



2010

INTEGRATED PROGRAM REVIEW FINAL CLOSE-OUT LETTER

OCTOBER 27, 2010

Since 2008, the Bonneville Power Administration (BPA) has held an Integrated Program Review (IPR) prior to a rate case. The IPR enables all our stakeholders – customers, interest groups, tribes and others – to review our proposed program funding levels, which must be established prior to a rate case. More than a mere review, however, the IPR has become an invigorating arena for sharing information and ideas, and it provides a forum for each of us to understand one another's perspectives.

Your input has been enormously valuable in helping us make funding decisions for fiscal years 2012-2013 that balance the need to mitigate rate increases in a continuing poor economy, while not imperiling investments needed to assure a reliable future.

In May, when we started the IPR process, we were looking at the possibility of cost impacts alone on power rates from proposed program levels in the neighborhood of 12 to 20 percent. We knew, given the very poor economy, that this would be untenable. At the time, I sent you a letter discussing the region's economic situation and the financial impacts on our Agency after two years of low hydro conditions. I invited you to work in partnership with us as we also worked with our federal partners, the U.S. Corps of Engineers and Bureau of Reclamation, and with Energy Northwest to bring costs down.

Today, following several robust IPR meetings, we are looking at cost impacts feeding into our initial power rate proposal of about 6 percent, although some of these costs will ultimately be allocated to the wind integration rate. It's important to note, however, that program levels are a major, but not sole, source of impacts on rates. Other factors include how we deal with revenue losses in fiscal years 2009-2010, the Residential Exchange Program and the direct-service industries. Projected revenues from surplus power sales and wind integration services that reduce power rates will also be a factor.

Nevertheless, now that the IPR is complete, the cost pressures on power rates from program levels appear to be significantly lessened, and your participation has been exceedingly helpful in getting us to this point. It has led to overall cost reductions of \$53 million for fiscal year 2011 and average cost savings of \$142 million annually for each of the two fiscal years, 2012 and 2013, in the next rate period.

All of you – customers, tribes, interest groups and other stakeholders – brought many ideas and thoughtful comments to the table. The overriding theme we heard from customers and many others was that you and the region's consumers are continuing to struggle with an economy that is slow to recover. You said you were hurting, and we heard you.

This report will give you detailed insights into the program levels driving all of our costs across power and transmission and where cost cuts or suspensions were made. Many of the costs and deferrals create risk. Programs that were cut or deferred were not superfluous. But we are responding to economic distress and our responsibility to the region. However, that responsibility also includes not making cuts so deep that they put our future at severe risk.

This report also provides information on policy-related issues discussed during the debt management and risk mitigation processes that were not part of the IPR, but which ran concurrently with the IPR process.

At this time BPA has no plans for further public review of program levels. However, prior to submitting final rate proposals, we will assess any new or updated information and will determine if any further cost changes are appropriate and whether an abbreviated public review process is warranted.

Finally, I want you to know that a focus on cost management is nothing new at BPA. We have been focused on internal efficiencies and cost savings, and I've instructed our employees to treat all cost issues "as if the customers who are paying the bills are looking over our shoulders." And that's what we're doing.

Sincerely,

/s/ Stephen J. Wright

Stephen J. Wright
BPA Administrator and CEO

For further information on the IPR or other issues, contact your Customer Account Executive, Constituent Account Executive, Tribal Account Executive or the Chief Financial Officer at 503-230-5111. The final IPR report and additional information relating to the IPR is available at www.bpa.gov/corporate/Finance/IBR/IPR/

Enclosure

- 2010 Regional Conversations Report
- 2010 IPR Final Close-Out Report

2010 Regional Conversations Report

October 27, 2010

REGIONAL CONVERSATIONS

Fiscal year (FY) 2010 brought forward a combination of new challenges for the Bonneville Power Administration (BPA). As a result, BPA sponsored three concurrent processes involving customers and interested parties. Called regional conversations, these concurrent processes focused on:

- Debt Management
- Risk Mitigation, and
- 2010 Integrated Program Review (IPR)

While these processes addressed separate issues, BPA received input on all the issues during the IPR comment period. This Regional Conversations Report addresses comments on Debt Management and Risk Mitigation, while the IPR Close-Out Report that follows addresses comments pertaining to program level funding. Decisions on program levels will be made prior to the upcoming rate case. Other decisions pertaining to Risk Mitigation and Debt Management are outside the scope of the IPR and will be decided in the upcoming rate case.

The IPR report concludes the program level discussion. Risk management discussions are still ongoing, and debt management changes are being implemented.

DEBT MANAGEMENT

At the kickoff of the Integrated Program Review, the largest Power Services cost increase going into fiscal 2012-2013 was an annual average increase of \$131 million in total debt service. Given the magnitude of these potential increases and challenges the region faces, BPA engaged the public in a discussion of debt management strategies and held three workshops on debt management issues. These discussions ran concurrently with the IPR process, although BPA's debt management decisions are not made in the IPR process. The ultimate decisions do, however, affect the level of BPA's overall costs. Customers and constituents have commented on debt management both within and outside the IPR process. To provide more comprehensive information, this report describes BPA's current thinking on Power debt management issues but does not make any decisions associated with debt management.

The initial \$131 million increase was due to approximately \$70 million in nonfederal debt service increases, a \$53 million increase in net federal interest expense and an increase in federal principal repayment of about \$8 million. The nonfederal increase was expected and was primarily the result of various debt management actions, many of which extended or deferred Energy Northwest (EN – nuclear plant owner/operator) principal payment and paid federal debt earlier. The increase in net federal interest reflects increased debt incurred for capital expenditures exceeding federal principal repayment and lower interest income. Lower reserves are generating less interest income to offset interest expense.

The public discussions led to a well-received proposal for a restructuring of nonfederal debt service, extending some Columbia Generating Station (CGS – nuclear plant) principal that is maturing in 2011 and 2012, redeeming early terminated nuclear Projects 1 and 3 principal and

restructuring other principal maturities. This proposal (referred to as Scenario B) was estimated to provide an annual debt service reduction of about \$100 million in FY 2012-2013.

Written comments mainly pertained to this nonfederal debt service restructuring and have been summarized below:

- **Columbia River PUD** – Supports BPA’s intent to reconfigure debt service.
- **Eugene Water and Electric Board** – Supports CGS debt restructuring.
- **Flathead Electric Co-Op** – Recommends BPA adopt debt service restructuring scenario B.
- **Industrial Customers of Northwest Utilities** – Strongly supports efforts to spread repayment of CGS debt over the current licensed life of the plant; that is, until 2024.
- **Northwest Requirements Utilities** – Supports Scenario B for debt service restructuring. Does not advocate moving WNP-1 and -3 debt beyond 2018.
- **Pacific Northwest Generating Cooperative** – Supports capturing cost savings by smoothing out the CGS debt repayment structure over FY 2012 to FY 2024, the end of the current CGS operating license. Supports an interest rate hedging strategy to get the best interest rate on callable bonds in FY 2011 and FY 2012.
- **Seattle City Light, Tacoma Power in support of Public Power Council** – Believe that BPA and EN should stretch out the CGS debt structure so that the CGS debt is completely paid back before the CGS’ license expires. WNP-1 and -3 debt should be repaid according to the existing debt repayment schedule (by FY 2018) or in a slightly accelerated fashion.
- **Snohomish County PUD** – Is optimistic about the debt restructuring proposal presented by BPA Power Services and encourages the Agency to continue discussions with EN’s Board to reach conclusion on this matter.
- **Western Montana Electric Generating & Transmission** – Supports extending EN debt.

BPA’s Response: BPA appreciates the collaboration of customers and interested parties. Staff has been actively engaged with the EN Executive Board and the EN Participants Review Board to mitigate the nonfederal debt service increase with a restructuring very similar to Scenario B. The restructuring proposal extends some CGS principal payments from FY 2011-2018 into FY’s 2019-2024, and includes early payment of some Projects 1 and 3 debt.

Updated analysis reflects other revised information from IPR discussions, such as bond financing for an advance nuclear fuel purchase at CGS and increased federal capital spending. This analysis yielded a new debt service forecast for FY 2012-2013. Compared to the originally forecast \$131 million increase, the updated analysis yields a \$42 million increase, reflecting an \$89 million reduction from the initial IPR forecast.

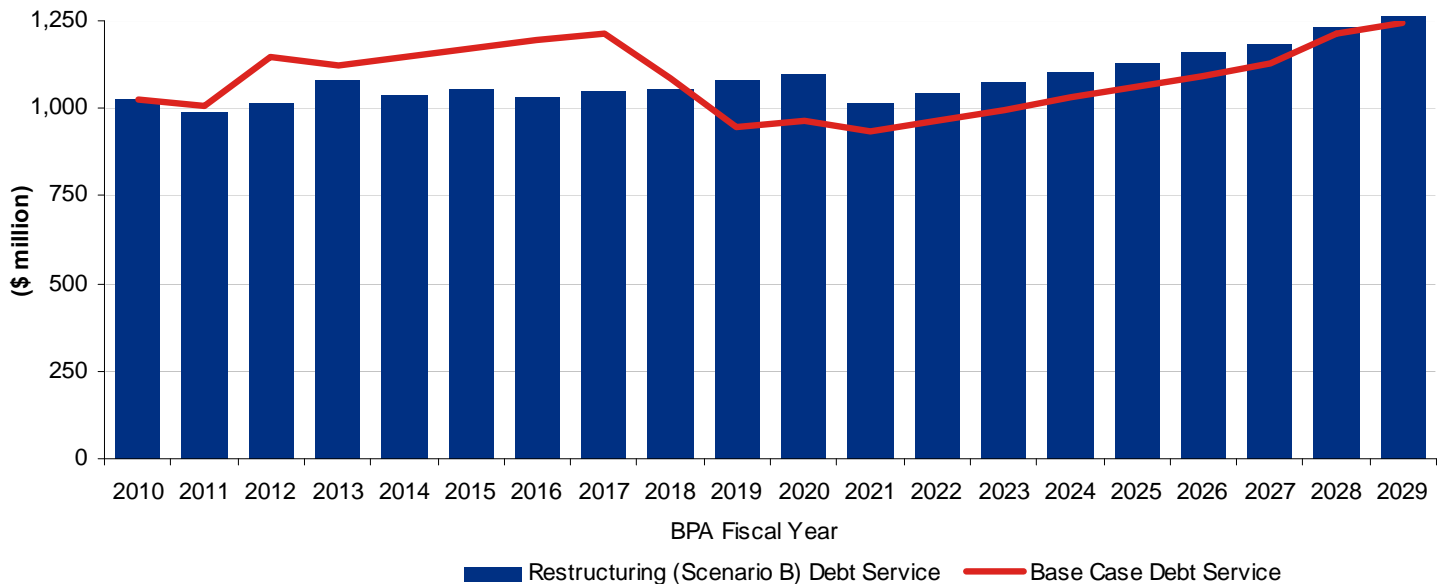
The following table (1) presents the original debt service increases compared to updated forecasts:

Table 1

<i>\$ millions</i>	Initial Proposed change from Avg 10/11 to Avg 12/13	Total Change from FY 2010/2011 Rate Case Avg.
Non-Federal Debt Service	70	(9)
Gross Federal Interest Expense	23	34
Federal Principal Payments	8	(15)
SUBTOTAL	101	10
Less: Federal Interest Income	(30)	(32)
TOTAL	131	42

Excluding \$2 million in interest income, table 2 shows the potential reduction scenario (approximately \$91 million annual average over FY 2012-2013) and illustrates Power Services total debt service (both federal and nonfederal). The data for the “Base Case Debt Service” column is the same data that was reflected in the Draft IPR Close-Out Report. The data for the “Restructuring (Scenario B) Debt Service” has been updated to incorporate assumptions from the IPR process such as the \$60 million advance nuclear fuel purchase and federal capital changes.

Table 2



Restructuring 2011 & 2012 (Scenario B)			
BPA Fiscal Year	Base Case Debt Service	Restructuring (Scenario B) Debt Service	Delta from Base Case
2010	1,028	1,027	(0)
2011	998	989	(9)
2012	1,184	1,014	(170)
2013	1,096	1,083	(13)
2014	1,119	1,040	(79)
2015	1,141	1,055	(86)
2016	1,165	1,034	(131)
2017	1,182	1,051	(131)
2018	1,072	1,056	(16)
2019	889	1,083	194
2020	906	1,100	194
2021	903	1,015	112
2022	931	1,046	115
2023	957	1,076	118
2024	986	1,104	119
2025	1,012	1,131	119
2026	1,041	1,160	119
2027	1,068	1,185	117
2028	1,153	1,232	79
2029	1,178	1,262	83
Total	21,009	21,743	734

RISK MITIGATION

Below is a summary of written comments received during the IPR comment period pertaining to the use of cash reserves:

- **Renewable Northwest Project** – The IPR workshops suggest that projected transmission revenues are increasing faster than proposed transmission expenditures. This puts Transmission Services in the enviable position of having sufficient resources to fully fund its priorities and make a contribution to BPA's financial stability.

BPA's Response: The debt management public process noted that Transmission Services requires significant minimum required net revenues to cover cash requirements. At a June rate case workshop, BPA staff noted that Transmission would need to use more cash reserves in FY 2012 and FY 2013 than it committed to for the 2010-2011 rate period to avoid a Transmission rate increase.

For a number of years BPA has held transmission rates constant, most recently by using existing cash reserves to offset some expenses. This practice, however, cannot be maintained indefinitely. If there is no transmission rate increase in the upcoming rate period, there is likely to be a large rate increase in the following rate period.

- **Renewable Northwest Project** – Expenditures should be sufficient to ensure the timely processing of interconnection requests. Large Generator Interconnection Agreement (LGIA) Queue Reform policy formation is also a priority. A successful LGIA reform policy should secure additional transmission revenues with little additional risk or expenditures, similar to the Network Open Season (NOS) policy.

BPA's Response: While speeding up the interconnection of LGIA projects will increase revenues, it will not aid in cost recovery. To repay LGIA customers their advance funding of network upgrades, BPA provides interconnection customers a credit against their transmission bill until they are fully compensated with interest for their investment in the transmission network.

So while BPA realizes revenues from these customers who purchase transmission, BPA initially receives no cash associated with these revenues. Until the interconnection customer balances are fully repaid, revenues for these transmission customers become a cash requirement. However, the effect is offset by two non-cash expenses – depreciation accruing on the associated assets and the interest accrued on the outstanding customer balances. This net effect is seen in the calculation of minimum required net revenues in the rate case. The net effect is relatively small, averaging about \$10 million per year, and it could reverse in the future if non-cash expenses become greater than the associated non-cash revenues that would turn LGIA projects into a source of cash.

- **Northern Wasco** – Inquired about the value in BPA's customers pre-paying a portion of their power and/or transmission service charges. Are there any potential incentives for customers to pre-pay?

BPA's Response: In general, BPA does not offer incentives for prepayment. Prepayments may be required under certain agreements or conditions (i.e., for reimbursable work or to

meet BPA's creditworthiness requirements), but there is not a financial incentive. BPA used the Flexible Priority Firm (PF) rate to generate liquidity if needed for the WP-07 rate period, and certain Block and Priority Firm power customers elected the Flexible PF Rate option via amendments to their Power Sales Agreements. This program was not continued into the WP-10 rate period. Preliminary analysis shows that renewing the Flexible PF program for the WP-12 rate period would not be as cost-effective as it was in the past primarily due to the additional liquidity that BPA has available through its liquidity agreement with the U.S. Treasury. In addition, program costs would be significantly higher than in the WP-07 rate period due to higher fees associated with letters of credit.

Current Power General Rate Schedule Provisions have a Flexible PF rate (not a program) that allows customers to pay a fixed rate throughout the year to avoid the ups and downs of monthly rates. There is not a discount rate built into this rate.

In summary, we will continue to discuss risk management through the rate case. We are actively pursuing debt restructuring actions discussed in debt management workshops. The following report discusses the program levels that will be used for the upcoming power and transmission initial rate proposals.

2010 IPR Final Close-Out Report

October 27, 2010

TABLE OF CONTENTS

IPR Executive Summary	11
Background.....	17
Summary of Comments	18
Cost Management.....	18
IPR Results	22
Asset Management Strategies	27
Capital Spending FY 2011-2017	28
Columbia Generating Station	29
Accounting Treatment of EN Fuel Procurement	30
Fish and Wildlife, LSRCP, US FWS, CRFM and Council	31
U.S. Army Corps of Engineers and Bureau of Reclamation	34
Accounting Treatment of Non-Routine Extraordinary Maintenance	38
Renewable Resources	40
Energy Efficiency (Conservation Acquisition)	41
Accounting Treatment of Conservation Acquisition.....	44
Wind Integration	45
Transmission Services	46
Agency Services.....	52
Conclusion	62

Financial Disclosure

All FY 2010-2017 information has been made publicly available by BPA on October xx, 2010 and does not contain Agency-approved Financial Information.

All FY 2000-2009 information has been made publicly available by BPA and contains Agency-approved Financial Information.

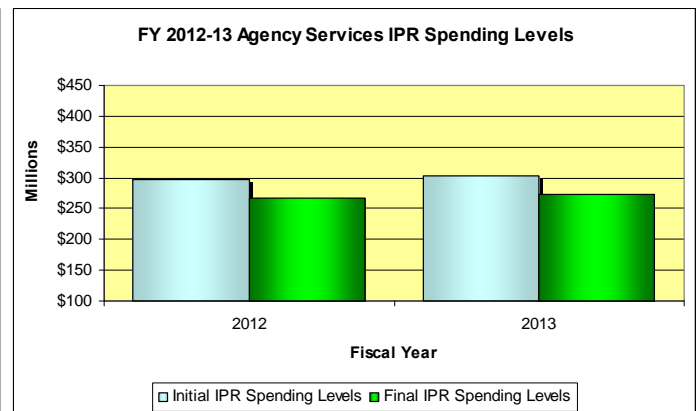
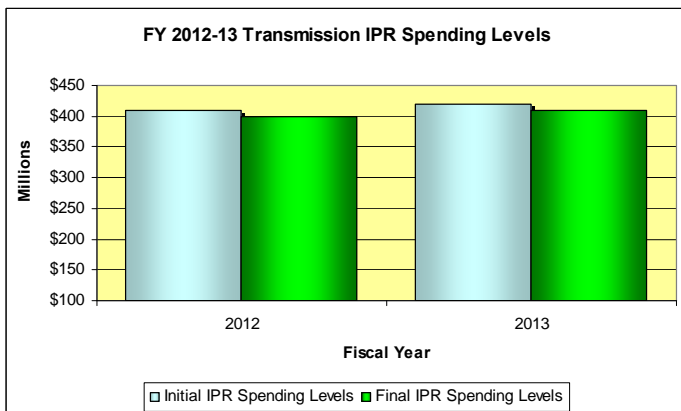
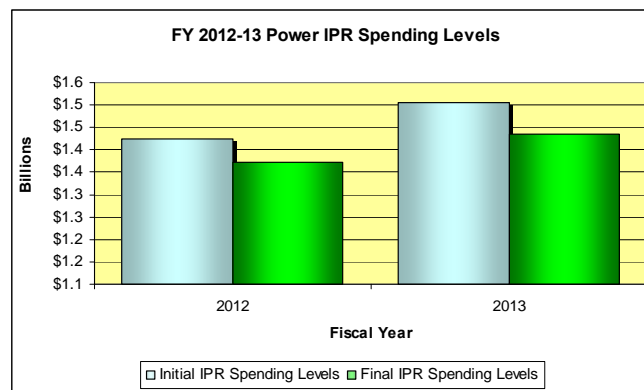
All FY 2011 Rate Case data has been developed for publication in rates proceeding documents and is being provided by BPA.

