Management process for reviewing debt management strategies. While debt management actions and strategies are not decided in the IPR, we are including information on BPA's current thinking on these issues in this draft report.

- Customer comments to date have indicated customers' concern over this spike in debt service, particularly non-Federal debt service.

BPA's Response: BPA staff are working collaboratively with BPA customers and interested parties and are actively engaged with the Energy Northwest (EN) Executive Board and the EN Participants Review Board (PRB) to find ways to mitigate the non-Federal debt service increase. To date, three Debt Management workshops have been held.

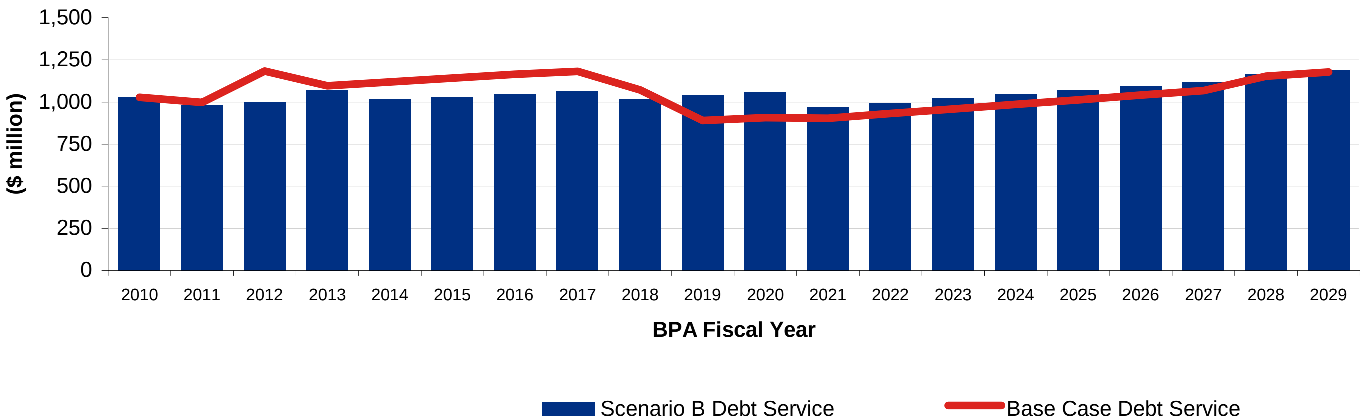
Written comments received prior to June 23rd have been summarized below:

- **Northwest Requirements Utilities (NRU)** - requested that options for Energy Northwest debt structure be explored so that the rate effects (both near and long term) of different debt structures can be displayed. Only when this is done can the policymakers then make a fully informed decision. NRU asked that EN, BPA and the customers work together in this analysis to ensure that we are achieving the most efficient overall debt service profile for EN, other non-federal debt, and federal bonds and appropriations. Initial indications are that $104 million per year 2012-13 on average can be saved if the CGS debt repayment structure is smoothed out over the 2012 to 2024 time period. We do not advocate moving the WNP-1 or -3 debt service beyond 2018.
- **Snohomish County PUD** - is optimistic about the debt restructuring proposal presented by BPA Power Services and encourages the Agency to continue discussions with Energy Northwest's Board to reach conclusion on this matter.

BPA's Response: BPA is continuing to pursue a potential non-Federal debt extension/restructuring to help mitigate the potential rate increase in the FY 2012-2013 rate period. BPA advocates a restructuring scenario that reduces total debt service by around $100 million on average in FY 2012-2013. This restructuring solution extends CGS principal payments from FY 2011-2018 into FY's 2019-2024, and includes early payment of some Project 1 and 3 debt. BPA is continuing to work with customers, the EN Executive Board, and the EN PRB to evaluate alternatives. BPA thinks debt extension/restructuring provides the best opportunity to provide significant rate relief in 2012 and 2013, but BPA cannot achieve this milestone alone. BPA needs support from Energy Northwest and its public power participants.

Table 6 shows the greatest potential reduction scenario ($100 million) and illustrates total debt service (both Federal and non-Federal).

Table 6



Scenario B: Extending & Restructuring 2011 & 2012

BPA Fiscal Year	Base Case Debt Service	Scenario B Debt Service	Delta from Base Case
2010	1,028	1,028	0
2011	998	981	(16)
2012	1,184	1,002	(182)
2013	1,096	1,070	(26)
2014	1,119	1,017	(102)
2015	1,141	1,032	(109)
2016	1,165	1,049	(116)
2017	1,182	1,066	(116)
2018	1,072	1,015	(57)
2019	889	1,044	155
2020	906	1,061	155
2021	903	967	65
2022	931	995	64
2023	957	1,022	64
2024	986	1,047	61
2025	1,012	1,070	58
2026	1,041	1,095	54
2027	1,068	1,118	50
2028	1,153	1,167	13
2029	1,178	1,191	13
Total	21,009	21,036	26

Columbia Generating Station (CGS)

BPA acquires 100 percent of CGS generation, directly funds 100 percent of its costs, and directly funds the Decommissioning Trust Fund and the Nuclear Electric Insurance Limited (NEIL) insurance premiums. FY 2012-13 proposed spending levels reflect the current Energy Northwest (EN) Long Range Plan and result in an average increase of $56.1 million per year in FY 2012-13 over levels assumed in the FY 2010-2011 power rate proposal. Increases primarily reflect the increase in nuclear fuel purchases to replenish the uranium inventory. Decommissioning Trust Fund contributions have also increased consistent with the funding schedule EN submitted to the US Nuclear Regulatory Commission in March 2009. A maintenance and refueling outage will take place in FY 2013.

A CGS-specific technical workshop was held on May 19th to discuss proposed spending levels, and included CGS representatives. Very few comments were received at this workshop; in general participants were mainly interested in understanding BPA's current accounting treatment of fuel procurement.

Written comments received prior to June 23rd have been summarized below:

- **Northwest Requirements Utilities (NRU)** – The increase between FY 2010-11 CGS costs compared to FY 2012-13 is made up of two factors: the increase in fuel costs and the reduction in fuel revenues. When added together, 97 percent of the $55 million average annual cost increase is explained. This increase is due to the ending of the relatively low-cost fuel purchases under the DOE pilot program, and its replacement with market fuel purchases. One way that the rate impact of these high fuel costs can be ameliorated is to spread their recovery over the fuel burn. Utilities around the nation that we have contacted amortize nuclear fuel purchases over the fuel burn, rather than expense them in the year the fuel is purchased. Absent compelling information to the contrary, we see no reason why this approach should not be used to reduce the rate impact. Amortizing fuel costs over the fuel burn would decrease the initial rate impact of the $47 million increase in fuel cost by about two thirds.
- **Snohomish County PUD** - recommends BPA Power Services work with Energy Northwest to evaluate the benefits of amortizing, rather than expensing, the cost of this plant's fuel supply. Spreading the cost of the fuel over its life will reduce upward pressure on BPA's power rates.

BPA's Response: BPA has looked into the accounting treatment for recognizing the cost of acquiring nuclear fuel over the fuel burn period. EN does capitalize the fuel and amortizes it over the fuel burn period consistent with prevailing practice. Also, PNGC and NRU did some benchmarking with other utilities to find out how they recognize their nuclear fuel purchases. They found that all of the utilities they contacted amortize their fuel purchases over a period of years as opposed to expensing them in the year the fuel is purchased. This is consistent with the EN practice. However, BPA's financial relationship with EN is based on the net billing agreements, so BPA provides funds to

EN on a cash basis and expenses those costs when incurred. This relationship was discussed at the June 18th Debt Management Workshop.

In addition to the discussions around amortization of nuclear fuel costs, there has been discussion regarding debt financing of nuclear fuel purchases. While BPA is not inclined to transition to debt financing nuclear fuel purchases entirely to provide immediate rate relief to FY 2012-13 customers at the expense of future customers, some amount of debt financing may be appropriate during the upcoming rate period. Our research thus far indicates most utilities do not finance fuel but use long term contracts to lock fuel purchases in for the out-years.

EN and BPA have been exploring the opportunity to make an advance purchase of fuel to take advantage of current low uranium prices. In isolation, this would increase costs during the FY 11-13 period by a modest amount, assuming this unusual purchase was financed. However, this purchase will also allow EN to defer refinement and enrichment costs during this period on previously purchased fuel. This will result in a net reduction in EN O&M costs of $20 million.

BPA will continue to work with EN to complete the development of principles that delineate when it is appropriate to expense fuel related costs and when it is appropriate to bond finance them. EN has, at least so far, not provided a 5 percent cost reduction scenario.

Fish and Wildlife, Lower Snake River Compensation Program (LSRCP), US Fish and Wildlife, Columbia River Fish Mitigation project (CRFM), Northwest Power and Conservation Council (NWPCC)

BPA’s Integrated Fish and Wildlife Program implements projects that meet BPA's fish and wildlife mitigation objectives under the Northwest Power Act, consistent with the program adopted by the NWPCC. The projects also meet BPA’s Endangered Species Act (ESA) fish and wildlife requirements under biological opinions from the U.S. Fish and Wildlife Service and National Oceanic and Atmospheric Administration (NOAA Fisheries), and the commitments encompassed within the Columbia Basin Fish Accords.

The Integrated Fish and Wildlife Program is anticipating average program level increases of roughly $33 million in FY 2012-13 over the FY 2010-11 rate proposal levels. These increases are primarily a result of implementing Fish Accords with several states and tribes, actions to fulfill reasonable and prudent alternative actions (RPAs) within the 2006 Libby Biological Opinion (BiOp), requirements in the 2010 Supplemental BiOp for the FCRPS (including the Adaptive Management Implementation Plan (AMIP) and the Washington Estuary MOA), and costs associated with implementing a previously negotiated but not yet executed Accord with the Kalispel Tribe.

A technical workshop was held on May 20th to discuss proposed expense and capital spending levels for the Integrated Fish and Wildlife Program, LSRCP, Bureau of

Reclamation (BOR) Leavenworth Fisheries Complex, Corps Fish and Wildlife O&M, CRFM and NWPCC. The primary issues raised by some participants were an interest in seeing a general budget cap or potential reduction in planned expenses due to historical budget underruns and a concern regarding extending spill beyond what is included in the BiOp.