IPR EXECUTIVE SUMMARY

The Bonneville Power Administration began the 2010 Integrated Program Review following a period of reduced revenues while facing expenses that create additional cost pressure on BPA’s potential power rates of more than 12 percent and perhaps as much as 20 percent. Such pressures combined with a difficult economy made this IPR process extremely critical for both BPA and the region. We have identified an outcome that balances the control of short-term costs and protection of BPA customers with the need to safeguard the long-term value of the regional transmission and power system.

The input and discussion provided by the IPR process has helped BPA identify cost savings, first in a Draft Close-Out Report and, further, in this final report. These savings across many programs total \$53 million for FY 2011 and \$142 million annually for fiscal 2012 and 2013, BPA’s next rate period. Taken together, this will reduce the upward cost pressure to about a 6 percent power rate impact. Most of these savings come in the form of program cuts or deferrals, while about \$14 million represent suspended programs that could be restored at the Administrator’s discretion if BPA’s finances and the regional economy improve.

The following three charts summarize the changes from BPA’s initial IPR spending levels to the Final IPR spending levels for Power Services, Transmission Services and Agency Services.



These cuts will seriously impact many BPA programs and, in cases where we are deferring needed investments or extending obligations, will result in higher costs in the future. However, we believe they represent a reasoned choice given the region’s current economic distress. The strong engagement of customers and others in the IPR process underscored

BPA’s importance to the Northwest, while highlighting the impact of our spending decisions. We heard clearly the descriptions of hardship that higher rates could bring. We also heard broad support for the value of the hydro system and the importance of safeguarding that value.

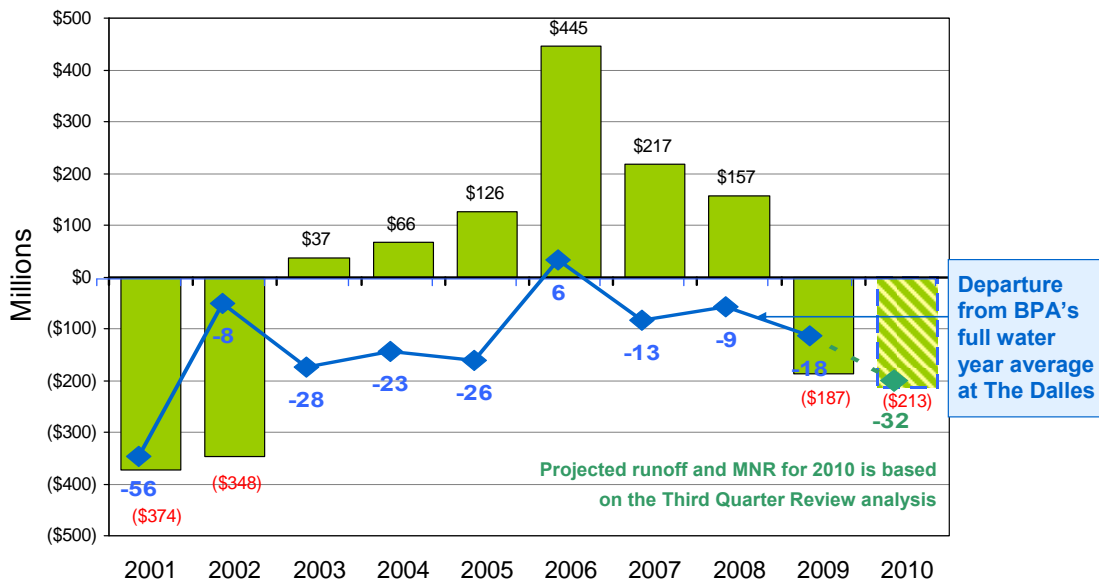
Reduced Revenues

Recent years have been difficult for both the Pacific Northwest and BPA. The global recession hit the Northwest hard, and the regional economy is recovering slowly. Recent dry winters also reduced runoff and, consequently, BPA’s hydropower revenues. Both factors greatly affect BPA’s planning of program expenses for the upcoming rate period.

While we control our spending, we cannot control the weather. Runoff in the Columbia Basin this year totaled 79 percent of average levels, making it the 10th below-average water year in the last 11 years. Record rainfall in June came too late to restore the runoff and boosted BPA’s forecast of modified net revenues only slightly from a loss of \$233 million at the end of the second quarter to a loss of \$213 million at the end of the third quarter (June). The losses reflect reduced power sales, especially sales of surplus power, which otherwise help keep rates for Pacific Northwest customers lower than they would otherwise be.

The chart below shows the relationship between runoff and BPA’s modified net revenues.

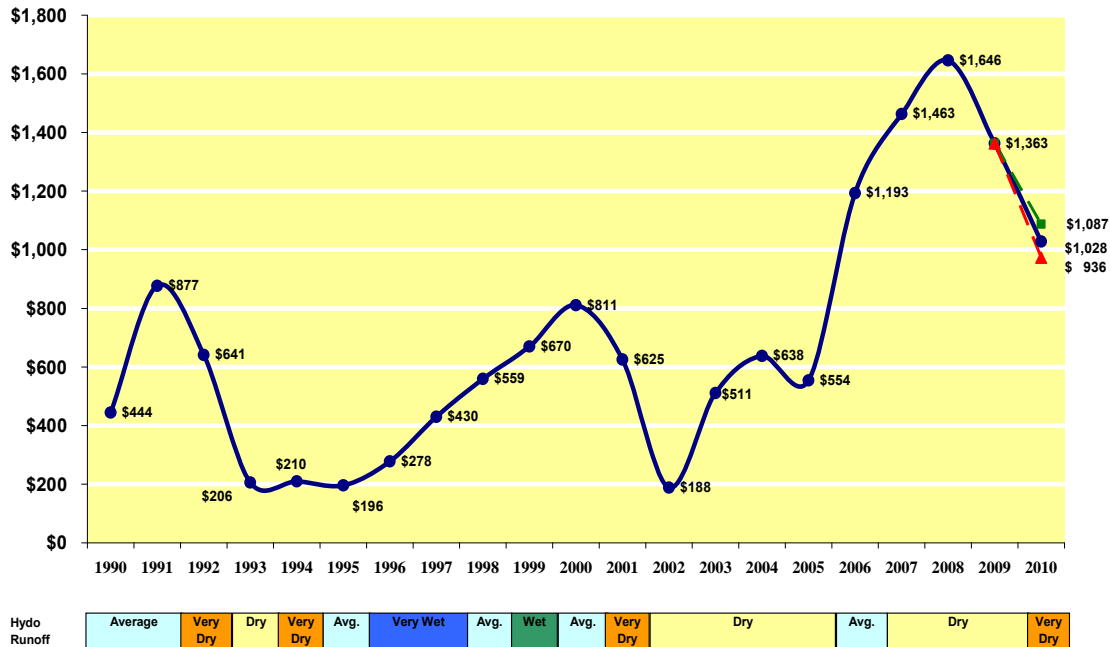
Annual Agency Modified Net Revenues



BPA’s financial position and the economy both deteriorated rapidly in FY 2009. The Agency responded by reducing spending that affects power rates by \$43 million in FY 2009 and \$106 million in FY 2010-2011. Deteriorating revenues also have a negative impact on financial reserves, shown in the chart below. These reserves are vital to the stability of BPA and, in turn, the Northwest economy, especially in turbulent periods. We could not have weathered

the 2000-2001 energy crisis without these reserves. The reserves have provided critical support during the economic downturn of the last few years.

Year-End BPA Financial Reserves and Runoff, FY 1990 through FY 2009 Actuals
3rd Quarter FY 2010 Forecast Ranging from 25th Percentile to 75th Percentile
 (\$Million)



In light of the substantial deterioration in financial reserves in FY 2010, BPA continued to control costs and stressed the seriousness of the financial situation to our employees.

Cost Pressures

As BPA’s revenues have declined in line with runoff, the Agency has also faced pressure from increasing costs. The costs represent a combination of new initiatives and expanded workload as well as the demands of maintaining and improving an extremely valuable but aging hydropower system and transmission grid. We outlined the pressures in the [May IPR Kickoff Package](#), and their many contributing factors, which are summarized below.

- Power and Transmission Services have some similar cost drivers:
 - Aging infrastructure requires additional capital investments.
 - More complex business obligations such as wind integration and implementing Regional Dialogue contracts put tremendous pressure on expense and capital programs.
 - Expanding breadth and complexity of regulatory requirements such as North American Electric Reliability Corporation reliability standards, Open Access Transmission Tariff and environmental obligations such as the National Environmental Policy Act, Endangered Species Act and National Historic Preservation Act.
- Other drivers affect business units differently:
 - Aging infrastructure also increases the operations and maintenance costs of the hydro system and the CGS, the region’s one commercial operating nuclear plant. Since BPA

markets the output of the plant, it is responsible for operating and maintenance (O&M) costs.

- The 2008 FCRPS Biological Opinion and 2008 Columbia Basin Fish Accords make necessary spending more predictable, but at a higher cost.
- The expanding transmission system, including fiber, requires more maintenance.
- An increasing emphasis on cyber and physical security for transmission assets requires additional resources.

Program Levels and Rates

BPA examines and establishes program levels and costs through the IPR process as a precursor to setting rates. The costs we outline now will form a foundation for the next rate period. Since BPA is self-financed, the Agency sets rates to meet key purposes:

- Recovering total operating costs of managing federal power system assets, acquiring nonfederal power and capturing energy efficiency. Rates also must cover the costs of the transmission network, fish and wildlife measures and corporate support of BPA's business goals.
- Building and/or replacing Federal Columbia River Power System infrastructure.
- Repaying debt to the U.S. Treasury.
- Mitigating risk by maintaining appropriate financial reserve levels.

BPA must establish its costs and rates by weighing the short-term goal of keeping rates affordable with the longer-term requirements of maintaining the value of the Federal Columbia River Power Systems (FCRPS) assets. BPA, the U.S. Corps of Engineers (Corps) and Bureau of Reclamation (Reclamation) are committed to carefully managing operations and maintenance costs for the FCRPS assets, while ensuring that overly extreme cost-cutting does not compromise the long-term value of the FCRPS. Building or replacing the infrastructure does not directly impact current rates, but the resulting interest and depreciation will impact rates today and many years into the future. In addition, BPA must maintain adequate reserves to cover the cash requirements to repay Treasury and to mitigate financial risk exposure.

IPR Process and Results

During the 2010 IPR process, BPA executives and staff conducted 19 technical workshops and two meetings with utility general managers. Workshops provided opportunities to review and discuss Power, Transmission and Agency Services programs and included detailed review of asset strategies and associated spending levels. BPA carefully considered all comments and, at the same time, worked closely with our partners at the Corps, Reclamation and EN.

The following table (3) outlines the prospective costs and power rate impacts at the start of the IPR process and the final levels in this IPR Close-Out. Some expenses such as purchased power and Residential Exchange costs remain undetermined.

- Column A displays the change (as a two-year average) from the FY 2010-2011 Rate Case levels to the initial IPR cost levels.
- Column B identifies the estimated rate impacts of those changes.

- Column C shows the resulting reductions from the initial IPR levels to the levels at the conclusion of the IPR process.
- Column D shows the net change from the FY 2010-2011 Rate Case.
- Column E identifies the total estimated rate impacts of these cost changes.

Table 3 only provides an estimate of the rate impacts based on a rule-of-thumb calculation. It is also important to note that the estimated rate impacts only reflect changes in the identified costs. A portion of these costs will be recovered through the wind integration rate. Many other factors will also impact the rates, and the estimate shown cannot be translated directly into a final rate impact.

Table 3 - Power Expense Changes Between FY 2010-11 Rate Case and FY 2012-13 Final IPR Spending Levels (\$ millions)

		A	B	C	D	E
	Expenses	Initial Proposed Change from Avg 10/11 to Avg 12/13	% Change in Rates (based on Column A)	Final Program Reductions from Initial Proposed IPR Point Estimate Levels	Total Change from FY 2010/2011 Rate Case Average	Approximate % change in rates
1	Non-federal Debt Service	70.0	4%	(79.0)	(9.0)	0%
2	Columbia Generating Station	56.1	3%	(21.3)	34.8	2%
3	Net Interest Expense ^{1/}	44.9 to 54.9	3%	13.0	66.0	4%
4	Fish and Wildlife/USF&W/Planning Council	32.9	2%	(13.3)	19.6	1%
5	Bureau of Reclamation	25.9	1%	(1.7)	24.2	1%
6	Corps of Engineers	25.8	1%	(5.3)	20.5	1%
7	Depreciation and Amortization Expense	9.9 to 13.8	0% to 1%	0.0	7.2	0%
8	Hydro Projects Insurance	10.0	1%	(10.0)	0.0	0%
9	Power Non-Generation Operations	8.2	0%	(5.4)	2.8	0%
10	G&A	6.4	0%	(3.8)	2.6	0%
12	Purchased Power Expenses	?	?	?	?	?
13	Residential Exchange	?	?	?	?	?
14	DSI Service	?	?	?	?	?
15	Other expenses, net	(1.3)	0%	0.0	(1.3)	0%
16	Transmission Acquisition	(4.3)	0%	0.0	(4.3)	0%
17	Renewable and Conservation Generation ^{2/}	(37.2) to 90.7	-2% to 5%	(1.3)	(38.5)	-2%
18	Net Change in Expenses	\$261 to \$375	12% to 20%	(128.1)	124.6	7%
19	Below-the-Line Reductions					
	Change in Federal principal repayment	8.0	0%	(23.0)	(15.0)	-1%
20	Total ^{3/}	\$239 to \$352	12% to 20%	(151.1)	109.6	6%

1/ The \$66 million increase in net federal interest expense reflects \$34 million increase in interest expense due to increased debt incurred for capital expenditures, and \$32 million decrease in interest income due to lower reserves generating less interest income.

2/ Columns C and D assume all conservation is capitalized with 12 year amortization.

3/ Of the amounts indicated for the elements on Lines 3 through 10 above, approximately \$50 million on average will be directly assigned and allocated for recovery from the rate for wind integration. However, the actual amount will be determined in the upcoming rate case.

Transmission and Agency Services are described in further detail in the body of this report. To the extent Agency Services impacts Power, those costs are reflected in this table.

In Summary

BPA appreciates the stakeholder participation in the IPR process and has taken comments and concerns expressed by participants seriously. The proposed spending levels outlined in workshops and the final spending levels described in this final report received significant internal scrutiny and review. In making these decisions, BPA endeavored to identify the spending levels required to maintain and enhance the value of the system while minimizing additional burden on the region.

BPA acknowledges the impact that a potentially large rate increase could have on the region during these times of economic hardship. BPA will continue to look for efficiencies, work with the region to inform all interested parties of changes, and continue conversations that began in the IPR process.

2010 INTEGRATED PROGRAM REVIEW

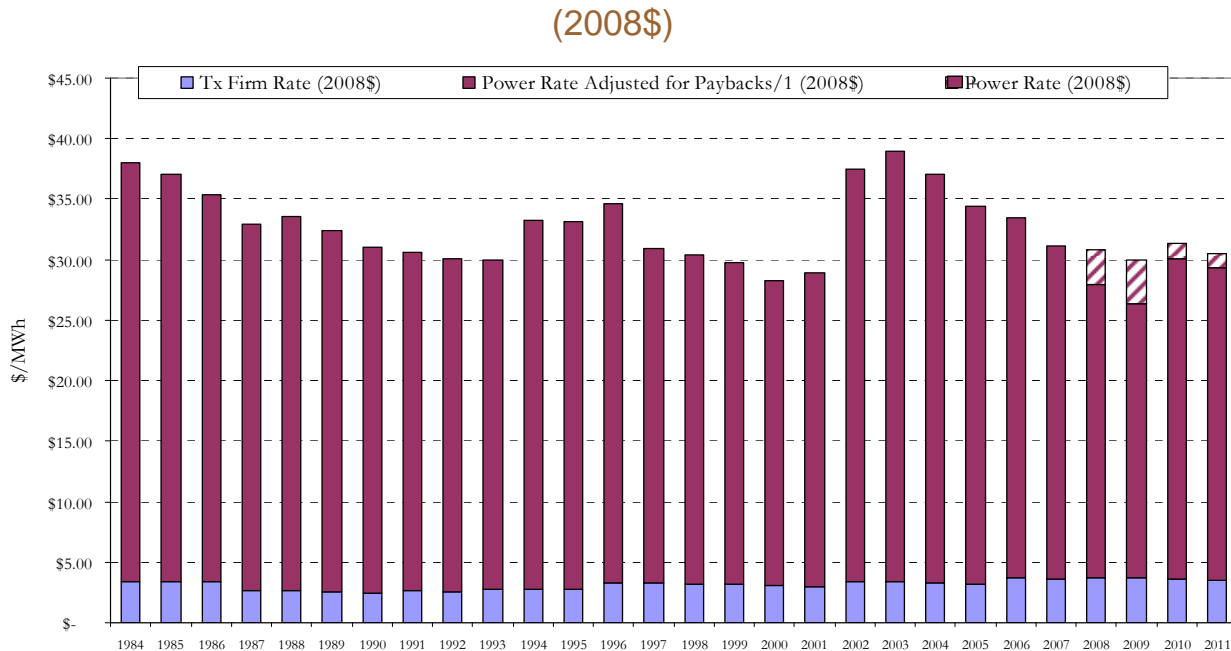
Background

This report completes BPA’s 2010 IPR, which began in May 2010. BPA created the IPR process in 2008 so the Agency and stakeholders could together examine BPA’s program levels and costs before they are used in setting rates. This IPR for FY 2012-2013 was particularly challenging because it comes as the Northwest is struggling economically and follows unusually dry years that depressed hydroelectric generation and BPA’s resulting power revenues.

BPA held 19 technical workshops as part of the IPR for stakeholders to review and discuss Power, Transmission and Agency Services programs. These workshops included detailed reviews of asset strategies and spending levels. Based on feedback through June, BPA released a Draft Close-Out Report July 9, identifying potential changes in the Agency’s initial proposed spending levels. BPA then held a July 13 meeting with utility general managers to further discuss concerns about proposed spending levels. Participants stressed that BPA must remain mindful of the region’s economic conditions and control costs without jeopardizing the safety and reliability of the power system.

BPA rates have fluctuated historically based on hydro runoff and many other cost and expense factors. Rates in real terms now stand at a relatively low level compared to recent decades.

FY 1984-2011 Wholesale Energy – Cost Components (\$/MWh)



¹ Effective rate, reduced to show paybacks from BPA to public utilities for 2002-2008 residential exchange overcharges.

² Interim payment of \$171mm was paid in 2008, \$86mm in true-up to interim payments was made in 2009, \$167mm will be credited on customer bills in 2009 (\$154mm in Lookback credits and \$13mm due to the Avista decemer balance settlement), and \$163mm will be credited on customer bills in 2010 and 2011.

Summary of Comments

The IPR workshops and meetings drew detailed and substantive comments from customer utilities and other stakeholders, which BPA carefully reviewed and considered in arriving at program levels. These comments are addressed in further detail in the following sections of this report.¹ However, some of the most common themes outlined during IPR workshops and in comments included the recommendations that BPA:

- Ensure all spending levels are necessary and look for additional cost reductions in light of current economic conditions and the hardship caused by any increase in rates.
- Recognize the value of the hydro and transmission assets and support for maintaining them over the long term.
- Accept proposed capital spending levels for all programs, but attend to the fact that BPA's ability to execute the planned program may be compromised with constrained resources.
- Question whether staffing and succession strategy can support continued maintenance of the transmission system and hydro facilities considering significant increases in program initiatives in the upcoming rate case, especially in Transmission.
- Acknowledge the added cost pressure and responsibilities due to wind integration and growing compliance requirements.
- Identify and consider eliminating routine program activities that no longer produce sufficient benefit to the federal system.
- Re-examine Agency Services and potential cost reductions due to what appears to be a significant increase since 2009.
- Deal with the uncertainty associated with the cost of risk, investor-owned utility (IOU) benefits and direct-service industry (DSI) contracts.
- Support capitalizing conservation acquisition and non-routine extraordinary maintenance.
- Restructure Energy Northwest debt service.
- Re-examine Fish and Wildlife spending and consider a budget "cap."