Written comments received prior to June 23rd have been summarized below:

- **Northwest Requirements Utilities (NRU) –**
  - BPA should set an overall budget cap on the Direct Fish and Wildlife Program expenditures for the duration of the BiOp. Such a cap will require BPA and the Council to reduce expenditures in Research, Monitoring and Evaluation (RM&E) in order to fund new project proposals. To help implement the cap, any non-Accord projects that fail science review should not be funded.
  - NRU members do not oppose Fish Accords or the FCRPS BiOp. However, if BPA fails to implement the best science contained in the BiOp and extend summer spill customers should not bear the financial consequence to foregone revenues from lost power. NRU recommends BPA accept all or a portion of the $13.2 million in reductions identified in the May 20th presentation of the IPR Fish and Wildlife costs as needed to offset foregone revenues from summer spill beyond the BiOp trigger.
  - BPA should work with agencies and tribes to determine an appropriate level of funding that can be implemented in FY 2011-13. Proposed spending levels should reflect the likely lag time in actual expenditures to prevent over-collecting rates for fish and wildlife expenses.
  - The Council should utilize the Independent Economic Analysis Board (IEAB). BPA should encourage the Council to task the IEAB with a "big picture" cost/benefit review of projects in the program.

BPA's Response: BPA remains committed to fully meeting its Northwest Power Act mitigation responsibilities and implementing its share of the program, the biological opinions, and Fish Accords. BPA's commitment under the FCRPS Biological Opinion is to specific performance requirements and not to specific work or a set amount of money. BPA is committed to obtaining these performance requirements in a cost effective manner. We will continue to review fish and wildlife costs including possible reductions where appropriate.

- BPA will manage the program to assure full implementation and to fulfill the requirements of the BiOp and Fish Accords. Full implementation will not be limited by program levels used for ratesetting purposes. However, to date, the actual expenditures associated with implementing BiOp and Accord commitments has been at a slower rate than originally expected. While we are continuing to ramp-up Program implementation, the possibility remains that actual expenditures will be less than expected. As a result, we are proposing a modified IPR budget that is 5 percent less (~$13 million reduction in both FY 2012 and FY 2013) than projected under full implementation, which would create an increased risk of spending more money than was collected in rates. We are continuing to refine estimates of future spending, and may consider further adjustments to the Program budget if spending continues at a slower rate of increase than originally expected. It is important to note that spending provisions in the Accords allows funds to be shifted in time to reflect when the actual work may be performed. Hence, a reduction in budget in one year may result in an increasing in funding in a future year if those funds are carried forward.

- BPA is working with the Council and mitigation contractors to focus Research, Monitoring and Evaluation (RM&E) funding more directly on important management questions aimed at improving the biological effectiveness of the Fish and Wildlife Program. In addition, we are exploring programmatic approaches that could result in savings.
- ISRP review comments are taken into consideration when individual project funding decisions are made. In addition, BPA would consider any IEAB reports or Council recommendations for ways to fulfill our mitigation responsibilities more cost effectively.
- We intend to fully consider the best available science (in conjunction with NOAA Fisheries, the Corps and the Bureau) as we apply adaptive management strategies to dam modifications and hydro operations to achieve the performance objectives in the BiOp. We look forward to the Court's final decision on the BiOp so that we can focus on implementation of its science-based provisions for river operations.

Additional information will be provided in the IPR Final Close-Out Report.

U.S. Army Corps of Engineers (Corps) & Bureau of Reclamation (BOR)

BPA works with the Corps and BOR to implement funding for operations and maintenance activities, non-routine extraordinary maintenance projects, and Fish and Wildlife and Cultural Resources mitigation activities at 31 hydro electric facilities throughout the Northwest.

The Corps and BOR are proposing average increases for FY 2012-13 of nearly $52 million from levels in the FY 2010-2011 power rate proposal. This increase is driven primarily by significant increases in non-routine extraordinary maintenance (NREX), compliance requirements, cultural resources and increased staffing and salaries. The Corps and BOR also participated in the May 20th IPR workshop. Participants focused primarily on BPA's current accounting treatment of NREX. The majority of participants requested additional information supporting BPA's current treatment of NREX be provided or discussed in a follow up meeting.

Written comments received prior to June 23rd have been summarized below:

- **Northwest Requirements Utilities (NRU)** – About 15 percent of O&M program costs are for NREX, the large infrequent activities associated with returning failed units to service, repairing gates and other large equipment and structures, as well as the work required for overhauling the big 805 and 600 MW units in the

Grand Coulee Third power plant. These costs are being treated as an expense even though this represents maintenance and repairs on long-lived assets. Is the accounting treatment of these costs appropriate given the long term value that these refurbished assets will provide? NRU recommends BPA, the Corps and Bureau benchmark this accounting treatment against other PMAs and the TVA.

BPA's Response: BPA has conducted a review of the NREX accounting policy and benchmarked with other utilities on their accounting treatment for NREX. At the June 18th Debt Management Workshop, the findings from this research and benchmarking were shared and discussed with participants. In general the Corps and BOR account for these improvements consistently nationwide and their treatment is consistent with other dam operators throughout the region and elsewhere. The customers in attendance at that workshop seemed to be satisfied with the research, and this issue was considered to be resolved.

- **Snohomish County PUD** - Corps and Bureau costs have increased, but preserving the energy and capacity of the FBS is essential for the region. However, if wear and tear is a result of BPA providing ancillary services to integrate variable generation, then there is a cost allocation question that must be addressed.

BPA's Response: Most of the cost increases in non-routine extraordinary maintenance expenses are generally not attributed to increased wear and tear due to integrating intermittent resources. It is possible, however, that this may become a more significant issue in the future. Current rates allocate a portion of these O&M costs to wind integration. BPA encourages participation in current rate case workshops and the upcoming BPA 2010 Rate Case for further information about cost allocation issues.

- **Confederated Tribes of the Umatilla Indian Reservation** – Support the proposed funding level in FY 2013 to 2014 rate case for the FCRPS Cultural Resources Program while noting the increase from $4.5 million in FY 2011 to $8.1 million annually in FY 2012-13 is "long overdue".

- **Confederated Tribes of the Colville Reservation** – Support the proposed funding level increases for the FCRPS Cultural Resources Program and propose a 30 percent increase above the initial levels being proposed.

BPA's Response: BPA is pleased to continue supporting the cultural resources program and understands the importance of this program. At this time, BPA currently intends to maintain the IPR proposed spending levels for cultural resources.

The Corps and BOR in partnership with BPA have not proposed any reductions or suspensions to the Corps or BOR expense and capital proposed programs at this time, but are discussing a potential reduction in planned awards similar to what BPA is proposing.

Renewable Resources

BPA's policy goal for renewable resources is to ensure the development of its share of all cost-effective regional renewable resources forecasted in the Northwest Power & Conservation Council's 6th Power Plan (6th Power Plan) at the least possible cost to BPA ratepayers. BPA's share will be based on the public power customers' share of regional load growth (about 40 percent). Any renewables acquired by BPA for service to preference customers or acquired by preference customers, with or without assistance from BPA, count toward this goal**.**

When Renewables Research and Development (R&D) is excluded, the proposed spending level for Renewable Resources has decreased by an average of 3 percent in FY 2012-13 from levels in the 2010-2011 power rate proposal. This is largely due to ending the Renewable Rate Credit program and holding other costs fairly constant. The R&D spending levels were discussed during the Agency Services workshop on May 25th.

Beginning in FY 2012-13 the Renewables program will no longer budget for reinvestment of Green Energy Premiums (GEP). Reinvestment of the GEPs received before September 30, 2011 will be accomplished through Technology Innovation, the Wind Integration team and a pumped storage project.

Technical workshops were held on May 24th and June 10th to discuss Renewable Resources. Written comments received prior to June 23rd have been summarized below:

- **Northwest Requirements Utilities (NRU) –**
    - BPA collected more revenues from the GEP than forecasted in FY 2007-11, BPA is projecting to have approximately $6.3 million of unspent revenues going into FY 2012-13. BPA is proposing to spend these revenues on a number of projects, with nearly 50 percent (average of 2012-13) being used to fund the Wind Integration Team (WIT). We expect that these costs will then be allocated to and collected from the wind integration charge. Otherwise, we propose that the unspent GEP revenues be used to pay part of the Renewables Purchase Costs line item.
    - The $4M/year Resource Development program fails to provide enough detail on what may or may not be funded.

BPA's Response: BPA will honor its commitment in WP-07 and WP-10 to reinvest the unspent Green Energy Premium (GEP) revenues in Renewables R&D projects, the Power share of the Wind Integration Team, and pumped storage evaluation. BPA's commitment did not include using the GEP revenues to pay part of the Renewables Purchase Costs line item. The Wind Integration Team costs are not currently being recovered through the Wind Integration Charge and BPA is not proposing to change that in IPR. This should be brought up and addressed as a rate case issue. Without utilizing the GEP revenues that BPA has already collected, the costs associated with

GEP reinvestment would otherwise be recovered through the Tier 1 Composite Cost Pool. By reinvesting the GEPs, BPA is reducing the revenue requirement for the Tier 1 Composite Cost Pool by the same amount, with all else being equal.

BPA provided additional detail regarding the Renewable Resources Development program at the June 10th workshop.

Energy Efficiency

Consistent with the Northwest Power Act, BPA works with its wholesale power customers to acquire the public power share of all cost-effective conservation identified in the NWPCC's Power Plan. Over the last 28 years (1982-2009), BPA and its customers have saved more than 1,100 average megawatts (aMW) of electricity through energy efficiency and conservation. Under the Northwest Power & Conservation Council's 5th Power Plan the public power target was ~260aMW or an average of 56aMW/year. Under the 6th Power Plan the public power target is 504aMW or approximately 101 aMW per year.

To meet the aggressive 6th Power Plan targets, BPA's Energy Efficiency capital budget will increase from $47 million in FY 2011 to $124 million in FY 2012 and $132 million in FY 2013. These increases will be used to fund BPA's programmatic conservation. BPA is proposing to shift approximately $30 million of projects from expense to capital upon conclusion of the Conservation Rate Credit at the end of FY 2011. This results in the Energy Efficiency expense budget decreasing from $76.7 million in FY 2011 to $47.3 million in FY 2012 and $48.2 million in FY 2013. The expense budget will be used to capture non-programmatic savings, support market transformation through the Northwest Energy Efficiency Alliance (NEEA), and undertake the full range of activities needed to design, market, support, and evaluate conservation measures.