Cost Management

This IPR continues BPA's consistent and careful scrutiny of Agency costs. BPA tracks and analyzes spending trends as the basis for cost management and oversight. Past efforts to examine and control spending have included:

- In May 2008 BPA began the 2008 IPR process which included an expedited review of FY 2009 Power spending levels for use in the final FY 2009 Supplemental Power Rate Proposal (07-WP-S). BPA released the Close-Out Report and Letter detailing FY 2009 spending levels on July 23, 2008, and the Final Close-Out Report for FY 2010-2011 on Nov 14, 2008.
- Given the national and regional economic downturn and BPA's substantially reduced FY 2009 revenues resulting from poor water and market conditions at the time, BPA held an "IPR2" in spring 2009, during which BPA reduced spending by \$43 million in FY 2009 and \$106 million over the FY 2010-2011 rate period. The details of these

¹ The formal written comment period ended July 29. However, BPA provided a supplemental comment period from Aug 20 to Sept 8 regarding transmission staffing.

reductions and decisions are outlined in the IPR2 FY 2010-11 Final Close-Out Report released June 19, 2009.

Expense Trends and Cost Drivers

The following tables outline the historical and forecast future expenses of Power Services, Transmission Services and Agency Services beginning with initial 2009 budgets including the program levels and costs developed during this IPR process. The tables also provide the 2010-2011 Rate Case budgets and the differences between those and the spending levels established through 2013 in this IPR.

(Please note that in the following tables the Power and Transmission spending levels include Agency Services costs direct-charged and direct-allocated to Power and Transmission. Adding Power and Transmission program levels from these tables to Agency Services organization costs will result in double counting.)

Table 4 - Power Operating Expenses Historical and Forecast

(\$ thousands)	Start of Year	Actuals	2010 Wholesale Power Rate Case (WP-10)		(5/10/10)	Final IPR			12/13 IPR Avg	% increase
	2009	2009	2010	2011	Initial IPR 2011	2011	2012	2013	less 10/11 RC Avg	over FY 10/11 RC
OPERATING EXPENSES (IPR)										
1 Renewable Energy	\$ 41,504	\$ 38,243	\$ 45,588	\$ 44,638	\$ 44,798	\$ 44,789	\$ 43,292	\$ 44,081	\$ (1,427)	-3.2%
2 Energy Efficiency ^{1/}	\$ 82,710	\$ 61,201	\$ 83,988	\$ 85,122	\$ 76,700	\$ 76,200	\$ 46,950	\$ 47,850	\$ (37,155)	-43.9%
3 Columbia Generating Station	\$ 293,450	\$ 288,208	\$ 257,811	\$ 324,882	\$ 325,282	\$ 323,082	\$ 306,366	\$ 345,945	\$ 34,809	11.9%
4 Corps and Reclamation	\$ 261,600	\$ 256,636	\$ 278,378	\$ 288,543	\$ 288,543	\$ 288,543	\$ 320,672	\$ 335,591	\$ 44,671	15.8%
5 Long-term Generating Projects	\$ 31,613	\$ 28,783	\$ 30,455	\$ 30,767	\$ 32,266	\$ 31,266	\$ 27,389	\$ 27,654	\$ (3,090)	-10.1%
6 Operating Generation Settlement	\$ 20,909	\$ 18,170	\$ 21,328	\$ 21,754	\$ 21,754	\$ 21,754	\$ 21,928	\$ 22,148	\$ 497	2.3%
7 Agency Services G&A	\$ 46,503	\$ 48,216	\$ 49,961	\$ 50,064	\$ 53,544	\$ 47,886	\$ 52,245	\$ 53,068	\$ 2,644	5.3%
8 Additional Post-Retirement	\$ 15,277	\$ 16,353	\$ 15,447	\$ 15,579	\$ 16,780	\$ 15,579	\$ 17,243	\$ 17,821	\$ 2,019	13.0%
9 Non-Operating Generation	\$ 2,904	\$ (754)	\$ 2,618	\$ 2,728	\$ 2,128	\$ 2,128	\$ 1,938	\$ 1,948	\$ (730)	-27.3%
10 Trans Acquisition & Ancillary Svc ^{3/ 5/}	\$ 175,098	\$ 157,802	\$ 177,717	\$ 176,591	\$ 178,478	\$ 169,392	\$ 173,340	\$ 172,317	\$ (4,326)	-2.4%
11 Fish & Wildlife	\$ 230,866	\$ 208,059	\$ 248,583	\$ 270,714	\$ 270,714	\$ 259,714	\$ 276,610	\$ 281,944	\$ 19,629	7.6%
12 Non - Generation Operations	\$ 76,421	\$ 69,479	\$ 81,022	\$ 81,647	\$ 84,165	\$ 81,870	\$ 83,586	\$ 84,613	\$ 2,765	3.4%
13 Hydro Project Insurance ^{4/}	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ -	\$ -	\$ -	\$ -	0.0%
14 Total	\$ 1,278,855	\$ 1,190,396	\$ 1,292,896	\$ 1,393,029	\$ 1,405,152	\$ 1,362,202	\$ 1,371,559	\$ 1,434,980	\$ 60,307	4.5%
FINAL IPR 2011 CHANGE FROM INITIAL IPR 2011 FORECAST									-3.1%	
FINAL IPR 2011 CHANGE FROM WP-10 2011 FORECAST									-2.2%	
FINAL IPR 2012 CHANGE FROM FINAL IPR 2011 FORECAST									0.7%	
FINAL IPR 2013 CHANGE FROM FINAL IPR 2012 FORECAST									4.6%	
FINAL IPR 2013 CHANGE FROM 2009 ACTUALS									20.5%	
COMPOUND ANNUAL GROWTH RATE FROM 2009 ACTUALS TO FINAL IPR 2013 FORECAST									4.8%	

1/ Energy Efficiency actuals for FY2009 are \$374k higher than in the May 10 package. The May package omitted the Conservation and Renewable Discount project.
 2/ The Initial and Draft IPR documents included the Lookback in the Residential Exchange forecast. The Lookback is actually booked as a reduction to revenue. Therefore to better reflect how the Lookback will be booked, it has been removed from the REP expense line item in all columns for consistency.
 3/ The WP-10 amounts for Transmission Acquisition come from the Program Spending Levels table in the WP-10 rate case documentation. Previous IPR documentation cited the Program Spending Levels for Revenue Test table.
 4/ Hydro Project Insurance was not reflected in the initial or draft expense tables, it has been reflected in the Risk program in the Agency Services Table in prior publications.
 5/ Residential Exchange and Trans Acquisition & Ancillary Services programs are outside the scope of the IPR and will be determined in the upcoming rate case.
 Note: This table excludes Contracted and Augmentation Power Purchases, Corporate G&A and Pension costs.

Table 4 above reflects expense spending level trends for Power Services. This table also includes the Agency Services programs that directly support Power programs including post-retirement benefits and General and Administrative (G&A) costs. Based on final spending levels for FY 2012-2013, Power expense levels increase 4.5 percent when compared to WP-10 FY 2010-2011 average spending levels and 4.8 percent when looking at the compounded annual average growth rate from 2009 actuals. Spending levels decrease by 2.2 percent in FY 2011 from the original WP-10 forecast. Increases in spending over the prior year are forecast to be 0.7 percent and 4.6 percent in FY 2012 and FY 2013 respectively.

Increases in Power Services costs are primarily the result of rising Operating Generation and Fish and Wildlife expenses. Fish and Wildlife expenses result from the implementation of the 2008 FCRPS Biological Opinion and Columbia Basin Fish Accords. The Operating Generation increases (Corps, Reclamation and CGS costs) are warranted as the system has reached a point where deferring further maintenance at Corps and Reclamation projects poses risks to the operation of a safe and reliable power system. Any savings from deferring such maintenance could also be significantly eclipsed by reduced generation output and revenues that result from forced outages.

Energy Efficiency should be evaluated in terms of expense and capital, as shown further in this report in the section labeled Energy Efficiency (Conservation Acquisition).

Table 5 – Transmission Operating Expenses Historical and Forecast

	Start of Year	Actuals	2010 Transmission Wholesale Ratecase (TR-10)		(5/10/10) Initial IPR	Final IPR			12/13 Avg IPR less 10/11 Avg Rate Case	% increase over FY 10/11 RC
			2010	2011		2011	2012	2013		
\$ in Thousands										
OPERATING EXPENSES (IPR)	2009	2009	2010	2011	2011	2011	2012	2013		
1 SYSTEM OPERATIONS	53,643	\$ 51,520	\$ 56,544	\$ 57,468	\$ 61,122	\$ 63,513	\$ 63,218	\$ 65,133	\$ 7,170	13%
2 SCHEDULING	9,046	\$ 6,655	\$ 9,668	\$ 10,122	\$ 12,618	\$ 12,847	\$ 12,772	\$ 12,991	\$ 2,987	30%
3 MARKETING	18,337	\$ 14,318	\$ 19,086	\$ 19,896	\$ 17,366	\$ 15,986	\$ 16,968	\$ 17,296	\$ (2,359)	-12%
4 BUSINESS SUPPORT	34,518	\$ 26,028	\$ 35,102	\$ 35,236	\$ 35,864	\$ 35,747	\$ 37,092	\$ 38,170	\$ 2,462	7%
5 MAINTENANCE	109,395	\$ 128,284	\$ 125,607	\$ 130,573	\$ 145,021	\$ 142,151	\$ 146,713	\$ 150,832	\$ 20,682	16%
6 ENGINEERING	24,505	\$ 27,605	\$ 25,240	\$ 25,448	\$ 31,029	\$ 32,033	\$ 31,800	\$ 32,803	\$ 6,958	27%
7 NON-BBL ACQUISITION & ANCILLARY SERVICES	17,844	\$ 6,923	\$ 23,371	\$ 13,692	\$ 13,377	\$ 10,531	\$ 13,484	\$ 13,618	\$ (4,980)	-27%
8 AGENCY SERVICES G&A	44,448	\$ 46,753	\$ 48,937	\$ 49,110	\$ 53,438	\$ 56,309	\$ 60,471	\$ 61,432	\$ 11,928	24%
9 ADDITIONAL POST-RETIREMENT	15,277	\$ 16,353	\$ 15,447	\$ 15,579	\$ 16,780	\$ 15,579	\$ 17,243	\$ 17,821	\$ 2,019	13%
10 TOTAL	\$ 327,013	\$ 324,439	\$ 359,002	\$ 357,124	\$ 386,615	\$ 384,690	\$ 399,761	\$ 410,095	\$ 46,865	13%

FINAL IPR 2011 CHANGE FROM INITIAL IPR 2011 FORECAST	-0.5%
FINAL IPR 2011 CHANGE FROM 10-TR 2011 FORECAST	7.7%
FINAL IPR 2012 CHANGE FROM FINAL IPR 2011 FORECAST	3.9%
FINAL IPR 2013 CHANGE FROM FINAL IPR 2012 FORECAST	2.6%
FINAL IPR 2013 CHANGE FROM 2009 ACTUALS	26.4%
COMPOUND ANNUAL GROWTH RATE FROM 2009 ACTUALS TO 2013 FINAL IPR	6.0%

NOTE: Rate Case Columns have been reconstituted to match current costing structures.

Table 5 reflects spending level trends for Transmission Services. This table also includes the Agency Services programs that directly support Transmission programs including post-retirement benefits and G&A expenses. Based on final spending levels for FY 2012-2013, Transmission spending levels increase 13 percent when compared to TR-10 FY 2010-2011 average spending levels and 6.0 percent when looking at the compounded annual average from 2009 actuals. Spending levels increase rather significantly in FY 2011 from the original TR-10 forecast; however, the increase in spending over the prior year is forecast to be 3.9 percent and 2.6 percent for FY 2012 and 2013 respectively.

Transmission expenses are being driven by increasing costs to maintain existing infrastructure and initiatives that address wind integration and meet compliance requirements. Now that BPA is fully engaged in these initiatives and has a much better understanding of the requirements in these areas, the IPR spending levels reflect improved estimates for FY 2011, which are significantly higher than forecast in the TR-10 Rate Case.

Wind integration costs were the subject of questions and discussion during the IPR. Table 6 summarizes embedded Transmission staffing costs specifically associated with wind integration. These will be assigned to Power Services and recovered through the wind integration rate and therefore will not be borne by Transmission customers.

These costs are included in the Power and Transmission proposed spending levels. Power's portion of these costs (Power, Legal and Corporate Strategy), as well as the full amount under Technology Innovation, will be offset by previously accrued Green Energy Premium revenue. The costs not covered by Green Energy Premium revenue are in Transmission and Transmission's share of Agency Services. These costs represent a small portion of the total system costs that will be allocated to the wind integration rate.

Table 6 – Wind Integration Costs

BPA Wind Integration Costs		FY 2012	FY 2013
1	Total Power Wind Integration Costs	\$1,589,500	\$1,589,500
2	Available from Green Energy Premiums (GEP)	\$1,589,500	\$1,589,500
3	Power Costs Not Covered by GEP	\$0	\$0
4	Total Corporate Strategy Wind Integration Costs	\$141,000	\$141,000
5	Available from Green Energy Premiums (GEP)	\$70,500	\$70,500
6	Corporate Strategy Costs Not Covered by GEP	\$70,500	\$70,500
7	Total Legal Wind Integration Costs	\$280,000	\$280,000
8	Available from Green Energy Premiums (GEP)	\$140,000	\$140,000
9	Legal Costs Amount Not Covered by GEP	\$140,000	\$140,000
10	Total Technology Innovation Costs	\$2,319,000	\$921,000
11	Available from Green Energy Premiums (GEP)	\$2,319,000	\$921,000
12	Technology Innovation Costs Not Covered by GEP	\$0	\$0
13	Total Transmission Costs	\$3,959,625	\$4,048,777
14	Transmission Costs Not Covered by GEP	\$3,959,625	\$4,048,777
15	Total BPA Wind Costs	\$8,289,125	\$6,980,277
16	Available from Green Energy Premiums (GEP)	\$4,119,000	\$2,721,000
17	Total BPA Wind Costs Not Covered by GEP	\$4,170,125	\$4,259,277

Note: Direct cost only. Does not include applicable G&A costs that will be allocated.

Table 7 – Agency Services Expenses Historical and Forecast

Department	(\$ Thousands)	Start of	Actuals	Rate Case		(5/10/10)	Final IPR			12/13 IPR less 10/11 RC avg	% increase over FY 10/11 RC
		Year		2010 ^{1/}	2011 ^{2/}	Initial IPR	2011	2012	2013		
1	EXECUTIVE OFFICE	4,646	\$ 3,108	\$ 4,423	\$ 3,005	\$ 2,100	\$ 1,861	\$ 1,839	\$ 1,876	\$ (1,856)	-50%
2	RISK	5,734	\$ 4,638	\$ 6,893	\$ 6,854	\$ 7,051	\$ 6,218	\$ 6,300	\$ 6,300	\$ (615)	-9%
3	AGENCY COMPLIANCE & GOVERNANCE	3,719	\$ 3,525	\$ 3,604	\$ 3,772	\$ 5,124	\$ 5,035	\$ 5,031	\$ 5,060	\$ 1,358	37%
4	PUBLIC AFFAIRS ^{3/}	17,439	\$ 16,242	\$ 17,476	\$ 18,070	\$ 18,147	\$ 17,931	\$ 18,075	\$ 18,489	\$ 509	3%
5	INTERNAL AUDIT	2,384	\$ 2,194	\$ 2,335	\$ 2,337	\$ 2,563	\$ 2,538	\$ 2,384	\$ 2,439	\$ 76	3%
6	FINANCE	14,925	\$ 14,458	\$ 14,442	\$ 14,935	\$ 15,223	\$ 14,984	\$ 15,561	\$ 15,975	\$ 1,079	7%
7	CUSTOMER SUPPORT SERVICES	10,932	\$ 10,200	\$ 10,878	\$ 11,289	\$ 10,932	\$ 10,313	\$ 10,535	\$ 10,759	\$ (437)	-4%
8	GENERAL COUNSEL	9,514	\$ 9,490	\$ 9,489	\$ 9,812	\$ 11,729	\$ 11,478	\$ 10,977	\$ 11,625	\$ 1,650	17%
9	INTERNAL BUSINESS SERVICES	576	\$ 474	\$ 592	\$ 787	\$ 874	\$ 840	\$ 855	\$ 869	\$ 173	25%
10	BUSINESS & PROCESS ANALYSIS	-	\$ -	\$ -	\$ 1,103	\$ 1,242	\$ 1,227	\$ 1,423	\$ 1,449	\$ 885	160%
11	SAFETY	2,314	\$ 2,214	\$ 2,375	\$ 2,479	\$ 2,577	\$ 2,589	\$ 2,641	\$ 2,695	\$ 241	10%
12	HUMAN CAPITAL MANAGEMENT	16,228	\$ 15,005	\$ 17,149	\$ 16,241	\$ 18,388	\$ 18,081	\$ 18,460	\$ 18,355	\$ 1,712	10%
13	SUPPLY CHAIN SERVICES	18,315	\$ 17,852	\$ 20,958	\$ 20,720	\$ 21,468	\$ 21,139	\$ 21,788	\$ 22,377	\$ 1,244	6%
14	SECURITY & EMERGENCY RESPONSE	7,582	\$ 7,007	\$ 7,624	\$ 7,832	\$ 8,668	\$ 8,515	\$ 8,834	\$ 8,867	\$ 1,123	15%
15	WORKPLACE SERVICES	30,208	\$ 29,912	\$ 44,758	\$ 47,213	\$ 51,738	\$ 49,124	\$ 49,880	\$ 50,631	\$ 4,270	9%
16	INFORMATION TECHNOLOGY	58,182	\$ 60,574	\$ 67,935	\$ 67,547	\$ 68,832	\$ 67,861	\$ 68,679	\$ 70,348	\$ 1,773	3%
17	CORPORATE STRATEGY	18,735	\$ 16,681	\$ 21,065	\$ 21,152	\$ 21,325	\$ 20,295	\$ 23,695	\$ 24,482	\$ 2,980	14%
18	UNDISTRIBUTED REDUCTION	(2,967)	\$ -	\$ (2,485)	\$ (2,599)	\$ (691)	\$ (7,872)			\$ 2,542	-100%
19	Total	218,466	\$ 213,574	\$ 249,510	\$ 252,549	\$ 267,290	\$ 252,549	\$ 266,877	\$ 272,596	\$ 18,707	7%
20	PORTION CHARGED TO POWER	88,914	\$ 84,556	\$ 95,594	\$ 96,518	\$ 99,984	\$ 96,518	\$ 99,278	\$ 101,406	\$ 4,286	
21	PORTION CHARGED TO TRANS EXP & CAP	129,552	\$ 129,018	\$ 153,916	\$ 156,031	\$ 167,306	\$ 156,031	\$ 167,599	\$ 171,190	\$ 14,421	

FINAL IPR 2011 CHANGE FROM INITIAL IPR 2011 FORECAST	-5.5%
FINAL IPR 2011 CHANGE FROM 2011 RATE CASE FORECAST	0.0%
FINAL IPR 2012 CHANGE FROM FINAL IPR 2011 FORECAST	5.7%
FINAL IPR 2013 CHANGE FROM FINAL IPR 2012 FORECAST	2.1%
FINAL IPR 2013 CHANGE FROM 09 ACTUALS	27.6%
COMPOUND ANNUAL GROWTH RATE FROM 2009 ACTUALS	6.3%

1/ 2010 Rate Case does not include \$0.602 million in transmission lease financing costs

2/ 2011 Rate Case does not include \$1.142 million in transmission lease financing costs

3/ Includes NWPPC

Table 7 reflects spending level trends for Agency Services. This table includes direct program support levels for Power and Transmission and allocated costs. Based on final

spending levels for FY 2012-2013, Agency Services spending levels increase 7 percent when compared to average 2010-2011 Rate Case levels and 6.3 percent when looking at the compounded annual average from 2009 actuals.