The accounting treatment for conservation acquisition has been a topic of conversation during the current IPR. If conservation is capitalized, the result would be an approximate 2 percent reduction in power rates for the conservation and renewables programs combined. However, there would be a slight offsetting increase to the Net Interest Expense and Depreciation and Amortization Expense items due to the increased capitalization amounts. If conservation is expensed, the result would be an approximate 5 percent increase in power rates for the conservation and renewables programs combined.

BPA has also been considering what the appropriate amortization period for conservation measures should be. Based on information provided by the NWPCC on the measures called for in the 6th Power Plan, BPA is planning on changing the amortization period of conservation measures from 5 years to 13 years. This assumption was reflected in the initial IPR forecasts.

Written comments received prior to June 23rd have been summarized below:

- **Northwest Requirements Utilities (NRU) –**
    - o Supports BPA providing additional information on what the ramifications are of capitalizing these costs, including impacts on future rates. How will fully capitalizing the conservation acquisitions add to the existing (and forecasted) federal debt structure and how would the amortization impact future rates?

BPA's Response: If the proposed IPR acquisition levels are capitalized rates would increase (over FY 2010) by approximately .5-.7 percent in the FY 2012-13 rate period depending on the load case and 1.6-2.4 percent in FY 2016-17 rate period[1]. If the proposed IPR Acquisition levels were expensed in FY 2012-13 rates would increase by approximately 6.0-6.3% over the WP-10 budgets and by 6.7-7.5% in FY 2016-17.

- **Northwest Requirements Utilities (NRU) –**
    - o Supports BPA looking at amortizing conservation over the expected life of the conservation measures, which may be more than the 5 years BPA is currently using.

BPA's Response: BPA is planning to capitalize conservation acquisition and use a 13-year amortization period. When compared to expensing the entire conservation acquisition program, this results in an average expense savings of approximately $128 million in FY 2012-13. However this is slightly offset by an approximate $6 million average increase in Net Interest Expense and an approximate $10 million average increase in Depreciation and Amortization Expense over that same time period.

BPA is not proposing any reductions or suspensions to proposed Energy Efficiency program spending levels at this time.

Transmission Services

Transmission Services is and will continue to be an engine of the Northwest's economic prosperity and environmental sustainability. Transmission Services' priorities are to be a national leader in providing high reliability, low rates consistent with sound business principles, responsible environmental stewardship, and accountability to the region. Although Transmission capital investments are growing and operating expenses are increasing at a faster rate than inflation, revenues are also increasing due to the success of 2008 and 2009 Network Open Seasons (NOS) and new product offerings.

In general, costs are growing as a result of investing in the existing aging infrastructure, increased mandatory compliance requirements, integration of renewables on the grid, maintenance on a growing system, additional cyber and physical security requirements, as well as climate change implementation. Drivers of proposed capital and expense

[1] Rate impact estimates are based on changes to the WP-10 PF non-slice rate, all other things held constant. WP-10 budgets assume a 5-year repayment rate on capital and lapsed capital budgets while the IPR proposed capital levels assume a 10-year repayment rate.

spending levels were discussed in detail at Transmission technical workshops held on May 17th and 18th. Few comments were received at the workshops, but in general participants indicated support for Transmission's proposed program levels and encouraged further examination of staffing levels, and suggested that proposed levels appeared inadequate to meet the proposed initiatives.

Written comments received prior to June 23rd have been summarized below:

- **Mission Valley** – Maintenance of the Transmission system should follow a maintenance plan that resembles a mix between IOU and Federally Owned. An overly aggressive plan is not recommended.

BPA's Response – As part of the FY 2011-13 asset plans the intent is to continue to collect, and analyze appropriate asset component data to inform prudent future investments. This plan will be informed by a mix of asset data and industry practices to deliver a reliable system at least life cycle cost.

- **Snohomish County PUD** – is generally supportive of such investments with the understanding that revenues created from these investments be used to offset the costs.

BPA's Response – Agreed.

- **Snohomish County PUD** – recommends BPA re-assess its programmatic support of the regional transmission planning underway at Columbia Grid.

BPA's Response: Bonneville is actively participating in ColumbiaGrid activities. It is one of the recognized WECC sub-regional transmission planning organizations that has the ability to provide coordinated transmission planning for members. This could represent possible long-term cost savings as it would help the region plan more efficiently. For example, BPA's involvement includes participation in study teams, specifically the Puget Sound Study Team, to address congestion management issues in that area. Recently, BPA also worked with ColumbiaGrid to transition the Northwest Area Coordinator Function to support the WECC base case development, as required by the Planning Expansion Functional Agreement. In addition, BPA is supporting ColumbiaGrid efforts to help meet the requirements described in the WECC's Western Interconnection Plan. We believe continued support and funding for ColumbiaGrid is warranted.

- **Snohomish County PUD** – recommends BPA implement a succession planning initiative for the key areas in Transmission Services.

- **Northwest Requirements Utilities (NRU) –**
  - It is important that BPA Transmission ensures there is sufficient staffing to efficiently perform in key areas, such as policy and rates, reliability compliance and operations. There needs to be sufficient staff to work on NERC standard compliance.