Power and Transmission programs and projects continue to be significant drivers of Agency Services costs. Program growth in the business units is driving up the FY 2010-2011 Agency Services costs and has multi-year impacts that continue into FY 2012-2013. There also are new program drivers that impact FY 2012 and 2013 costs. New cost drivers for Agency Services in support of Power and Transmission include the following:

- Capital and expense spending to integrate new resources that preserve system reliability as well as maintain and operate transmission electric and non-electric assets.
- Implementation of new 20-year power sales agreements.
- Expanded Fish and Wildlife Program in support of Biological Opinion and Fish Accords.
- Increase in wind integration.
- Doubling of Energy Efficiency investments.
- Significant compliance responsibilities required by the North American Electric Reliability Corporation (NERC), Federal Information Security Management Act (FISMA) and Critical Infrastructure Protection (CIP).
- Implementation of American Recovery and Reinvestment Act of 2009 (ARRA) funding and need to secure additional sources of capital (even with \$3.25 billion of new borrowing authority).
- Increased lease costs for the BPA headquarters building in Portland.

IPR RESULTS: SUMMARY OF PROGRAM LEVEL CHANGES FOR FY 2012-13

Initial IPR spending levels provided at the May 10 Overview workshop were, for the most part, based on FY 2011 IPR2 levels (used in the FY 2010-2011 final rate proposal). These spending levels include adjustments for inflation, cost of living and an “efficiency factor” (reflecting an expectation that ongoing efforts around BPA’s internal operational excellence initiative will result in efficiencies and cost savings not anticipated in earlier planning). Proposed spending levels and the reduction scenarios that were shared in workshops underwent rigorous internal review prior to release. Senior executives were required to justify and approve any deviation from the base assumptions.

In light of BPA’s financial condition, the state of the Northwest economy and the comments BPA has received, BPA believes it is appropriate to identify changes to initial IPR spending levels for FY 2012-2013. Programs requiring further review and reduction have been prioritized by their level of impact on rates and by comments received from IPR participants.

With lower than expected secondary sales for FY 2010 and reserves available to cover risks dwindling, BPA believes it is appropriate to identify two sets of reductions. The first set consists of spending reductions that BPA intends to adopt for FY 2012-2013. These reductions are identified as “reductions” and will not be included in program levels for rate setting purposes. The second set includes reductions identified as “suspended.” Suspended amounts are program elements that BPA believes have merit but are being reduced because of BPA’s continued poor financial results due to low hydro conditions and in light of the

regional economy. The suspended amounts will not be included in final IPR program levels. If BPA's secondary revenues and overall financial results exceed expectations in FY 2011-2013, the suspended amounts may be reinstated at the discretion of the Administrator. This report identifies and describes areas where BPA has chosen to reduce and/or suspend program spending.

Total Program Adjustments

This report identifies and describes average annual program adjustments of \$143.3 million in FY 2012-2013 from initial IPR spending levels. These include net reductions of \$142 million when offset by a \$1.3 million increase for Transmission staffing. Of the \$142 million, \$128 million consists of adjustments to Power Services and Power-related Agency Services IPR expense levels and \$14.0 million in Transmission Services and Transmission-related Agency Services IPR expense levels.

Program Reductions

Average annual program spending was reduced by \$129.3 million in FY 2012-2013 from initial IPR spending levels with net reductions of \$128.0 million when offset by \$1.3 million increase for Transmission staffing. Of this, \$124.2 million consists of reductions in Power Services and Power-related Agency Services IPR expense levels and \$3.8 million in Transmission Services and Transmission-related Agency Services IPR expense levels. Reductions to Power Services spending levels are primarily the result of debt restructuring actions, capitalization of conservation acquisition, exclusion of property insurance and decreases in Agency Services support costs. Transmission Services reductions are primarily the result of reductions to Agency Services spending levels. These reductions are shown in table 8.

Although debt service is not addressed in the IPR process and is not typically thought of as a program, the large reductions (~\$79 million) due to planned nonfederal debt restructuring reduces Power rate pressure, which is similar to other program reductions. Therefore, we have included it as a reduction throughout this report. Specific details on debt restructuring can be found in the 2010 Regional Conversations Report.

Program Suspensions

BPA has identified and described in this report average annual program suspensions of \$14 million in FY 2012-2013, of which \$3.9 million is allocated to Power and \$10.1 million to Transmission. Suspended IPR program levels may be reinstated if financial conditions improve. These suspensions are shown in table 8.

Detailed Program Spending Tables

Table 8 – Average Annual FY 2012-13 Reductions & Suspensions

	Program Reductions/Cuts			Suspended Programs		
	A	B	C	D	E	F
	POWER	TRANS	TOTAL (A+B)	POWER	TRANS	TOTAL (D+E)
\$ in millions, corporate costs reflected in business units						
1 Total Award Suspensions	\$ -	\$ -	\$ -	\$ (1.0)	\$ (2.9)	\$ (3.9)
2 COLA Assumption/Benefits Adjustment/Salary True-up	\$ (4.1)	\$ (3.1)	\$ (7.2)	\$ -	\$ -	\$ -
3 Allocation Reductions	\$ (1.9)	\$ 1.9	\$ -	\$ -	\$ -	\$ -
4 Property Insurance	\$ (10.0)	\$ -	\$ (10.0)	\$ -	\$ (5.0)	\$ (5.0)
5 Technology Innovation (R&D)	\$ -	\$ -	\$ -	\$ (1.0)	\$ (1.0)	\$ (2.0)
6 Conservation Acquisitions	\$ (0.3)	\$ -	\$ (0.3)	\$ -	\$ -	\$ -
7 Corps/Reclamation Cost Reductions	\$ (6.5)	\$ -	\$ (6.5)	\$ (0.5)	\$ -	\$ (0.5)
8 Non-Federal Debt Service	\$ (79.0)	\$ -	\$ (79.0)	\$ -	\$ -	\$ -
9 Net Interest Expense	\$ 13.0		\$ 13.0			
10 Non-IBS Organizations Reductions	\$ (0.5)	\$ (0.1)	\$ (0.6)	\$ (1.3)	\$ (1.1)	\$ (2.4)
11 IBS Organizations Reductions	\$ (0.3)	\$ (3.8)	\$ (4.1)	\$ (0.1)	\$ (0.1)	\$ (0.2)
12 CGS (Fuel Costs)	\$ (21.3)	\$ -	\$ (21.3)	\$ -	\$ -	\$ -
13 Fish & Wildlife	\$ (13.3)	\$ -	\$ (13.3)	\$ -	\$ -	\$ -
14 Transmission Staffing increases		\$ 1.3	\$ 1.3	\$ -	\$ -	\$ -
TOTAL REDUCTIONS & SUSPENSIONS	\$ (124.2)	\$ (3.8)	\$ (128.0)	\$ (3.9)	\$ (10.1)	\$ (14.0)

Table 8 displays average annual program spending reductions and suspensions from initial IPR expense spending levels compared to final IPR expense spending levels for FY 2012-2013.

Table 9 – Final Changes to Power Services FY 2012-13

	A	B	C	D	E	F	G	H
Power Expenses by Program (\$ thousands)	Initial 2012 IPR	Draft 2012 IPR	Final 2012 IPR	Initial IPR less Final IPR	Initial 2013 IPR	Draft 2013 IPR	Final 2013 IPR	Initial IPR less Final IPR
1 Renewable Energy	44,312	43,292	43,292	(1,020)	45,101	44,080	44,081	(1,020)
2 Energy Efficiency	47,250	47,250	46,950	(300)	48,150	48,150	47,850	(300)
3 Columbia Generating Station	319,866	319,866	306,366	(13,500)	375,045	375,045	345,945	(29,100)
4 Corps and Reclamation	327,672	327,672	320,672	(7,000)	342,591	342,591	335,591	(7,000)
5 Long-Term Generating Projects	27,389	27,389	27,389	-	27,654	27,654	27,654	-
6 Operating Generation Settlement	21,928	21,928	21,928	-	22,148	22,148	22,148	-
7 Agency Services G&A	55,962	53,045	52,245	(3,718)	56,907	53,966	53,068	(3,839)
8 Additional Post-Retirement	17,243	17,243	17,243	-	17,821	17,821	17,821	-
9 Non-Operating Generation	1,938	1,938	1,938	-	1,948	1,948	1,948	-
10 Trans Acquisition & Ancillary Svcs ^{1/}	173,340	173,340	173,340	-	172,317	172,317	172,317	-
11 Fish & Wildlife	289,852	289,852	276,610	(13,242)	295,226	295,226	281,944	(13,282)
12 Non - Generation Operations	88,908	87,081	83,586	(5,322)	90,151	88,241	84,613	(5,538)
13 Hydro Project Insurance ^{2/}	10,000	-	-	(10,000)	10,000	-	-	(10,000)
14 Total	\$ 1,425,660	\$ 1,409,896	\$ 1,371,558	\$ (54,102)	\$ 1,505,059	\$ 1,489,186	\$ 1,434,979	\$ (70,080)

1/ Residential Exchange and Trans Acquisition & Ancillary Services programs are outside the scope of the IPR and will be determined in the upcoming rate case.

2/ Hydro Project Insurance was not reflected in the initial or draft expense tables, it has been reflected in the Risk program in the Agency Services Table in prior publications.

Table 9 summarizes changes in Power spending levels for FY 2012-2013, comparing the initial IPR spending levels to the final IPR spending levels. This table includes the interim program efficiency levels presented in the Draft Close-Out Report and also includes the Agency Services programs that directly support Power programs and includes G&A expenses and post-retirement benefits.

Table 10 – Final Changes to Transmission Services FY 2012-13

	A	B	C	D	E	F	G	H
Transmission Expenses by Program (\$ thousands)	Initial 2012 IPR	Draft 2012 IPR	Final 2012 IPR	Initial IPR less Final IPR	Initial 2013 IPR	Draft 2013 IPR	Final 2013 IPR	Initial IPR less Final IPR
1 System Operations	62,918	62,590	63,218	300	64,832	64,486	65,133	301
2 Scheduling	12,822	12,772	12,772	(50)	13,042	12,991	12,991	(51)
3 Marketing	17,864	17,600	16,968	(896)	18,207	17,940	17,296	(912)
4 Business Support	43,745	35,979	37,092	(6,653)	44,875	37,044	38,170	(6,705)
5 Maintenance	150,425	150,023	146,713	(3,712)	154,468	154,040	150,832	(3,637)
6 Engineering	34,522	32,414	31,800	(2,722)	35,579	33,425	32,803	(2,775)
7 Non-BBL Acquisition & Ancillary Services	13,484	13,484	13,484	-	13,618	13,618	13,618	-
8 Agency Services G&A	55,730	63,662	60,471	4,742	56,561	60,471	61,432	4,871
9 Additional Post Retirement	17,243	17,243	17,243	-	17,821	17,821	17,821	-
10 Total	\$ 408,752	\$ 405,767	\$ 399,761	\$ (8,991)	\$ 419,003	\$ 411,836	\$ 410,095	\$ (8,908)

Table 10 summarizes changes in Transmission spending levels for FY 2012-2013, comparing the initial IPR spending levels to the final IPR spending levels set forth in this final report. The table includes the interim program levels presented in the Draft Close-Out Report and also includes the Agency Services programs that directly support Transmission programs and includes G&A expenses and post-retirement benefits.

Table 11 – Final Changes to Agency Services FY 2012-13 1/

	A	B	C	D	E	F	G	H
Agency Service's Department (\$ thousands)	Initial 2012 IPR	Draft 2012 IPR	Final 2012 IPR	Initial IPR less Final IPR	Initial 2013 IPR	Draft 2013 IPR	Final 2013 IPR	Initial IPR less Final IPR
1 EXECUTIVE OFFICE	2,151	2,071	1,839	(312)	2,195	2,113	1,876	(319)
2 RISK	21,992	6,636	6,218	(15,774)	22,082	6,725	6,300	(15,782)
3 AGENCY COMPLIANCE & GOVERNANCE	5,159	5,088	5,031	(129)	5,191	5,119	5,060	(131)
4 PUBLIC AFFAIRS	18,804	18,479	18,075	(728)	19,263	18,937	18,489	(774)
5 INTERNAL AUDIT	2,512	2,370	2,384	(127)	2,568	2,426	2,439	(129)
6 FINANCE	16,581	15,876	15,561	(1,020)	16,907	16,245	15,975	(932)
7 CUSTOMER SUPPORT SERVICES	11,262	11,087	10,535	(727)	11,502	11,323	10,759	(743)
8 GENERAL COUNSEL	11,894	11,241	10,977	(917)	12,551	11,896	11,625	(926)
9 INTERNAL BUSINESS SERVICES	893	884	855	(38)	908	900	869	(39)
10 BUSINESS & PROCESS ANALYSIS	1,442	1,430	1,423	(19)	1,468	1,455	1,449	(19)
11 SAFETY	2,647	2,613	2,641	(6)	2,702	2,667	2,695	(6)
12 HUMAN CAPITAL MANAGEMENT	19,545	18,674	18,460	(1,085)	19,362	18,558	18,355	(1,007)
13 SUPPLY CHAIN SERVICES	22,272	21,997	21,788	(484)	22,867	22,587	22,377	(491)
14 SECURITY & EMERGENCY RESPONSE	8,976	8,934	8,834	(142)	9,012	8,970	8,867	(145)
15 WORKPLACE SERVICES	52,882	52,417	49,880	(3,001)	53,531	53,065	50,631	(2,900)
16 INFORMATION TECHNOLOGY	70,225	69,400	68,679	(1,545)	71,902	71,068	70,348	(1,555)
17 CORPORATE STRATEGY	27,471	24,825	23,695	(3,776)	28,535	25,827	24,482	(4,053)
18 UNDISTRIBUTED REDUCTION	-	-	-	-	-	-	-	-
19 Total	\$ 296,707	\$ 274,023	\$ 266,877	\$ (29,830)	\$ 302,548	\$ 279,881	\$ 272,596	\$ (29,952)

1/ These final IPR numbers reflect reduction decisions in individual programs as well as an across the board reduction in COLAs and awards.

Table 11 summarizes changes in Agency Services spending levels for FY 2012-2013, comparing initial IPR spending levels to the final IPR spending levels. All Agency Services spending levels are included in this table, including those that directly support the Power and Transmission expense and capital programs and allocated costs.

Table 12 – Power Expense Changes Between FY 2010-11 Rate Case and FY 2012-13 Final IPR Spending Levels

		A	B	C	D	E
	Expenses	Initial Proposed Change from Avg 10/11 to Avg 12/13	% Change in Rates (based on Column A)	Final Program Reductions from Initial Proposed IPR Point Estimate Levels	Total Change from FY 2010/2011 Rate Case Average	Approximate % change in rates
1	Non-federal Debt Service	70.0	4%	(79.0)	(9.0)	0%
2	Columbia Generating Station	56.1	3%	(21.3)	34.8	2%
3	Net Interest Expense ^{1/}	44.9 to 54.9	3%	13.0	66.0	4%
4	Fish and Wildlife/USF&W/Planning Council	32.9	2%	(13.3)	19.6	1%
5	Bureau of Reclamation	25.9	1%	(1.7)	24.2	1%
6	Corps of Engineers	25.8	1%	(5.3)	20.5	1%
7	Depreciation and Amortization Expense	9.9 to 13.8	0% to 1%	0.0	7.2	0%
8	Hydro Projects Insurance	10.0	1%	(10.0)	0.0	0%
9	Power Non-Generation Operations	8.2	0%	(5.4)	2.8	0%
10	G&A	6.4	0%	(3.8)	2.6	0%
12	Purchased Power Expenses	?	?	?	?	?
13	Residential Exchange	?	?	?	?	?
14	DSI Service	?	?	?	?	?
15	Other expenses, net	(1.3)	0%	0.0	(1.3)	0%
16	Transmission Acquisition	(4.3)	0%	0.0	(4.3)	0%
17	Renewable and Conservation Generation ^{2/}	(37.2) to 90.7	-2% to 5%	(1.3)	(38.5)	-2%
18	Net Change in Expenses	\$261 to \$375	12% to 20%	(128.1)	124.6	7%
19	Below-the-Line Reductions Change in Federal principal repayment	8.0	0%	(23.0)	(15.0)	-1%
20	Total ^{3/}	\$239 to \$352	12% to 20%	(151.1)	109.6	6%

1/ The \$66 million increase in net federal interest expense reflects \$34 million increase in interest expense due to increased debt incurred for capital expenditures, and \$32 million decrease in interest income due to lower reserves generating less interest income.

2/ Columns C and D assume all conservation is capitalized with 12 year amortization.

3/ Of the amounts indicated for the elements on Lines 3 through 10 above, approximately \$50 million on average will be directly assigned and allocated for recovery from the rate for wind integration. However, the actual amount will be determined in the upcoming rate case.

Table 12 displays the difference in Power expenses between the average of the 2010 Rate Case (WP-10) spending levels for FY 2010-2011 and the average of the Final IPR spending levels for FY 2012-2013.

During this process BPA has provided information regarding the approximate power rate impact of various cost modifications. This was provided to create a strategic approach focusing attention on the areas that had the greatest impact on power rates. The rate impacts are approximations based on a rule of thumb regarding how cost changes generally impact rates. The actual impact on rates can only be determined through rate case modeling which is being developed for the initial power rate proposal. We believe our approach providing rate impact estimates is roughly right but caveat that only specific modeling can produce the specific impacts on power rates.

Power Services direct internal operating costs and Agency Services costs allocated to Power Services are shown on rows 9 and 10 of table 12 above. Initial IPR spending levels for these internal operating costs were increasing from an average of \$131 million in FY 2010-2011 to an average \$146 million in FY 2012-2013, about an 11 percent increase. The decisions enumerated in this report revised Agency Services costs, reducing total Power Services internal operating costs to an average \$136.4 million for FY 2012-2013, an increase of about 4 percent from FY 2010-2011 average costs.

There is almost \$50 million on average of the power revenue requirement assumed to be collected through the wind integration rate, along with the variable costs that are not in the revenue requirement. The variable component represents the costs associated with losses of efficiency and value as the FCRPS is set up to allow balancing reserves to be deployed. Additional losses occur when they actually are deployed. These costs are calculated in the rate case. There is the direct assignment of \$8.2 million staffing-related expense per year and an allocation of O&M, depreciation, interest and net revenues of \$41.5 million per year. About \$8 million of the \$50 million is an average annual increase from FY 2010-2011. Parts of lines 3 through 10 on table 12 are assumed to be either allocated or direct assigned to the wind integration charge. BPA expects to propose this in the Initial Rate Proposal.

ASSET MANAGEMENT STRATEGIES

Asset Management plays a critical role at BPA. It means taking a systematic, risk-informed approach to evaluating the current condition of existing assets. BPA then identifies the desired state for those assets to generate the maximum cost-effective value and develops an investment and management strategy to achieve that value. BPA was pleased to present and discuss with IPR participants draft asset strategies for Transmission, federal hydro, facilities and Information Technology (IT). BPA's long-term asset strategies reflect key Agency initiatives and result in significant investments in the system.

Maintenance of the aging federal hydro generation system and BPA's transmission system is a significant driver of investment over the next 10 years. Deteriorating assets are now placing critical equipment near or at risk of failure. Increasing compliance requirements and integration of wind and other generating resources are also driving investment in the Transmission system. Another area of concern includes facilities and IT. Maintenance of facilities and non-electric plant has been deferred, leaving some facilities in poor condition and at risk of non-compliance with safety codes. Long-term investment in IT is needed to maintain compliance with NERC, CIP and FISMA requirements while ensuring resources are safe, reliable and available.

Some general comments received pertaining to asset management strategies included:

- Wise use of BPA federal borrowing authority to match asset management planning is encouraged.
- The asset management approach is supported, and the expansion and continued use of it for the assets that BPA manages is encouraged.
- The Transmission Services asset management strategy is providing an important comprehensive review framework.

- As part of the asset management approach, it would be helpful for BPA to provide better tracking of the actual expenditures that improve the life, reliability and functionality of the facilities BPA is paying for.
- Draft asset strategies and capital investments are supported in the Transmission system, at Corps and Reclamation projects and at CGS for needed facilities and repair and maintenance actions that improve the operation and life of existing facilities. The need for capital to improve aging infrastructure is extensive.
- Investments in the FCRPS, including buildings and facilities that are BPA’s other non-generating assets, are important investments. In many cases improvements that have been delayed too long have led to serious infrastructure and facility problems that cost us more money in other ways.
- BPA’s focus on accomplishing the capital items in its transmission plan at this time of low construction costs, materials and labor is prudent.

BPA’s Response: BPA recognizes and appreciates the general comments pertaining to Asset Management and draft asset management strategies. BPA will continue to expand this tool while better tracking expenditures and benefits in the future.

Asset management strategies propose extensive and much needed investment in the system in future years. There is a direct correlation between a significant investment plan and the support-related expenditures necessary to implement the plan, as well as the related maintenance expenditures necessary for continued long-term use and benefit.

CAPITAL SPENDING FY 2011-2017

Tables 13 through 15 provide final capital spending levels for FY 2011-2017. BPA is not making additional changes to the initial IPR direct capital spending levels in FY 2011-2017 except for changes described in the Energy Efficiency (Conservation Acquisition) section of this report; therefore, initial levels were not provided in tables 13 through 15.

Table 13 displays the final Power Capital spending levels for FY 2011-2017.

Table 14 displays the final Transmission Capital spending levels for FY 2011-2017.

Table 15 displays the final Agency Services Capital spending levels for FY 2011-2017.

Table 13 – Final IPR Power Capital Levels

Power Capital by Program (\$ thousands)	2009 Actuals	2010 SOY	11 WP-10 Rate Case	2011 IPR	2012 IPR	2013 IPR	2014 IPR	2015 IPR	2016 IPR	2017 IPR
1 Fish & Wildlife	28,863	70,000	60,000	60,000	50,000	50,000	50,000	50,000	50,000	50,000
2 Conservation Acquisition	16,594	15,000	47,000	80,000	104,000	111,000	117,000	145,000	180,000	190,000
3 Corps & Reclamation	139,552	185,000	201,000	200,296	246,269	263,302	266,618	267,279	263,697	270,617
4 Power Information Technology	(4)	3,000	-	8,325	6,625	6,795	6,970	7,140	7,310	7,480
5 PBL Efficiencies Program	1,398	-	-	-	-	-	-	-	-	-
6 Total Power Capital Program	186,404	273,000	308,000	348,621	406,894	431,097	440,588	469,419	501,007	518,097
7 Power Lapse Factor	-	(33,600)	(37,200)	(30,044)	(36,940)	(39,495)	(39,993)	(41,082)	(41,595)	(43,921)
8 Total Capital with Lapse Factor	186,404	239,400	270,800	318,577	369,954	391,602	400,595	428,337	459,412	474,176

Table 14 – Final IPR Transmission Capital

	A	B	C	D	E	F	G	H	I	J
Transmission Capital by Program (\$ thousands)	2009 Actuals	2010 SOY	11 TR-10 Rate Case	2011 IPR	2012 IPR	2013 IPR	2014 IPR	2015 IPR	2016 IPR	2017 IPR
1 Main Grid	58,153	128,074	189,939	110,011	213,390	270,144	255,011	138,247	86,879	189,404
2 Area & Customer Service	11,452	37,103	6,256	6,025	11,325	9,470	10,749	16,157	17,131	28,295
3 System Replacements	115,722	137,146	138,423	131,672	157,174	169,355	188,319	172,039	160,873	159,372
4 Upgrades & Additions	56,900	103,322	112,585	103,558	137,428	122,834	81,191	51,938	45,280	46,965
5 Environment Capital	3,370	5,530	5,752	5,750	5,867	5,982	6,101	6,320	6,446	6,575
6 PFIA	36,785	106,605	102,286	86,792	44,432	43,715	29,694	22,310	22,650	22,987
7 Total Direct Capital	282,381	517,780	555,241	443,809	569,616	621,500	571,065	407,010	339,258	453,599
8 Capital Indirects	74,632	80,413	81,052	76,400	79,302	80,636	82,871	84,849	86,344	87,812
9 Transmission AFUDC	19,676	21,300	22,468	27,400	33,018	37,709	41,624	34,905	26,143	30,926
10 Total Indirect Capital	94,308	101,713	103,520	103,800	112,320	118,345	124,495	119,754	112,487	118,738
11 Total Capital Program	376,689	619,493	658,761	547,609	681,936	739,845	695,560	526,764	451,745	572,337
12 Transmission Lapse Factor	-	(105,118)	(109,902)	(81,040)	(101,414)	(110,078)	(103,412)	(78,070)	(66,794)	(84,860)
13 Total Capital with Lapse Factor	376,689	514,375	548,858	466,569	580,522	629,767	592,148	448,694	384,951	487,477

Table 15 – Final IPR Agency Services Capital

Corporate Capital by Program (\$ thousands)	2009 Actuals	2010 SOY	2011 Rate Case	2011 IPR	2012 IPR	2013 IPR	2014 IPR	2015 IPR	2016 IPR	2017 IPR
1 Finance and Accounting	144	386	612	606	620	635	655	670	686	702
2 BPA Physical Security Program	2,641	5,102	5,814	5,500	5,500	6,500	6,500	6,500	7,500	7,500
3 Workplace Services	4,205	38,151	23,741	19,202	30,203	26,173	33,006	25,271	23,025	23,236
4 Information Technology	33,258	40,000	21,375	49,000	39,000	40,000	41,000	42,000	43,000	44,000
5 Total Corporate Capital Program	40,248	83,639	51,542	74,308	75,323	73,308	81,161	74,441	74,211	75,438
6 Corporate Lapse Factor	-	(4,896)	(5,012)	(1,923)	(1,180)	(887)	(444)	(451)	(459)	(5,012)
7 Total Capital with Lapse Factor	40,248	78,743	46,530	72,385	74,143	72,421	80,717	73,990	73,751	70,426

Below is a summary of written comments related to proposed capital levels.

- **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.
- **SCL, Western Montana G&T, Tacoma Power, ICNU, EWEB in support of PPC**
 - Support BPA’s proposed capital program for transmission replacements, reinforcements and load-service investment. BPA should complete projects that meet load service and system reliability needs instead of delaying them for other types of projects.
 - Customers need to gain a greater understanding of why and to what end BPA is expending its borrowing authority so rapidly.

BPA’s Response – Part of the intent of 10-year asset management strategies is to continue to collect and analyze appropriate asset component data to inform prudent future investments. This plan will rely on a mix of asset data and industry practices to deliver a reliable system at least life-cycle cost.

BPA is not making any additional changes to the initial IPR direct capital spending levels in FY 2011-2017 except for changes described in the Energy Efficiency (Conservation Acquisition) section of this report. Reductions to Agency Services impact Transmission programs by lowering Capital Indirects.

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 2012-2013 spending levels reflect the current EN Long

Range Plan and result in an average increase of \$34.8 million per year in FY 2012-2013 over levels assumed in the WP-10 FY 2010-2011 power rate proposal. Increases are primarily the result of escalation and higher fuel costs when compared to the now completed low-cost uranium tailings fuel procurement program of 2006-2010. The total O&M costs are expected to remain essentially constant (from the present to the next rate case), although within this category there are decreasing trends in baseline costs, projects, staffing levels and incremental outage costs. These are offset by increases in the Administrative & General area driven in part by state of Washington PERS premiums. EN is managing these costs to live within its projected Long Range Plan. Decommissioning Trust Fund contributions also have increased consistent with the funding schedule EN submitted to the U.S. Nuclear Regulatory Commission in March 2009.

EN has identified and committed to O&M spending reductions averaging \$21.3 million per year in FY 2012-2013 from initial IPR estimates by delaying some fuel conversion and enrichment enabled by the advance purchase of nuclear fuel in FY 2011. BPA and EN have agreed to debt finance the \$60 million advance fuel purchase in FY 2011. The estimated debt service increase of about \$2 million in FY 2012 and FY 2013 due to the advance fuel purchase is reflected in the nonfederal debt service.

ACCOUNTING TREATMENT OF EN FUEL PROCUREMENT

A CGS-specific technical workshop was held May 19 to discuss proposed spending levels. At this workshop, participants including CGS representatives were mainly interested in understanding BPA's current accounting treatment of fuel procurement.

Written comments are summarized below:

- **EWEB** – Supports capitalization of nuclear fuel.
- **ICNU**
 - Advocates that all costs of nuclear fuel at CGS should be recovered over several years, including the costs of preparation for insertion into the core to the final assembly of the rods.
 - Recommends that EN capitalize the processing-cycle costs until fuel is placed in the reactor and amortize those costs over six years as a net-billing expense to BPA.
 - Does not believe that the borrowing and related debt for nuclear fuel should be entered into BPA's Repayment Study because of its ongoing nature. The borrowing should be done by EN and recovered as an EN expense chargeable to BPA ratepayers during the fuel-burn period.
- **NRU** -
 - Encourages BPA, customers and EN to continue to work together to reduce fuel costs for FY 2012-2013 by spreading these costs over the ratepayers that will benefit from the fuel.
 - Supports amortizing fuel costs over the fuel burn period.
- **SCL, Tacoma Power in support of PPC** – Believe BPA should amortize the purchase of fuel for CGS over the life of the fuel burn.
- **PNGC** – Encourages continued exploration of an advanced fuel purchase assuming the outcome will result in a net reduction in EN O&M. BPA and EN should develop a nuclear fuels cost management program that identifies the best approach for taking advantage of current low uranium prices.

- **Snohomish County PUD** – Recommends BPA Power Services work with EN 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.
- **Western Montana G&T** – Supports spreading the nuclear fuel costs over the period in which the fuel is burned, although additional work on the rate impact of the proposal appears necessary.

BPA’s Response: BPA has looked into the accounting treatment for the cost of acquiring nuclear fuel over the fuel burn period. EN does capitalize nuclear fuel and amortizes it over the fuel burn period consistent with prevailing industry practice. Benchmarking by PNGC and NRU found that other utilities they contacted amortize their fuel purchases as opposed to expensing them in the year the fuel is purchased. This is consistent with the EN practice. 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 CGS costs based on funds provided. This relationship was discussed at the June 18 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. Research thus far indicates many utilities do not finance fuel but use long term contracts to lock fuel purchases in for the out-years.

BPA supports financing fuel purchases, if needed, for future rate periods, but not in the upcoming rate period. To provide immediate rate relief to FY 2012-2013 customers, BPA and EN have agreed to make an advance fuel purchase in FY 2011 to take advantage of current low uranium prices. To address ratepayer equity, EN and BPA have agreed to finance this advance purchase. This will increase debt service costs during the FY 2011-2017 period by about \$2 million per year. Furthermore, this purchase will also allow EN to defer some conversion and enrichment costs during the FY 2012 and FY 2013 period. This deferred conversion and enrichment will result in a reduction in EN O&M costs of \$13.5 million in FY 2012 and \$29.2 million in FY 2013.

BPA will continue to work with EN to develop principles that delineate when it is appropriate to expense fuel-related costs and when it may be appropriate to consider bond financing those purchases. BPA and EN have agreed to the principle of aligning closely the timing of fuel purchase cash requirements with the estimated amortized costs of fuel burned. The focus will be to associate cost causation with cost recovery.

FISH AND WILDLIFE, LOWER SNAKE RIVER COMPENSATION PROGRAM (LSRCP), U.S. FISH AND WILDLIFE SERVICE, COLUMBIA RIVER FISH MITIGATION PROJECT (CRFM), NORTHWEST POWER AND CONSERVATION COUNCIL (COUNCIL)

BPA’s Integrated Fish and Wildlife Program (Program) implements projects that meet BPA’s fish and wildlife mitigation objectives under the Northwest Power Act, consistent with the Program adopted by the Northwest Power and Conservation Council (Council). The projects 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 Program is anticipating average program level increases of roughly \$33 million in FY 2012-2013 over the FY 2010-2011 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 BiOp, requirements in the 2010 Supplemental BiOp for the FCRPS, including the Adaptive Management Implementation Plan (AMIP) and the Washington Estuary Memorandum of Agreement (MOA), and costs associated with an anticipated Accord with the Kalispel Tribe.

A technical workshop was held May 20 to discuss proposed expense and capital spending levels for the Program, Lower Snake River Compensation Plan (LSRCP), Reclamation Leavenworth Fisheries Complex, Corps Fish and Wildlife O&M, Columbia River Fish Mitigation Project (CRFM) and the Council's Fish and Wildlife Program. The primary issues expressed were (1) an interest in seeing a general budget cap or potential reduction in planned expenses due to historical budget under runs and (2) a concern regarding extending spill beyond what is included in the BiOp.

Written comments related to fish and wildlife are summarized below:

Fish Accords

- **Flathead Electric Co-op** – If fish and wildlife programs cannot be spent in a cost-effective way in FY 2012-2013, then the costs should be removed from the budget and rates adjusted accordingly.
- **Western Montana G&T, ICNU in support of NRU** – Fish and wildlife costs increase over 40 percent. BPA, the agencies and the tribes need to re-examine ramp-up rates and the automatic 2.5 percent increase for these programs to determine if requested funding levels can actually be spent in a cost-effective manner; otherwise, BPA is over collecting, and customers are overpaying.
- **PNGC** – Supports the Columbia Basin Fish Accords but thinks actual lower expenditures for Fish Accord projects should be reflected in lower budget projections for projects. BPA should improve its process for matching actual expenditures with the cost projections reflected in the rates BPA collects. BPA should direct unspent funds to future projects and, in turn, reduce rates in subsequent rate periods.
- **SCL, Western Montana G&T, Tacoma Power, ICNU, EWEB in support of PPC**
 - BPA can offset the automatic 2.5 percent increase in MOA projects every year by realizing actual expenditures lag behind budget amounts. It is reasonable to reflect this lag in rates.
 - The current belief is that fish and wildlife spending is forecast to be \$13 million/year less than what is in the current IPR budget. BPA should reduce its budget to reflect the reduced forecast spending.

BPA's Response: BPA will manage the Program to fulfill the requirements of the BiOp and Fish Accords, and full implementation will not be limited by program levels used for rate setting purposes. Given that the Program continues to ramp up its implementation, the possibility remains that actual expenditures for the next several years will be less than those reflected in initial IPR proposed spending levels. As a result, BPA will reduce IPR spending levels for the Fish and Wildlife Program by 5 percent (~\$13 million reduction in both FY 2012 and FY 2013). This does, however, increase the risk that actual spending for Accord and BiOp commitments will be greater than this reduced forecast. It is also important to note that

spending provisions in the Accords allow funds to be shifted in time to reflect when the actual work may be performed. Hence, a reduction in spending in one year may result in an increase in funding in a future year.

Best Available Science

- **Flathead Electric** – Any non-Accord projects that fail science review should not be funded.
- **Western Montana G&T, ICNU in support NRU** – If BPA and sister agencies fail to implement the best science contained in the BiOp and extend summer spill, customers should not bear the financial consequence of foregone revenues from lost power. NRU recommends BPA accept all or a portion of the \$13.2 million in reductions identified in the May 20 presentation of the IPR Fish and Wildlife costs as needed to offset foregone revenues from summer spill beyond the BiOp trigger.
- **PNGC** – The judgment call not to defend the federal science on operational questions related to spill and transportation that was developed for defense of the 2008 BiOp should be mitigated by reducing BPA's expenditures proposed in Fish and Wildlife.
- **SCL, Western Montana G&T, Tacoma Power, ICNU, EWEB in support of PPC** – If the federal agencies fail to apply the BiOp results in additional customer costs, then a commensurate level of offsetting reductions should be found in other areas to keep customers whole.

BPA's Response: BPA will continue to take into account the best available science when funding projects and implementing the BiOp and Fish Accords. In addition to Independent Scientific Review Panel (ISRP) review of projects, we work with NOAA Fisheries, the Corps and Reclamation to apply new science "lessons learned" and adaptive management to adjust hydro, habitat and hatchery actions. Summer spill and transportation are challenging issues given ongoing litigation, and BPA looks forward to the Court's final decision on the BiOp so that BPA can focus greater attention on implementing measures to achieve the biological performance objectives in the BiOp. As noted above, BPA is reducing its FY 2012 and FY 2013 Program budgets by approximately \$13 million each year.

Independent Economic Analysis Board (IEAB)

- **PNGC** – BPA should increase use of the Independent Economic Analysis Board to determine the cost effectiveness of Fish and Wildlife programs and to assist in the prioritization of research, monitoring and evaluation (RM&E) programs.
- **ICNU, Western Montana G&T in support of NRU** – The Council should use the IEAB. BPA should encourage the Council to task the IEAB with a "big picture" cost/benefit review of projects in the program.
- **SCL, Western Montana G&T, Tacoma Power, EWEB, ICNU in support of PPC** – BPA should encourage the Council to use the IEAB to a greater degree.

BPA's Response: BPA encourages review of appropriate Fish and Wildlife Program issues by the IEAB which the Council established and manages. BPA welcomes IEAB reports and Council recommendations for ways to fulfill mitigation responsibilities more cost effectively.

Northwest Power and Conservation Council

- **PNGC** – Believes the Council should work with ratepayers, BPA and others to identify areas where operational efficiencies and cost savings may be obtained.

- **SCL, Western Montana G&T, Tacoma Power, ICNU, EWEB in support of PPC** – The Council should work with BPA, the customers and possibly the IEAB to identify cost savings, such as increasing web-based communication, reviewing office space options, or freezing hiring during this economic crisis.

BPA's Response: BPA is actively working with the Council and mitigation contractors to identify opportunities for improving the efficiency and effectiveness of project implementation, including focusing RM&E funding more directly on important management questions aimed at improving biological effectiveness of the Program. This effort will be helpful in ensuring BiOp fish accord commitments can be met within final IPR-proposed spending levels which were \$13 million below initial IPR spending levels.

Direct Program

- **Flathead Electric Co-Op** – The Direct Fish and Wildlife Program needs an overall budget cap.
- **SCL, Western Montana G&T, Tacoma Power, ICNU, EWEB in support of PPC and 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.

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 is committed to managing in the most effective manner while ensuring it meets its BiOp and Fish Accord commitments and is not inclined to put into place a cap as an alternative. As noted above, BPA is currently exploring with the Council potential efficiencies that might be achieved from a more programmatic RM&E approach.

Lower Snake River Compensation Plan (LSRCP)

- **Lewis PUD** – The LSRCP hatchery program is well established and doesn't need the proposed budget increase.