- o There needs to be continuity in staffing and preservation of expertise in order to enable Transmission (and the customers) to move forward on pressing issues rather than spend time re-training staff.

BPA's Response: BPA engaged Navigant Consulting Inc. to undertake a benchmarking study in December 2009. This study was designed to serve as a third party objective evaluation of staffing levels. The results of this study indicate that total staffing levels in both Transmission (T) and Supply Chain (SC), counting BFTE, contractors and contractor services, are reasonably well aligned with others in the industry. SC is slightly above (7 percent) and T is slightly lower (-8 percent) than the industry median. Management is now evaluating the detailed information the Navigant report provides along with other data sources for a more thorough staffing analysis. This initial work will help identify and prioritize areas for further review. BPA will also evaluate how the current staffing levels and balance of resources impact our ability to deliver on strategic objectives and to conduct cost effective operations. This will allow us to have an informed dialogue about how staffing levels and resource mix impact business outcomes, and whether they expose BPA to any unacceptable risks. We will also consider how potential changes to staffing levels or our resource mix could address and mitigate such risks. We will report on our progress at Quarterly Business Review meetings.

Transmission will also be conducting this ongoing review on whether it has any risks associated with staffing levels or skill sets in conjunction with its strategic planning efforts. In regards to staffing for NERC related matters, we will continue to assess staffing needs as the compliance environment evolves.

Succession Planning:

BPA has an overall agency workforce plan that is a risk-based strategy to address critical staffing areas. Transmission has eleven occupations and two initiatives, involving capital construction and wind integration, on the plan. Of the eleven Transmission occupations on the workforce plan, succession planning is one of the specific treatment strategies prescribed for four groups – Realty Specialists, Dispatchers, Mechanical Engineers and Land Surveyors. BPA also has a student program that has successfully been bringing in electrical and electronics engineers at a pace that currently mirrors the occupation's retirement profile, as well as students in both business and economics.

In addition, BPA is working on a Talent Management Strategy and succession planning is one of the key tools that will be utilized as part of this strategy. BPA is in the process of enhancing its current succession planning program and will be training managers on the federal tools available to offer developmental opportunities to staff to build bench strength.

Finally, BPA is working on succession planning at an industry level with the Oregon/Southwest Washington Energy Consortium, which includes PacifiCorp, PGE, NWPPA, Clark PUD, and NW Natural Gas. The goal of this project is to address knowledge management/knowledge transfer as a component of succession planning. This project enables BPA to leverage resources and best practices across the industry. It includes developing multiple strategies to capture the knowledge of incumbent workers who are close to retirement, and finding ways to ensure that contractors/consultants who were brought on for their expertise are contractually obligated to help build expertise in the internal staff before completing their work.

BPA is considering providing to IPR participants an additional scenario, a proposal that would increase staffing for Transmission, including what would be provided and what it would cost.

Agency Services

Agency Services is a collection of functions that support and enable Power and Transmission Services to produce and sell power and transmission products. Agency Services plays a fundamental role by providing the support services necessary to facilitate and achieve Power and Transmission initiatives. Power and Transmission programs and projects are significant drivers of Agency Services costs.

Growth in existing Power and Transmission programs account for the majority of increased demand in Agency Services in the upcoming rate period. Major increases are proposed for FY 2012 and 2013, including a 22 percent increase in Transmission expense and capital spending, a 12 percent increase in Fish and Wildlife spending, doubling of Energy Efficiency investments, significant increases in compliance requirements and costs, as well as implementation of new 20-year power sales agreements. Increased Agency Services program levels reflect the necessary increases required to support business unit and agency initiatives. On average the initial IPR Agency Services program levels represent an increase in FY 2012-13 of approximately $47 million over FY 2010-11 rate case levels.

Multiple workshops were held to discuss Agency Services programs, as well as to respond to requests for additional material related to staffing, technology innovation, property insurance and other support functions. Although the workshops were sparsely attended, participants were very engaged. The following is a summary of general verbal comments received at Agency Services workshops:

- In total, department expenses appear to be growing faster than the rate of inflation.
- Concerns were raised about the approximate $100 million difference between Agency Services FY 2009 actuals and proposed FY 2013 spending. Further examination of proposed levels was encouraged.

Written comments received prior to June 23rd have been summarized below:

- **Snohomish County PUD –**
  - o Moving forward, Snohomish requests BPA implement a formal initiative to begin process reviews of key areas and departments not previously addressed through EPIP, to find efficiency savings.

- **Northwest Requirements Utilities (NRU) –**
  - o Business and Process Analysis supports initiatives associated with the EPIP projects, which we cannot recommend scaling back on. However, to the extent the focus is to help the Agency achieve spending "less than inflation" and other efficiencies, that goal is not being demonstrated in many of the Agency Services Department budgets.

BPA's Response: With the conclusion of EPIP in 2008, BPA initiated an all–agency focus on operational excellence. Operational excellence is continuous improvement to produce more efficient and effective ways to deliver on BPA's mission and vision. In late FY 2010, BPA is implementing an Office of Business and Process Analysis to provide on-going support to further the penetration of operational excellence tools across BPA and to gain additional efficiencies.