BPA's Response: The LSRCP is an older hatchery program with deferred capital maintenance needs that affect the quality and quantity of the fish produced. Additional deferrals would not eliminate the need, and would instead most likely result in future costs well in excess of near-term savings, as conditions degrade further.

U.S. ARMY CORPS OF ENGINEERS (CORPS) AND BUREAU OF RECLAMATION (RECLAMATION)

BPA works with the Corps and Reclamation to implement funding for operations and maintenance activities, non-routine extraordinary maintenance (NREX) projects, and fish and wildlife and cultural resources mitigation activities at 31 hydro electric facilities throughout the Northwest.

- **Snohomish County PUD** – Corps and Reclamation costs have increased, but preserving the energy and capacity of the Federal Base System (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 NREX 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. BPA remains open to further study of this issue. Current rates allocate a portion of these O&M costs to wind integration. BPA encourages participation in current rate case workshops and the upcoming BP-12 Rate Case proceedings for further information about cost allocation issues.

Cultural Resources

- **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.
- **Confederated Tribes of the Umatilla Indian Reservation** – Support the proposed funding level in FY 2012 to 2013 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 2012-2013 is “long overdue.”
- **Western Montana G&T, ICNU in support of NRU** – Do not support a 90 percent increase to the FCRPS Cultural Resources Program and recommend the budget be reduced to \$6.6 million from \$8.6 million, a 50 percent decrease.
- **SCL, Western Montana G&T, Tacoma Power, ICNU, EWEB in support of PPC** – Now is not the time to double spend for cultural resources. PPC proposes maintaining current spending levels, which would save \$4.4 million.

BPA's Response: BPA, Corps and Reclamation believe the proposed increase in cultural resources funding is appropriate, given that agency compliance with federal statutes concerning cultural and historic resource protection and management is not discretionary. It is independent of the Fish and Wildlife Program, Accords and BiOps. The funding level represents the first increase in 15 years. It is justified by the recent completion of a programmatic agreement with the Advisory Council on Historic Preservation, states and tribes regarding compliance with cultural and historic protection and management for the FCRPS, and a cultural resource work plan designed to continue to address the impacts of the FCRPS on cultural and historic resources.

Additional increases would not be warranted as the proposed funding level will maintain and enhance the progress made to date. There could also be capacity issues for any further additional funding. Similar to the ramp-up of the Fish and Wildlife Program, the ramp-up of the Cultural Resources Program may turn out to be slower than reflected in the initial IPR budget. Therefore, the \$7 million per year undistributed reduction in the overall O&M budget for the Corps/Reclamation hydro assets anticipates some potential ramp-up related savings in Cultural Resources Program spending for FY 2012-2013 (it should be noted that the Cultural Resources Program budget is a component of the overall Corps/Reclamation O&M budget).

- **The Columbia Basin Project (CBP) and Grand Coulee Project Hydroelectric Authority (GCPHA)**
 - Supports the direct funding provided by BPA to invest capital and expense funds into the FCRPS.

- Has a concern that equipment providing service to the CBP, when not being used for irrigation, is slightly above a poor or on verge of failure rating. We are deeply concerned with the program priorities identified by BPA and Reclamation.
- Does not believe Coulee is in the necessary condition to initiate the Third Power Plant (TPP) rehabilitation and urges BPA and Reclamation to improve the overall reliability ratings prior to undertaking the rehab.

BPA's Response: Reclamation and BPA have considered the equipment needs across all the facilities at Grand Coulee in developing the schedule of replacement and overhaul activities for the project. Equipment ratings, replacements that have occurred, maintainability (frequency of maintenance, spares, etc.) of equipment, and system priorities and risks were evaluated in developing work activities for the Left (LPH), Right (RPH), and third power houses (TPP). Major components of the LPH and RPH have recently been and/or are being replaced or overhauled (exciters and transformers are scheduled), while the TPP hasn't been similarly overhauled to date.

Also, as noted in the IPR workshops, the TPP is experiencing increasing forced outages and corrective maintenance needs. The specific concerns noted in the comments were also addressed directly in a letter from Reclamation's area manager to the CBP on Aug 5, 2010. Reclamation states that it stands behind the planned replacements/overhaul schedule for Grand Coulee. As a result, the agencies are committed to the current plan of replacement and overhaul activities for Grand Coulee.

- **Western Montana G&T, ICNU in support of NRU** – Recommends BPA negotiate an across-the-board reduction in O&M funding of at least 1.5 percent with Corps and Reclamation.

BPA's Response: The Corps and Reclamation, in partnership with BPA, have agreed to manage the O&M Program to achieve a \$7 million per year undistributed reduction from the initial IPR funding levels for O&M. This reduction will consist of the Corps taking a \$5.3 million undistributed O&M reduction and Reclamation taking a \$1.7 million O&M reduction. This reduction will not be shown in present direct funding agreements for the generating projects, but instead is expected to occur via the execution of the FCRPS O&M Program as it adjusts to increases in available funding. BPA, the Corps, and Reclamation will actively manage to these results through the FY 2012 and FY 2013 rate period. Also, as part of the overall \$7 million reduction, Reclamation and the Corps have agreed to suspend planned awards funding to one-half the normal levels, consistent with BPA suspensions in this category.

In managing to these O&M Program levels, the Corps, Reclamation and BPA, will remain diligent in managing the FCRPS to ensure its continued safe and reliable performance while meeting stewardship responsibilities. Besides the day-to-day critical operations of the system, the agencies will focus on program execution, which is vital to making the required investments in the hydro system so its value is not diminished.

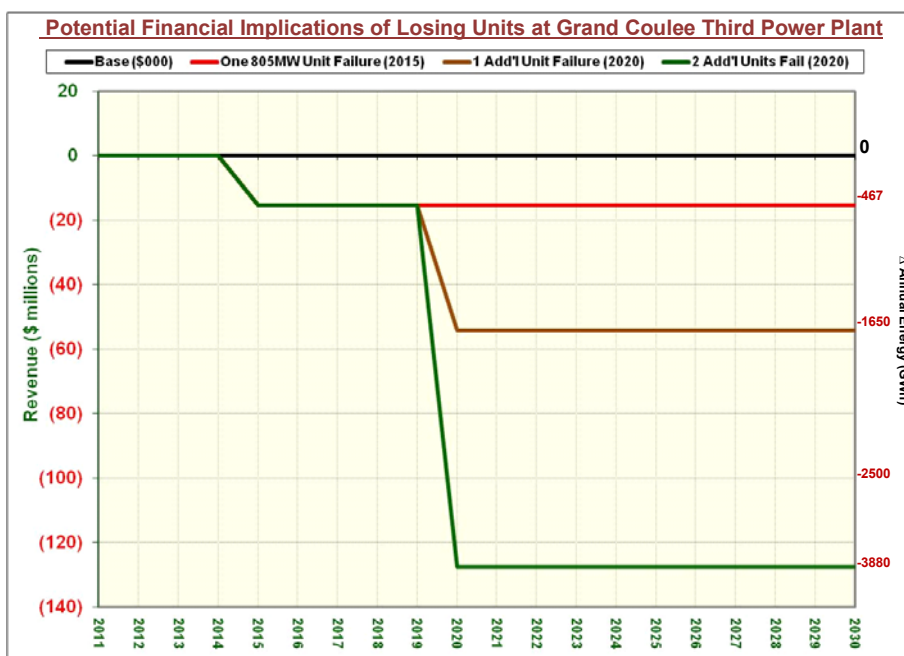
The upcoming overhaul of the TPP at Grand Coulee reflects the need to maintain the value of the system. The age and equipment condition of that facility require a significant amount of NREX to ensure its long-term reliable operating performance. These costs are significant, but not funding this work would have a much larger impact on Grand Coulee's ability to generate revenue.

Forced outages have increased over the past four years, along with unscheduled maintenance, as plant staff has dealt with the TPP's deteriorated condition. The frequency of significant leakage and seepage problems, packing failures and shear pin failures has increased. This required additional work to keep the plant operating. The combination of this additional maintenance and the increase in forced outages equates to about \$3 million per year in lost revenue. This is expected to become even more frequent over time absent significant investment. It is important to start the overhauls now as the risk of a significant or catastrophic forced outage increases.

A significant forced outage due to a mechanical failure would take one of the large units down indefinitely, shifting additional load requirements to the remaining units, and would be more costly to repair than a planned overhaul. The financial impacts of this type of mechanical failure outage would be substantial. For example, the lost revenue associated with losing one unit for a year is about \$16 million, while the loss of two units is about \$52 million a year, and the loss of three units would exceed \$120 million per year. Additionally, if the leakage problems continue to increase, there is a risk of flooding the entire powerhouse, which could mean the loss of all six units. Besides the revenue loss, system operations would be severely impacted as the TPP is critical to reliable operation of the generation and transmission system.

The graph below illustrates the value of making investments and maintaining the reliable generating capability of the FCRPS. It shows lost revenue as a result of potentially losing one, two or three units over the next 10 years at the Grand Coulee TPP, and emphasizes the need to start the overhauls now to reduce the risk of multiple unit outages.

To illustrate the value of the TPP, the graph shows the loss of one unit to a major failure in about five years as a result of the continued deterioration of its mechanical components. Based on the current marginal unit condition in the TPP, the likelihood is high that without overhauling the units there will be at least one, and possibly multiple significant forced outages and the resultant loss in revenues. This situation is shown on the graph at 10 years with the loss of an additional unit in one case, and the loss of two additional units in another. Lost revenue could total anywhere from \$16 million to \$120 million per year depending on the number of units forced out of service. In contrast, the estimated cost to overhaul one unit is about \$40 million over about 18 months, while the cost for completely overhauling and ensuring long-term future reliable generation in all six units in the TPP is about \$250 million over 10 years.



The investment and maintenance needs such as those planned for Grand Coulee are required throughout the FCRPS facilities. BPA, the Corps and Reclamation are committed to managing these activities to minimize costs, as well as the risk of lost revenue, while maintaining the reliable long-term performance and value of the system.

ACCOUNTING TREATMENT OF NON-ROUTINE EXTRAORDINARY MAINTENANCE

The Corps and Reclamation are proposing average increases for FY 2012-2013 of nearly \$52 million from levels in the FY 2010-2011 power rate proposal. This increase is driven primarily by significant increases in NREX. The Corps and Reclamation participated in the May 20 IPR workshop where participants focused primarily on BPA’s current accounting treatment of NREX.

Written comments on this subject are summarized below:

- **EWEB** – Supports capitalization of NREX to the extent possible.
- **Western Montana G&T, ICNU, in support of NRU**
 - Recommends BPA consider using Western Area Power Administration’s (Western) definition of “betterment” when evaluating Corps/Reclamation NREX, which would allow individual investments to be considered for capitalization.
 - Recommends BPA seek special dispensation for the accounting treatment of the Grand Coulee TPP rehabilitation given its size, extended time to overhaul and importance to the FCRPS system. NRU is not recommending capitalizing all NREX, but only a portion of the Grand Coulee TPP overhaul.
- **SCL, Western Montana G&T, Tacoma Power, ICNU in support of PPC** – Believes NREX on the FCRPS should be capitalized, given that the proposed work (such as Grand Coulee’s TPP) is designed to refurbish and increase reliability of FCRPS hydro plants for decades.

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 18 Debt Management Workshop, BPA shared and discussed findings from this research and benchmarking with participants. In general the Corps and Reclamation account for these improvements consistently nationwide, and their treatment is consistent with other dam operators throughout the region and elsewhere.

- **NRU** – Recommends BPA consider using Western Area Power Administration's definition of "betterment" when evaluating Corps/Reclamation NREX. Doing so would allow individual investments to be considered for capitalization.

BPA's Response: The following summarizes BPA's research using Western's definition of "betterment" in regard to capitalizing NREX.

Entity and Definition of Betterment:

Western's Definition: "A betterment occurs when a retirement unit as a whole is made substantially more useful, durable, efficient, or productive by the replacement of a part of the retirement unit and **when the cost of the improvement is of significant importance** to the retirement unit. Betterments apply only to plant items and are always capitalized. Determining when and to what extent an expenditure should be treated as a betterment requires the exercise of judgment."

Reclamation's Definition: "Replacements, Additions, and Extraordinary Maintenance" form provides guidance as to whether an item can be capitalized. "Yes" responses are required for the questions "Is the item due to improvement requirements; e.g. upgrading the efficiency or significantly altering the item's use or technology?" and "Does the item meet capitalization requirements per the "Blue Book" and Statements of Federal Financial Accounting Standard 6?"

BPA's Definition: "A substantial betterment makes the existing property more useful, more efficient, of greater durability and of greater capacity."

FERC: 18 CFR Part 101, Electric Plant Instructions: *10. Additions and Retirements of Electric Plant* describes substantial betterments in terms similar to BPA's definition of substantial betterment. Cost of improving a retirement unit is not listed as an explicit factor when determining work shall be capitalized.

- BPA/FCRPS relies on Reclamation's capitalization policy for capitalizing power generating facilities in the accounts that BPA combines for financial reporting.
- According to Reclamation's policy, there is a fine line between work that is expensed and work that is capitalized; therefore, Reclamation has published detailed guidelines to assist in determining capital and expense classifications. Reclamation has classified NREX costs as expense based on its capitalization policies.

BPA's Response: BPA and Reclamation follow their established capitalization policies based on accounting standards. The fact that there may be a significant cost associated with replacing expense items does not allow the cost to be capitalized if the work itself is not eligible for capitalization. Reclamation's memorandum on capitalization and expense

activities states, “the capitalization decision is dictated by Reclamation’s “Replacements Units, Service Lives, Factors, Limited Update (1995)” (or ‘Blue Book’ and Accounting Policy) and is not dependent on funding sources, timing of cost recovery from benefiting entities, ability to pay, or the cost of the activity.”

The proposed NREX activities do not meet capitalization requirements as established by generally accepted accounting principles in the United States followed by both Reclamation and BPA. Reclamation has concluded that NREX is properly reportable as maintenance expense since NREX activities do not meet capitalization criteria of an upgrading of efficiency or of significantly altering the item’s use. Supporting the decision to treat NREX as an expense is the fact that property units, as defined by Reclamation’s Blue Book, will not be replaced under the NREX program. As such, NREX would continue to be classified as expense, which is consistent with how Reclamation and BPA have recorded NREX in recent years. Therefore, BPA will not change the current accounting treatment for non-routine extraordinary maintenance.

RENEWABLE RESOURCES

BPA’s policy goal for renewable resources is to ensure the development of Public Power’s share of all cost-effective regional renewable resources forecast in the Northwest Power and Conservation Council’s Sixth Power Plan at the least possible cost to BPA ratepayers. BPA’s share will be based on the public power customers’ share (about 40 percent) of regional load growth. The Sixth Power Plan projects a relatively small amount of renewables be developed through 2014 to meet Renewable Portfolio Standard (RPS) requirements in the Northwest. 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 2012-2013 from the FY 2010-2011 levels in the current power rates. This reduction is 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 25.

Beginning in FY 2012 the Renewables program will no longer include reinvestment of Green Energy Premiums (GEP). GEP revenue received before Sept 30, 2011 will be allocated for use by Technology Innovation, the Wind Integration Team (WIT) and pumped storage evaluation.

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

Reinvestment of the Green Energy Premiums (GEP)

- **NRU** – BPA collected more revenues from the GEP than forecast in FY 2007-2011; BPA is projecting approximately \$6.3 million of unspent revenues going into the FY 2012-2013 rate period. BPA is proposing to spend these revenues on a number of projects, with nearly 50 percent (average of 2012-2013) being used to fund the 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.

BPA's Response: BPA will honor its commitment in WP-07 and WP-10 to reinvest the unspent GEP revenues earned during these two rate periods in Renewable R&D projects.

BPA's commitment did not include using the GEP revenues to pay part of the Renewables Purchase Costs. BPA will use GEP revenues to pay Power's share of WIT costs (see table 6). Proposals on how other WIT costs are recovered should be addressed as a rate case issue.

Renewable Resource Development

- **SCL, Western Montana G&T , ICNU, Tacoma Power in support of PPC & NRU** – The \$4 million in Renewable Resources for resource development should be removed, due to a lack of sound business reason coupled with the poor state of the economy and the necessity for BPA to mitigate any potential rate increase. Customers also asked if this \$4 million/year item was for capacity to support BPA's Tier 1 wind purchases or all wind located in the BPA Balancing Authority (BA).

BPA's Response: BPA proposed a \$4 million per year item in the renewable line item for "Resource Development." During IPR (May 24) BPA staff explained that this \$4 million per year was for "resource studies, generation options, generation input purchases or resource purchase prior to inclusion in next rate case." Without this amount, any expenditure associated with purchasing a resource not forecast would be assumed to use reserves, increasing the likelihood of a Cost Recovery Adjustment Clause (CRAC).

Customers then asked if this \$4 million/year item was for capacity to support BPA's Tier 1 wind purchases or all wind located in the BPA Balancing Authority (BA). The purchases made from this item would be capacity for generation inputs for all wind projects interconnected to BPA's Balancing Authority (BA) or the provision that says "Balancing Authority" of Resource Support Services for preference customer resources.

BPA plans to recover the Resource Development costs through the wind integration rate during BP-12 Rate Case proceedings.

ENERGY EFFICIENCY (CONSERVATION ACQUISITION)

Consistent with the Northwest Power Act, BPA works with its wholesale power customers to acquire cost-effective conservation. 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 Council's Fifth Power Plan the public power target was 260aMW or an average of 56aMW/year. Under the Sixth Power Plan the public power target is 504aMW or approximately 101aMW/year.

To meet the aggressive Sixth Power Plan targets, BPA's total spending for Energy Efficiency (EE) is increasing. EE capital spending will increase from \$80 million in FY 2011 to \$104 million in FY 2012 and \$111 million in FY 2013. These increases will fund BPA's programmatic conservation. BPA is now planning to shift \$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 EE expense spending decreasing from \$86.0 million in FY 2011 to \$56.1 million in FY 2012 and \$57.1 million in FY 2013. The expense spending 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.

Energy Efficiency Actuals and Forecasts

	2009 Actuals	2010 Q3 Review	2010 Rate Case	2011 Rate Case	2011 SOY	2012 IPR	2013 IPR
Energy Efficiency Expenses Subtotal	69,080	80,020	95,030	95,445	85,960	56,076	57,096
Energy Efficiency Capital Subtotal	16,594	50,000	39,000	47,000	80,000	104,000	111,000
Energy Efficiency Total	85,675	130,020	134,030	142,445	165,960	160,076	168,096

Written comments received during the comment period have been summarized below:

Sixth Power Plan Conservation Targets

- **EWEB** – Encourages BPA and NWPPC to discuss conservation targets based on the impact of the current recession.
- **ICNU** – BPA should reassess the timing of its implementation of the Council’s Sixth Power Plan. Conservation savings on new housing construction will not materialize if there is little new housing construction.
- **Council** – Supports the substantial increase BPA proposes for its EE budget.
- **NRU** – BPA’s EE Action Plan and the Council’s Sixth Power Plan make certain assumptions related to load growth and economic growth or recovery. BPA (in conjunction with the Council) should re-evaluate the assumptions made and determine whether the level of annual planned conservation in FY 2012-2013 needs to be changed.
- **NW Energy Coalition** – Supports the proposed EE budget for FY 2012-2013, noting it is consistent with the energy savings targets committed to in the Regional Dialogue policy and the Post-2011 efficiency plan.
- **SCL, Western Montana G&T , Tacoma Power in support of PPC**
 - Given current economic conditions the conservation targets deserve additional review.
 - BPA should continue to assume at least 25 percent of the conservation acquisition dollars will be self funded by customers.
- **PNGC** – There is the clear possibility, in these difficult economic times, that energy conservation capitalized programs and dollars will be absorbed very slowly into local utility programs while expenditures may increase in later years.

BPA’s Response: BPA believes that it is not appropriate to revisit the assumptions behind the Sixth Power Plan at this time. The issue of the economic downturn was reviewed during the development of the Power Plan and was discussed in detail during the Conservation Resource Advisory Committee in the summer of 2009. The economic downturn was incorporated into the Council's Power Plan forecast, where the baseline exhibits economic declines for the first few years of the plan and some of the 750 futures modeled in the Plan contain a further reduction. Further adjusting the economic forecasts may have little effect on the resulting targets.

The impact of the economic forecast is primarily on the lost opportunity measures, where a reduction in building leads to fewer opportunities for new construction measures. The quantity of lost opportunity savings in the five-year targets is relatively small; therefore, the forecast has little impact on the efficiency targets. Instead, retrofit measures dominate the five-year targets, but the economy may still influence the achievability rate. For most measures, the Council assumes that the achievability rate will be 85 percent over the 20-year time horizon and each measure has a unique ramp rate to that level. These ramp rates will

be central to the mid-point review stipulated in the Sixth Power Plan, which is to commence the summer of 2011.

- **NW Energy Coalition** – Is concerned the low-income and tribal weatherization program receives no funding increase despite the considerable increase in BPA's overall energy savings. BPA should work with state and local agency staff to determine an appropriate increase in funding for this program, recognizing the increased capacity of the agencies to deliver more service.

BPA's Response: BPA believes the current level of low-income weatherization funding is appropriate given the significant influx of ARRA funding into the region that is targeted toward low-income weatherization. BPA is working to allow for flexible use of these funds to complement ARRA and traditional federal and state low-income programs. Should BPA receive requests for additional low-income weatherization funding in the future, as ARRA funds are expended, the Agency will be happy to meet with parties to discuss exactly what resource needs should be considered.

- **NW Energy Coalition** – Given the greater program savings goals and dollar investments, the proposed funding increase for energy efficiency staffing and overhead may be insufficient. BPA should consider increasing the internal operating costs for conservation support beyond the \$10.4 – \$10.7 million proposed.

BPA's Response: BPA staffing has increased slightly over the past several years to reflect the needed support to achieve the increasing accomplishments produced by the EE Department, such as the addition of engineering staff in the field to meet the need for additional customer support. In addition, BPA EE is constantly looking at ways to restructure work processes to enhance efficiencies with existing staff. For example, BPA recently outsourced to a third party the regional Energy Smart Industrial Program freeing up existing staff to work on other initiatives.

At the same time, BPA EE now has 21 contractor full-time equivalents supplementing BPA employee staffing. This is a significant increase in contractor support and reflects the quickest and most flexible approach to find qualified individuals to work on the higher EE goals. This use of contractors also ensures that as programs evolve or new initiatives are designed, staffing can be adjusted to meet evolving needs and drivers.

The use and number of contractors and staffing will be revisited going forward to determine whether adjustments are needed. At the current time BPA EE believes current staffing levels are appropriate to meet the energy efficiency targets set in the Sixth Power Plan.

EE has found expense reductions totaling \$1.1 million per year for FY 2011-2013 (~5 percent of EE's discretionary spending) and additional salary reductions totaling \$100,000 per year for FY 2011-2013.

Since drafting the EE Plan and developing its initial IPR proposal, EE has reviewed its savings projections for NEEA, regional ARRA funding (non-BPA), market-induced savings and programmatic savings. Based on this review, BPA is comfortable that it can achieve its savings goals with less capital spending than proposed in the initial IPR Proposal. This adjustment from the initial IPR proposal is still a significant increase in spending on EE. BPA's total expenditures for energy efficiency are budgeted to rise from an average \$138

million in the 2010-2011 rate period to \$164 million in 2012-2013. By 2013 this will represent a near doubling of expenditures on energy efficiency since 2009. The revised conservation capital equates to \$104 million in FY 2012, \$111 million in FY 2013 and \$117 million in FY 2014. This translates into capital savings of ~\$61 million over three years, compared against the initial IPR.

Consistent with the idea of securing all cost-effective energy efficiency as early as possible, BPA and public power have exceeded the conservation acquisition target in FY 2010, the first year of the Council's Sixth Power Plan. In line with early acquisition, BPA has increased its capital conservation acquisition budget for FY 2011 from the draft IPR from \$47 million to \$80 million. This is a strategic adjustment to shift funding forward to ramp up existing programs and take advantage of available, relatively inexpensive savings.

As reflected in these IPR levels, spending by the Agency continues to increase significantly compared to historical amounts, demonstrating BPA and public power's continued commitment to fully achieve the aggressive targets set in the Sixth Power Plan.

ACCOUNTING TREATMENT OF CONSERVATION ACQUISITION AND AMORTIZATION PERIOD

The accounting treatment for conservation acquisition has been a topic of conversation during the IPR. If all conservation acquisition is capitalized, the result would be an approximate 2 percent reduction in power rates from current levels. 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 all conservation acquisition is expensed, the result would be an approximate 5 percent increase in power rates. BPA has also been considering the appropriate amortization period for conservation measures.

BPA proposed changing the treatment of Conservation Rate Credits (CRC) from an expense to a capital expenditure during IPR workshops; however, BPA has decided instead to eliminate the CRC beginning in FY 2012.

Written comments are summarized below:

- **Columbia PUD** – Supports BPA's plan to capitalize conservation acquisition operating costs.
- **ICNU** – Supports BPA capitalizing conservation acquisition over a 13-year life and encourages BPA to capitalize expenditures for equipment and labor used to install conservation measures.
- **NRU** – Supports capitalization of EE acquisition. BPA is encouraged to work with the Council to re-evaluate assumptions made in the Sixth Power Plan to determine whether the level of annual planned conservation in FY 2012-2013 needs to be changed.
- **NW Energy Coalition** – Supports BPA's decision to capitalize EE investments. Because EE measures have varied life expectancies, a 5- to 13-year amortization period seems reasonable.
- **SCL, Tacoma Power, EWEB in support of PPC** – Supports BPA's proposal to capitalize conservation.
- **PNGC** – Supports BPA's recommendation that conservation acquisition costs be capitalized – but over a longer life than the current recommendation of five years since

the Council's plan covers 13. For certain measures, capitalizing costs over 13 years may not be the right approach.

- **Western Montana G&T** – Supports capitalizing EE acquisition and amortizing it over the life of the asset.

BPA's Response: BPA will capitalize costs incurred under the Energy Conservation Agreements for conservation acquisition and, for newly capitalized conservation investment, will use a 12-year amortization period beginning in 2011 which correlates with BPA's benefit estimate of 12.1 years. This is consistent with the Council's written comment stating "initial benefits would be somewhat lower than 13 years."

WIND INTEGRATION

Over the past few years, the integration of increasing amounts of variable energy resources has emerged as one of the defining challenges facing the nation's electricity industry. BPA has played an active role in facilitating the development of wind energy in the Pacific Northwest and is committed to helping the region meet its energy and environmental goals while ensuring that BPA is able to continue to provide reliable cost-based service to its customers.

Wind development in the Pacific Northwest has been driven by Renewable Portfolio Standards in Montana, Washington, Oregon and California and by a focus on fuel diversity and future carbon reduction by the region's utilities. Federal and state tax incentives, open access transmission policies, favorable permitting and siting conditions and a reasonably high quality wind resource have fueled an explosion of wind development in the region, most of it clustered in the eastern part of the Columbia River Gorge in the heart of the BPA system.

As a result, the amount of wind energy in the BPA Balancing Authority (BA) has increased from 500 MW in 2006 to over 3,000 MW today. BPA expects to have 4,000 MW of wind interconnected to the transmission system by the end of 2011, and more than 6,000 MW by the end of 2013. With a peak BA load of 10,500 MW and a minimum light load of 4,000 MW, the wind penetration rate relative to load within the BA is likely among the highest in the nation. Presently, approximately 70 percent of the wind capacity in the Pacific Northwest is located within the BPA BA.

Written comments received during the comment period have been summarized below:

- **SCL, Western Montana G&T, Tacoma Power, ICNU, EWEB in support of PPC** – A compounding concern is the integration of large amounts of wind generation that continue to stress the reliability of the system.
- **Northern Wasco** – While we know BPA is doing all it can, we're concerned that political pressures will prevail and we'll witness the FBS being deployed more and more exclusively for support for intermittent resources. I understood the Administrator's comments in Sacramento on the occasion of the NWPPA annual conference to solely identify wind resources as BPA's future portfolio resources to the exclusion of all other types of resources including base load resources. This is a concern to us.

BPA's Response: To clarify the Administrator's comments in Sacramento, BPA's primary future resource is EE. This is consistent with the Council's Sixth Power Plan. BPA is supporting wind integration in its Transmission grid but is not acquiring wind as a new resource. BPA understands Northern Wasco's main comment to be that the FCRPS will be used predominantly in the future for support of intermittent resources, at the expense of its ability to meet BPA's firm load obligations.

It is true that BPA has experienced a rapid increase in the amount of wind generation in its BA over the past six years, and that we expect that growth to continue, as utilities respond to the Renewable Portfolio Standards established by state law, and independent power producers respond to federal incentives for such development. We are ever mindful of the need to preserve the ability of the FCRPS to continue to meet our obligations to our requirements customers. So, BPA intends to support the integration of renewable resources in a way that preserves system reliability and avoids cost shifts to BPA's other customers. We are actively pursuing alternatives to the FCRPS for providing the balancing capacity necessary to support increasing levels of variable generation.

In the past year, BPA has taken important steps in this direction:

- institution of Dispatcher Standing Order (DSO) 216 when the FCRPS has reached the limits of resources that have been set aside for balancing variable generation,
- implementation of sub hourly scheduling,
- improved wind forecasting and state awareness capabilities,
- increased use of Dynamic Transfer Capability, and
- implementation of a pilot project under which the variable generator has taken on responsibility for acquiring generation imbalance resources.

BPA will continue to improve on these approaches to provide for variable generation support in way that preserves system reliability, avoids cost shifts and enables BPA to continue to meet its regional firm power obligations. We believe we have been successful in implementing these principles so far, while still integrating large amounts of wind power.

TRANSMISSION SERVICES

Transmission Services priorities are to be a national leader in providing high reliability and low rates consistent with sound business principles, responsible environmental stewardship, and accountability to the region. To meet these goals, Transmission capital investments are growing and operating expenses are increasing at a faster rate than inflation. However, revenues are also increasing due to the success of 2008 and 2009 Network Open Seasons 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 into the grid, maintenance of a growing system, additional cyber and physical security requirements. Drivers of capital and expense spending levels were discussed in detail at Transmission technical workshops held on May 17 and 18. Few comments were received at the workshops, but in general participants supported Transmission's proposed program levels and encouraged further examination of staffing levels and suggested that proposed levels appeared inadequate to meet initiatives.

Written comments pertaining to Transmission Services have been summarized below:

- **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. However, decisions about revenue and cash flow requirements are outside the scope of the IPR process and instead will be made in the upcoming rate case.

- **Snohomish County PUD** – recommends BPA re-assess its programmatic support of the regional transmission planning underway at ColumbiaGrid. ColumbiaGrid is the region's transmission planning organization and would benefit from the experience and input of BPA staff. Increased involvement by BPA in ColumbiaGrid initiatives will help control costs and avoid duplication of work. We again ask BPA to provide staff and resources to support the efforts underway at ColumbiaGrid.

BPA's Response: BPA is actively participating in ColumbiaGrid activities. It is the recognized Western Electricity Coordinating Council (WECC) sub-regional transmission planning organization that BPA has chosen to provide coordinated transmission planning for members; BPA chooses to participate because more efficient regional transmission planning would lead to cost savings for regional consumers. BPA's involvement includes participation in study teams, specifically the Puget Sound Study Team, to address congestion management issues in that area. BPA has also worked with ColumbiaGrid to transition the Northwest Area Coordinator Function from BPA to ColumbiaGrid to support the WECC base case development, as provided for in the ColumbiaGrid Planning and Expansion Functional Agreement. In addition, BPA is supporting ColumbiaGrid efforts to help meet the requirements described in the WECC's Western Interconnection Plan. BPA believes these efforts can be accomplished with existing full-time-equivalent (FTE) staff.

Transmission Staffing Levels

Written comments pertaining to Transmission Staffing levels have been summarized below. These comments are an aggregation of comments received during the regular comment process as well as comments received during the special comment period (Aug. 20 to Sept. 8) for the Transmission Staffing Scenario.

- **Western Montana G&T , ICNU in support of 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.
 - 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.
- **SCL, Tacoma Power, EWEB, ICNU, Western Montana G&T in support of PPC**
 - BPA employees, not contractors, should staff the following areas to preserve expertise and ensure continuity of policy implementation: Operations, Scheduling, Policy and Rates, and Reliability Compliance.

- **PNGC**

- BPA must have adequate staff to provide us with timely documentation for NERC reliability compliance.
- Strongly believes that staff for Electric Reliability Organization compliance needs to be focused in Transmission Operations.
- BPA support of its transfer customers' compliance efforts is also in desperate need of increased staff efforts. We urge BPA to address non-Joint Registration Organization (JRO) compliance support needs.
- PNGC Power is concerned about the use of contract employees in an area where the effort will be long lasting, like Technical Operations and compliance; BPA should develop its own expert FTE staff to work in these core operational areas. This is especially given the aging and impending retirement of BPA's most knowledgeable staff. BPA should use its own FTEs to capture the institutional knowledge held by these senior employees before they retire.
- While we may comment again on the whole staffing scenario package, it is critical that BPA staff adequately while searching for other areas of savings internally. In this economic hard time, we ask that BPA staff vital areas but also tighten its collective belt where it can. Although the 0.25 percent project rate increase for the Transmission Staffing Scenario seems modest, we have not seen the overall rate increase for Transmission. Please do not mistake support for particular Transmission staff as blanket support for an overall transmission rate increase.

- **Renewable Northwest Project (RNP)**

- RNP's recommendation is to dedicate sufficient resources to the interconnection process, the implementation of new operational capabilities and important policy decisions, in order to avoid delays in new renewable energy investment.
- Spending levels for the WIT and other advances in transmission and ancillary services operations should be prioritized and increased. RNP appreciates the continued funding of the WIT; however, it is our observation that 10-15 additional FTE are required to fully reach its potential.
- The FY 2012-2013 Transmission Staffing Scenario proposes important investments for reliability and the facilitation of renewable energy interconnection and integration. RNP fully supports this scenario and believes that these investments will leverage new private sector investment in renewable energy projects and generate new revenues for BPA.
- Specifically, we believe the following efforts, policies and products should be prioritized and fully funded: the Wind Integration Team, NOS, an Intertie Open Season policy, the Colstrip Studies, Open Access Transmission Tariff (OATT) regulatory support, Large Generator Interconnections and LGIA queue reform.

- **Snohomish County PUD**

- Recommends BPA implement a succession planning initiative for the key areas in Transmission Services.
- Snohomish notes that the proposed scenario includes several new FTEs to support the needs of Network Transmission (NT) customers...In our view all of these costs should be borne by the customers benefiting from the work; we remain concerned that Point-to-Point (PTP) transmission customers may be allocated these costs. Snohomish has asked BPA staff to provide a study that shows how the cost to provide transmission service is allocated between the NT and PTP products.. In such a study we would expect to see the cost for these new FTEs clearly identified as an NT cost.

- **Northwest Requirements Utilities (NRU)**
 - A 0.25 percent transmission rate increase associated with the newly proposed transmission activities in isolation is not significant. However, in the context of a now likely Transmission rate increase, it is even more incumbent on the Agency to determine if there are any opportunities to streamline the proposal, or alternatively reprogram positions from other transmission activities, provided that any such modifications should not diminish the quality of service NT customers either currently receive or have requested. While this does not change our recommendation from July 27 that additional Transmission staffing is needed in certain areas, BPA must do its best to mitigate any rate pressures associated with this proposal.
 - Our second comment deals with the dependence on contract and term employees. Of the 24 new staffing positions being requested, only 7 are new BPA employees. The rest are either contract employees (12) or term employees (5). However, these types of employees are more expensive (\$130,000 versus \$102,000), they only serve for a limited time, and end up taking their expertise with them as they eventually depart from the Agency.
 - Finally, as to the proposal for where additional staff is needed, we generally agree with the overall direction recommended by the Agency, and we support the technical comments submitted by other public power organizations such as PPC and PNGC.
- **Springfield Utility Board (SUB)**
 - SUB realizes the resource impact associated with NERC compliance and Joint Registration Organization work. SUB agrees with BPA's justification of need for positions related to compliance and supports BPA's efforts.
 - The stated justification of need for wind integration positions is too narrowly focused, and SUB would prefer to see positions have a more general breadth to their description of responsibilities. While the initial intent may be integration of wind, the responsibilities should include the integration of other renewable resources or Smart Grid applications.

BPA's Response: BPA engaged Navigant Consulting, Inc., to undertake a benchmarking study in December 2009. In addition, at the request of customers, Transmission developed a Transmission Staffing Scenario. The following section expands on these two items in greater detail.

Staffing Benchmarking – The Navigant Consulting, Inc., benchmarking study was designed to serve as a third-party objective evaluation of staffing levels for Transmission. The results of this study indicate that total staffing levels in both Transmission and Supply Chain, counting BPA FTE, contractors and contractor services, are reasonably well aligned with others in the industry. Supply Chain is slightly above (7 percent) and Transmission is slightly lower (-8 percent) than the industry median.

BPA 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 the ability to deliver on strategic objectives and conduct cost-effective operations. This review will enable an informed dialogue about how staffing levels and resource mix impact business outcomes, and whether they expose BPA to any unacceptable risks.

BPA will also consider how potential changes to staffing levels and/or the resource mix could

address and mitigate such risks. The first work function being reviewed in greater detail is the project management function due to its criticality to the capital program and the findings from the Navigant study that showed this work function as being significantly under the median benchmark. As the capital program increases, this gap will widen as the analysis was based on the relatively lower FY 2009 capital program. BPA will report on progress at Quarterly Business Review (QBR) meetings.

Succession Planning – BPA has an overall Agency workforce plan that is a risk-based strategy to address critical staffing areas. Transmission has 11 occupations and two initiatives, involving capital construction and wind integration, in the plan. Of the 11 Transmission occupations in 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 brought in electrical and electronics engineers at a pace that currently mirrors the occupation's retirement profile. Transmission has also used the student program to recruit students in business and economics disciplines.

In addition, BPA is working on a Talent Management Strategy and succession planning is one of the key parts 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 for offering developmental opportunities to staff, which will 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. One goal of the consortium is to address knowledge management/knowledge transfer as a component of succession planning industry wide. This will assist BPA by allowing it 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 hired to impart their expertise are contractually obligated to transfer it before completing their contract.

Transmission Staffing Scenario – Transmission developed a Transmission Staffing Scenario as an addendum to the staffing levels reflected in the initial IPR Program levels. Customer input is summarized as follows:

- Recommend BPA implement a succession planning initiative for the key Transmission Services areas.
- Ensure there is sufficient staffing to efficiently perform in key areas, such as policy and rates, reliability compliance and operations.
- Validate there is sufficient staff to work on NERC standard compliance and operations. Includes ensuring a coordinated approach to NERC standard compliance, between BPA and its customers.
- Provide continuity in staff working on NT policy development
- Maintain continuity in staffing and preservation of expertise in order to enable Transmission (and the customers) to move forward on pressing issues rather than spending time re-training staff.
- Dedicate sufficient resources to the interconnection process, the implementation of new operational capabilities, and important policy decisions, in order to avoid delays in new

renewable energy investment.