<u>Specific Comments Pertaining to Agency Services Cost Reductions</u>

- **Northwest Requirements Utilities (NRU) –**
  - o Finance increases 17 percent from FY 2011 to FY 2013, the $800,000 staffing related reduction needs further explanation; particularly the "intern" program.

BPA's Response: Additional details pertaining to the increases in Finance's proposed budget in FY 2011-13 and the "intern" program (a training and development program for new financial analysts, and a major component of Finance's succession strategy) have been posted to the BPA IPR website under May 25th Workshop material. The bulk of the proposed increase is $900 thousand per year due to an error in calculating the FY 2010-11 spending levels. At this time, BPA is proposing suspending approximately $450 thousand from Finance's initial IPR proposed spending levels in FY 2012-13. This suspension removes contract and supplemental labor required to upgrade and implement improvements in the various budget, accounting and finance systems. This suspension produces savings of about $225 thousand to Power Services and $225 thousand to Transmission Services from initial IPR spending levels in FY 2012-13.

- **Northwest Requirements Utilities (NRU) –**
  - o Risk proposes a significant increase, made up primarily of insurance premiums ($15 million). Given current economic circumstances, NRU would not support this expense. In addition, the impact of potentially reducing two positions for a savings of $330,000 needs further explanation.

BPA's Response: BPA's risk management office explored some less expensive property insurance policy structures and presented them to participants at the June 21st IPR workshop. BPA believes the policy limits and deductibles used in the proposed IPR spending levels reflect favorable alignment with the magnitude of BPA's exposure to potential damage to FCRPS assets at a reasonable price. However, given the current economic conditions and customer comments thus far, BPA deems it appropriate to phase in property insurance with a lower priced policy that covers only Transmission, this provides value and risk mitigation.

Removing proposed property insurance premiums from Power Services produces cost savings of approximately $10 million in FY 2012-13 from initial IPR proposed spending levels. Proposed property insurance premiums for Transmission Services assets are estimated to cost $5 million in FY 2012-13, however, funding for this item has been suspended at this time resulting in savings of nearly $5 million from initial IPR proposed spending levels in FY 2012-13. Risk is also proposing an annual average expense reduction of $300 thousand in FY 2012-13 that would be divided equally to Power and Transmission Services. The proposed reduction would reduce business continuity support staff and succession planning initiatives within Risk.

- **Northwest Requirements Utilities (NRU) –**
  - Information Technology grows 6 percent from FY 2011 to FY 2013, reduction scenarios need to provide breakout of costs for each project. How would reductions impact customer interaction?

BPA's Response: Material in response to NRU's comment is being developed and will be posted on the IPR website. At this time, BPA is proposing a $250 thousand reduction to Information Technology from initial IPR proposed spending levels in FY 2012-13; this would reduce/delay the number of laptop refreshes in those years. This reduction produces around $90 thousand in Power Services expense savings and $160 thousand in Transmission Services expense savings in FY 2012-13 from the initial IPR proposed spending levels.

- **Northwest Requirements Utilities (NRU) –**
  - Internal Business Services increases over 15 percent from FY 2011 to FY 2013; it appears IBS overlaps with Corporate Strategy.

BPA's Response: On June 21st BPA held a second workshop to discuss the proposed increases to Internal Business Services programs. BPA believes these issues were clarified at that time. In summary, BPA clarified that there is no over-lap between Corporate Strategy and Internal Business Services and better addressed the drivers for Agency Services increases. BPA has taken another look at HCM costs based on customer comments.

- **Northwest Requirements Utilities (NRU) –**
  - Human Capital Management costs increase 12 percent from FY 2011 to FY 2013, a $1.2 million reduction representing 5 percent may admittedly detract from the quality of employee support functions, but to what degree?

BPA's Response: Representatives from HCM discussed the impact of reductions to the HCM program on June 21st; participants seemed satisfied with the information provided. At this time, BPA is proposing a reduction of nearly $670 thousand from initial IPR proposed spending levels in FY 2012-13; this would result in BPA re-prioritizing Agency-wide system training and reducing investment in the employee health and wellness program in FY 2012-13. This reduction produces roughly $150 thousand in Power Services expense savings and $520 thousand in Transmission Services expense savings in FY 2012-13 from the initial IPR proposed spending levels.

- **Northwest Requirements Utilities (NRU) –**

    - Legal's proposed budget increases 28 percent for 2013 from the FY 2011 rate case number; the Legal Department should be urged to look for other possible reductions.

BPA's Response: Currently, BPA is proposing suspending approximately $500 thousand from General Counsel's initial IPR proposed spending levels in FY 2012-13. This suspension removes contingency for a 2nd Rate Case hearing officer in the upcoming rate case and the off-year hearing officer for 7(i)s and arbitration, and reduces staff. BPA will likely experience reduced responsiveness from the General Counsel's office as a result of the proposed suspension. This suspension produces savings of about $290 thousand to Power Services and $210 thousand to Transmission Services from initial IPR spending levels in FY 2012-13.

- **Northwest Requirements Utilities (NRU) –**
    - Corporate Strategy increases 34 percent from FY 2011 to FY 2013; a $1 million reduction in this area is worth reviewing.

BPA's Response: At the moment, BPA is proposing suspending approximately $2.55 million from Corporate Strategy's initial IPR proposed spending levels in FY 2012-13. This suspension reduces investment in the Technology Innovation (R&D) program by $2 million and also reduces support in the contracting budget for analytical support in areas of Variable Energy Resources (VER) integration by $550 thousand. This suspension produces annual average savings of about $1.275 million to Power Services and $1.275 million to Transmission Services from initial IPR spending levels in FY 2012-13.

- **General Verbal Comments at June 21st Workshop – GSA Rent Increase**
    - GSA's proposed increase of $4.5 million for commercial lease space as a result of a new market appraisal seems inconsistent with current commercial leasing markets. Participants encourage BPA to perform additional market analysis.

BPA's Response: BPA has hired an outside market research firm to evaluate current commercial market conditions and provide a market analysis report. BPA was notified of GSA rent increases last fall; because of the timing, the increase was not included in the FY 2010-2011 rate proposals. BPA requested GSA postpone increasing GSA rent levels until after FY 2011 since the expense was not included in rates for recovery, and is continuing to pursue other alternatives with GSA. However at this point we assume that BPA will pay the increased rent level.

General Comments Pertaining to Agency Services Cost Reductions

- **Snohomish County PUD –**
  - o Further examine Agency Services programs and initiatives for low priority programs that could be eliminated from the budget. Provide an additional workshop to discuss results.

- **Northwest Requirements Utilities (NRU) –**
  - o NRU highly recommends that BPA take another rigorous look at Agency Services costs for programs it has direct control over. In light of the cost increases for FY 2011 and the potential rate increase for FY 2012-13, the Agency must be very judicious about increasing its internal costs.
  - o Agency Services activities proposed in IPR 2011 funded by Transmission need to be justified, in part because they will draw down Transmission's level of reserves, which in turn reduces the overall BPA reserves available to make Treasury Payment.

BPA's Response: Program levels were rigorously reviewed by Power and Transmission management and BPA Executives prior to public release. Low risk and/or low priority projects were removed from proposed spending levels. Reduction scenarios have been provided for each department to show the impacts of potential reductions from proposed levels. An additional Agency Services workshop was held on June 21st to discuss programs and drivers of increases.

BPA continues to explore areas allowing for potential reduction with minimal risk. In addition to the proposed program spending reductions and suspensions already identified in this status update; BPA has also identified potential reductions and/or program suspensions to Internal Audit, Public Affairs and Workplace Services.

Internal Audit is proposing to reduce around $100 thousand from initial IPR proposed spending levels in FY 2012-13. This cut results in reduced contract support for internal consulting used for process improvement. This reduction produces annual savings of about $50 thousand each to Power and Transmission Services from initial IPR spending levels in FY 2012-13.

Public Affairs is proposing to take a $200 thousand reduction from initial IPR proposed spending levels in FY 2012-13. This reduction reduces support provided for public interest groups, service contracts and eliminates the grant/sponsorship program. This reduction provides savings of approximately $100 thousand to Power Services and $100 thousand to Transmission Services from initial IPR spending levels in FY 2012-13.

Workplace Services' is proposing a reduction of roughly $200 thousand and suspension of nearly $180 thousand from initial IPR proposed spending levels in FY 2012-13. The proposed reduction restructures the personnel transportation program and produces savings of roughly $80 thousand to Power Services and $120 thousand to Transmission Services from initial IPR spending levels in FY 2012-13. The proposed suspension defers some HQ maintenance projects and produces savings of about $80 thousand to

Power Services and $100 thousand to Transmission Services from initial IPR spending levels in FY 2012-13.

BPA is also suggesting suspension of 50 percent of Agency performance awards in FY 2012-13, resulting in total savings in the area of $4 million from initial IPR proposed spending levels for those years with approximately $1 million applicable to Power Services. Additional adjustments to allocations and COLA assumptions create approximately $1 million in expense savings for Power Services and roughly $3 million in expense savings for Transmission Services in FY 2012-13.

Proposed changes to spending levels are the result of a synchronized cross-agency review and reflect trade-offs between mission-critical support and cost control. Given the difficult economic conditions regionally and nationally, BPA will continue to re-examine all Agency Services levels and will consider additional reductions and suspensions in the IPR Final Close-Out Report.

Notwithstanding BPA's proposal and customer comments, BPA has continued to review Agency Services spending levels and will do so on an on-going basis to ensure spending is prudent and efficiencies are redeployed and communicated to customers in a timely manner.

Conclusion

We appreciate the region's participation in the IPR, and encourage customers, stakeholders, and others to continue to participate in the process and submit comments. The proposed spending levels outlined in workshops and in this draft report for FY 2012-13 received significant internal review and scrutiny before the IPR began. As a result, BPA believes that the levels proposed here are appropriate and necessary to address program goals and responsibilities in FY 2012-13. Reductions and suspensions to programs outlined in this draft report will have an impact on the agency's initiatives. However, BPA acknowledges the impact that a large rate increase could have on the region during these times of economic hardship, and is willing to consider further reductions and suspensions. BPA will continue to work with the region to inform the final decisions on program spending levels, which will be made after the close of the public comment period.