- Prioritize and increase spending levels for the WIT and other advances in transmission and ancillary services operations.
- Add 10-15 additional FTE to fully reach the potential of WIT.

The Transmission Staffing Scenario was organized into three areas – compliance, NT service, and wind integration. Compliance and wind integration were two areas discussed in the Navigant benchmarking study, but difficult to accurately benchmark given the emerging requirements. The NT service FTE are compliance related. This scenario was made publicly available on Aug. 20, and a workshop was held with IPR participants on Sept. 3.

After carefully considering the verbal comments at the workshop, as well as the written comments received afterwards, BPA will include the Transmission Staffing Scenario costs in its final IPR program levels. The one modification to the overall scenario, as discussed at the Sept, 3 meeting, is the inclusion of one expense contract full-time equivalent (CFTE) to support non-JRO compliance program. Other specific concerns raised are detailed in the paragraphs below.

Use of federal employees – Some of the customer comments call for increased Term BPA full-time equivalent (BFTE) appointments (in lieu of CFTE) to support succession planning, long-term customer relationships, critical operational areas, and minimize costs. BPA adopted a talent management strategy in FY 2010 across the full workforce. As the strategy matures we will identify which positions are best staffed by federal employees (BFTE), supplemental labor (CFTE), and expert services. We want to be sure we have federal employees (BFTE) in appropriate positions. As the strategy develops over the next two years we will share our findings with customers.

Staffing Cost Allocation – There were a number of comments on cost allocation for the Transmission FTE Scenario within rate classes (PTP, NT, wind integration rate); these will be decided in the rate case.

BPA agrees that providing information to utilities to permit them to comply with their reliability requirements should not be a reimbursable expense, whether or not the utility is participating in the JRO. Additionally, the issue of which aspects of the JRO reliability compliance support are reimbursable will be carefully reviewed.

Staffing for Wind Integration - FTE identified in the Transmission Staffing Scenario are expected to be fully dedicated to wind. BPA continues to support other renewable energy resources and Smart Grid, and these FTE resources were already included in the existing IPR Program levels.

Staffing and FERC Reciprocity

- **Renewable Northwest Project** – BPA has indicated that achieving reciprocity status at FERC is stalled because of a lack of resources. RNP states that reciprocity facilitates transmission policy across the region, decreases seams issues and reduces barriers to renewable energy project development. Maintaining reciprocity status should be a priority.
- **PNGC Power** – Does not believe that BPA should be committing resources to achieve FERC reciprocity status. Where BPA has deviated from the OATT, it has done so in consultation with its customers and with good reasons. BPA should instead be defending

its right to have slightly different terms in its tariff when those differences benefit BPA's customers. BPA should take advantage of its non-jurisdictional status to bring about the best results for the majority of its customers, rather than working to comply with reciprocity standards.

- **Northwest Requirements Utilities (NRU)** – We take issue with the request to staff up to meet the need for FERC reciprocity in and of itself and remain unconvinced that FERC reciprocity is worth the time and effort to get to that goal.

BPA's Response: BPA recognizes that FERC reciprocity is an issue of pivotal importance to many stakeholders in the region. BPA continues to work toward a comprehensive assessment of the options available and the impacts of those options on the related issues. BPA will continue to share information and involve its customers as it progresses toward a final direction. BPA will make additional information on these efforts available in the near future. All public workshops will be announced on BPA's [Public Calendar](#) at http://www.bpa.gov/corporate/public_affairs/calendar/. Given this, no additional FTE in support of FERC reciprocity was incorporated in the Transmission Staffing Scenario.

Network Open Season (NOS)

- **PNGC** – is encouraged to see BPA moving on the NOS projects.
- **RNP** – The NOS policy is a successful example of a spending policy that is both responsible and prudent. The combination of the 2008 and 2009 NOS is facilitating the interconnection of over 4,000 MWs of wind energy without putting any negative pressure on net revenues. Expenditures for NOS-related efforts, both the infrastructure and overhead, should be fully funded. RNP also believed that the principles of the NOS policy should be expanded to the interties. Personnel should be fully funded to achieve implementation of an intertie open season within this biennium.

BPA's Response: BPA has begun consideration of Intertie Open Season (IOS) principles based on what was learned from NOS, but it is too early in the process to determine if BPA would apply NOS principles to interties. There are similarities between the two processes but there are also some distinct differences that will likely require different principles. Transmission reviewed its staffing to support these initiatives and included some additional FTE in the Transmission staffing.

AGENCY SERVICES

Agency Services is a collection of functions that provide fundamental support to Power and Transmission Services and enable BPA to produce and sell power and transmission products and implement strategic initiatives. Therefore, Power and Transmission programs and projects are significant drivers of Agency Services costs. Over the past several years, starting with an internal efficiency program known as the Enterprise Process Improvement Project (EPIP), BPA has consolidated support services under the banner now referred to as Agency Services. As a result, this portrayal of costs captures all support activities across the Agency in a consolidated view.

EPIP is an internal Agency-wide program carried out between 2004 and 2008 to instill an internal culture focused on both cost management and increased efficiency. The project, initiated with the help of customers had three goals: 1) streamline and standardize processes to increase efficiency and effectiveness while reducing risk; 2) implement best management

practices to ensure repeatable high quality results; and 3) capture valuable knowledge from retirement-eligible employees so BPA could pass on that knowledge to new employees, embed this knowledge in processes and ultimately manage Agency costs more efficiently.

Agency Services costs cannot be analyzed in isolation. Growth in existing Power and Transmission programs and new initiatives in those areas account for the majority of increased demand in Agency Services in the upcoming rate period. Major increases for FY 2012 and 2013 include higher Transmission expense and capital spending, an increase in Fish and Wildlife spending, doubling of EE investments, significant increases in compliance requirements, as well as implementation of new 20-year power sales agreements. Initial Agency Services program levels reflected the planned requirement necessary to support these business units, and Agency initiatives. Final program levels in this IPR show significant Agency Services cost reductions from the Initial IPR.

Multiple workshops were held to discuss Agency Services programs, as well as to respond to requests for additional material related to staffing, the technology innovation program, 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 actual results and proposed FY 2013 spending. Further examination of proposed levels was encouraged.

Written comments are summarized below:

2009 IPR2 Spending Levels vs. 2010 Initial IPR forecasts

- **PPC** – states “In the prior IPR2, BPA stated that spending on Internal Operations would be \$238 million in FY10 and \$242 million in FY 2011. In the current IPR, BPA indicated that its FY 2010 Start of Year budget was \$251 million – a \$17 million increase over IPR2, and that its FY 2011 budget would be \$269 million – a \$25 million increase over IPR2. (It should be noted that BPA cut Agency Services IPR2 budget numbers by about nine and a half million dollars from the earlier IPR1 numbers – not only did the agency not achieve the planned cost reductions from IPR1 to IPR2, but it failed to keep even to the original IPR1 budget in Agency Services.)”

BPA’s Response: BPA will first address the comparison between 2010 and 2011 costs in the 2009 IPR forecasts and in the 2010 initial IPR forecasts, then will describe changes in forecasts since the 2010 initial IPR workshop.

While the forecasts and budgets cited by the PPC are numbers BPA shared externally, they were shared a year apart in different documents (the June 2009 IPR2 Final Report and the May 25, 2010 IPR Agency Services Workshop materials) and had different approaches for displaying some Agency Services costs. The PPC comparisons do not account for the different treatment of some costs in the two documents.

When put in comparable terms, the FY 2010 SOY budget is virtually the same as the IPR2 levels for internal operations. The FY 2011 IPR forecasts presented in the May 2010 workshop were roughly \$14.1 million higher than the IPR2 forecasts when put in comparable

terms. Between the initial May 2010 IPR workshop and this final report, BPA has taken additional reductions that bring the FY 2011 Agency Services costs to the same level as the June 2009 IPR2 levels.

The rest of the difference noted is not an increase in overall BPA costs, but rather a difference in how Agency Services direct-charged costs were shown. For example, while PPC indicates the 2011 Rate Case number for Technology Innovation was \$12.87 million, "six times the actual FY 2011 IPR2 budget for Technology Innovation;" the IPR2 amount cited only includes the allocated portion of the Technology Innovation program. The IPR2 included an additional \$10 million that is direct charged to Power and Transmission Services and was displayed as Power and Transmission costs and not shown in the Agency Services costs table. In fact there was little change in Technology Innovation costs from IPR2 levels.

For FY 2010, the only true increase in budgets is a \$244,000 increase in Internal Business Services and General Counsel for wind integration efforts. Based on the FY 2010 Third Quarter Review forecast, the current expectation is that FY 2010 actual Agency Services internal operating expenses will be under the FY 2010 IPR2 forecast by almost \$14 million.

For FY 2011, there was a \$27 million difference between the Agency Services costs in the two cited documents, and \$13 million of the difference is due to differences in how Agency Services costs are displayed. There was a \$14.1 million increase in program costs, driven largely by cost pressures associated with emerging compliance requirements and significantly increased wind integration efforts. Of the \$14.1 million, \$4.4 million was allocated to Power and \$9.7 million to Transmission Services. These forecasts have since been reduced even further. The FY 2011 levels now equal the IPR2 levels.

Tables 16 and 17, shown below, are crosswalks between the two different displays of Agency Services costs for FY 2010 and FY 2011 that the PPC cited.

Table 16 – FY 2010 Crosswalk from the Previous IPR2 to FY 2010 SOY Budget

	(\$ thousands)
Integrated Program Review 2 per June 19, 2009 Final Report	\$ 238,389
<i>Adjustments for Comparability</i>	
1. Transmission Lease Financing costs were not displayed as Finance costs in the IPR2 Final Report, since these costs are considered financing-related costs and not a focus of the cost reduction actions in IPR2. However, they are part of the Finance SOY budget (direct-charged to Transmission), and were included in the Finance costs in the May 25, 2010 materials, inconsistent with how it was displayed in the IPR2 final report.	\$ 914
2. R&D Project costs directly budgeted to Power and Transmission that were included in both IPR and SOY but not shown in the IPR final report as Agency Services Internal Operations costs	\$ 9,949
3. Undistributed reduction in Agency Services that was included in both the IPR and FY 2010 SOY but was not shown in the SOY table on May 25, 2010	\$ 1,200
4. Internal Business Services funds included in IPR and directly budgeted in Transmission in FY 2010 SOY but not shown in the May 25 th . 2010 presentation for Agency Services	\$ 500
<i>Adjustments for Program Changes</i>	
5. Increased funding for Wind Integration work in Internal Business Services and General Counsel	\$ 244
Page 7, Agency Services Presentation, May 25, 2010, FY 2010 SOY Budget	\$ 251,196

Table 17 - FY 2011 Crosswalk from the Previous IPR to the Final IPR Proposed Budget.

	(\$ thousands)
Integrated Program Review per June 19, 2009 Final Report	\$ 241,872
<i>Adjustments for Comparability</i>	
1. Transmission Lease Financing costs were not displayed as Finance costs in the IPR2 Final Report, since these costs are considered financing-related costs and not a focus of the cost reduction actions in IPR2. However, they are part of the Finance SOY budget (direct-charged to Transmission), and were included in the Finance costs in the May 25, 2010 materials, inconsistent with how it was displayed in the IPR2 final report.	\$ 1,142
2. R&D Project costs directly budgeted to Power and Transmission that were included in both IPRs but were not shown in the IPR final report	\$ 9,949
3. Transfer of funding and responsibility for the Bonneville Environmental Foundation from Power to Technology Innovation – transfer occurred between the previous and current IPRs	\$ 1,335
4. Undistributed reduction in agency services that was included in both the IPR and SOY but was not shown in the IPR table on May 25, 2010	\$ 691
<i>Adjustments for Program Changes</i>	
5. Programmatic Increases as outlined on page 6 of the Agency Services Update, presented at the workshop on June 21, 2010 – summary provided below.	\$ 14,135
Page 7, Agency Services Presentation, May 25, 2010	\$ 269,123

For the initial May 25 IPR presentation, the FY 2011 Agency Services proposed spending was \$14.1 million higher than rate case levels due to the following business drivers:

- Increased lease costs from General Services Administration (GSA) – \$4.5 million
 - GSA has increased BPA’s lease costs as a result of a new market appraisal. BPA was officially notified of GSA rent increases this past February; because of the timing, the increase was not included in the FY 2010-11 rate proposals. BPA is seeking relief through a waiver request to GSA Headquarters, in the mean time BPA assumes it will pay the increased rent level.
- Transmission Initiatives – \$3.8 million
 - NERC/WECC compliance (Security, General Counsel)
 - Open Access Transmission Tariff (Governance and Compliance)
 - Transmission Infrastructure additions (Supply Chain, General Counsel, Safety)
 - Wind Integration (General Counsel)
 - Non-Electric Plant Maintenance (Workplace Services)
- Power Initiatives – \$1.5 million
 - Tiered Rates (General Counsel)
 - NEIL Insurance (Risk)
- Regulatory and Compliance Requirements – \$1.3 million
 - Governance and Compliance, Audit, General Counsel
 - Talent Management – \$1.7 million
 - Organizational Alignment/Talent Management Strategy, Talent Acquisition/Hiring Efficiencies, Succession Planning, and Enterprise Training (Human Capital Management)
- Information Technology – \$1.3 million
 - 24/7 support of critical business systems
 - Increased support for capital projects (i.e. completion of TPIP, Transmission Commercial Systems Reinforcement, Dynamic Transfer, Wind Integration, and Regional Dialogue)

Despite the cost pressure created by these business drivers, BPA has responded to public comments received in the IPR process by making additional reductions to Agency Services proposed spending levels, which lower the programmatic increase in FY 2011 from the original estimate of \$14.1 million to zero. Roughly \$7 million in additional specific reductions were identified. This includes a reduction in salaries assuming a lower FY 2011 cost-of-living adjustment for federal employees, reduced non-electric plant maintenance, and a reduction in Corporate Strategy contract costs. An additional \$6.8 million undistributed reduction has also been applied to FY 2011 Agency Services costs.

While these reductions may be the right thing to do in light of the current regional economic conditions and BPA’s recent financial performance, they do introduce risk to the delivery of programmatic initiatives and requirements that Agency Services supports. Some of the reductions, particularly those that affect information technology initiatives, will make it more challenging to achieve some of the longer-term efficiencies. If FY 2011 financial performance begins to exceed expectations or achievement of BPA initiatives is jeopardized, BPA will reconsider how much of the undistributed reduction should be achieved.

Spending Level Increases

- **Benton REA and Western Public Agencies Group (WPAG)** – Indicates that Power costs have increased 27 percent, Transmission 32 percent and Agency Services 26 percent.

BPA's Response: BPA reviewed the figures from Benton REA and WPAG. The percentages cited refer to FY 2009 actual costs compared with the FY 2013 IPR spending levels proposed in the initial May 20 workshop. The percentage increases cited are roughly correct: 26.1 percent for Power and 32.2 percent for Transmission. The same methodology for Agency Services gives a result of 41.0 percent.

Based on comments in the IPR process, BPA has reduced the proposed FY 2012-2013 spending levels as outlined in tables 4, 5 and 7 of this report. That reduced the respective percentage increases for this final IPR to 20.5 percent for Power, 26.4 percent for Transmission and 27.6 percent for Agency Services. Annualized, the increases are 4.8 percent for Power, 6.0 percent for Transmission and 6.3 percent for Agency Services. The Agency Services increases are partially included in the percentage calculation of Power and Transmission program increases, resulting in some double counting of costs in these calculations and in the original Benton REA and WPAG figures.

While these percentage increases may still appear significant, they reflect the expanding demands on the Agency described throughout the IPR workshops. For instance, Workplace Services and Supply Chain must support increased Transmission construction and Fish and Wildlife capital projects. Agency Services is also supporting considerable efforts to integrate wind energy, implement emerging compliance and security requirements and address a backlog of critical facilities maintenance and repair work. Agency Services is also meeting increased demand for Information Technology solutions across the Agency, including power and transmission scheduling, forecasting and metering changes to implement tiered rates. BPA is striving to control these costs and potential rate impacts while still meeting the Agency's responsibilities.

An additional cost pressure on the Agency is the GSA rent increase of \$4.5 million per year for BPA's headquarters building in Portland. BPA will absorb this cost in FY 2011. Cost levels in FY 2012 and FY 2013 reflect the additional GSA rent, although BPA will continue to pursue its appeal of this additional expense. FY 2012 and FY 2013 levels also reflect increased Agency Services costs associated with wind integration efforts, although these costs are expected to be covered by the wind integration rate.

In light of the concern expressed by many IPR participants, BPA will further control these expenses by holding FY 2011 Agency Services program costs to levels specified in the WP-10 and TR-10 Rate Case. Although Agency Services program costs will increase in FY 2012 and FY 2013, BPA has taken additional steps to limit the increase.

These cost controls follow BPA's very aggressive measures to reduce costs in FY 2009. Most of those measures were of short duration and were not expected to last into FY 2010. They restricted hiring, training, travel and awards. For FY 2010, BPA is using due diligence in spending decisions to minimize financial impacts on customers. (Please refer to the **Cost Spending Trends** section at the beginning of this report for a greater level of detail on cost spending trends and drivers.)

Enterprise Process Improvement Projects (EPIP)

- **NRU** – Business and Process Analysis supports initiatives associated with the EPIP projects, which BPA 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.
- **Snohomish County PUD** – 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.

BPA’s Response: In FY 2010, as part of its ongoing operational excellence drive, BPA started 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. It is essential that BPA maintain the support of earlier EPIP processes such as the Human Capital Management EPIP in order to capture the savings assumed in the EPIP efforts.

While several Agency Services organizations are not achieving a “less than inflation” increase, primarily because of the pressures of new business initiatives such as wind integration and compliance requirements, several are. Public Affairs participated in an EPIP, and the increase in its costs from the 2010-2011 Rate Case to FY 2012-2013 current forecasts is less than 3 percent. Internal Audit’s increase is also about 3 percent and in several of the organizations that show higher increases, the original “base” work is showing savings which are masked by the costs of new work.

Finance

- **NRU** – 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 2011-2013 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 25 Workshop](#) material. As the materials point out, the May 25 package included roughly \$1.1 million in property tax estimates associated with lease-financed assets that would more appropriately be included in financing costs. Without including property taxes the increase from the 2011 Rate Case level to the proposed 2013 level was 13 percent. The bulk of that increase was due to an error made in the salary calculation for Finance in the 2010-2011 Rate Case. Specifically, there was no cost-of-living adjustment applied from 2008 to 2009 levels, which resulted in the 2011 level being about \$900,000 lower than it should have been to support existing staffing levels.

BPA is suspending \$450,000 from Finance’s initial IPR proposed spending levels in FY 2012 and 2013. 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 \$225,000 each to Power Services and Transmission Services from initial IPR spending levels in FY 2012-2013.

Property Insurance

- **PNGC** – Supports the complete suspension of property insurance premiums.
- **NRU** – 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 21 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. Given the current economic conditions and customer comments, BPA has determined that it is not appropriate to phase in property insurance at this time.

Removing property insurance premiums from Power Services produces cost savings of \$10 million annually in FY 2012-2013 from initial IPR spending levels. Property insurance premiums for Transmission Services assets are estimated to cost \$5 million annually in FY 2012-2013. However, funding for this item has been suspended, resulting in annual savings of \$5 million from initial IPR spending levels in FY 2012-2013. BPA maintains that property insurance is the best way to protect customers from costs associated with damaged assets. Risk is also reflecting an annual average expense reduction of \$300,000 in FY 2012-2013 that would be divided equally to Power and Transmission Services. This reduction would reduce business continuity support staff and succession planning initiatives within Risk.

Information Technology (IT)

- **SCL, Western Montana G&T, Tacoma Power, ICNU, EWEB in support of PPC** – BPA should identify and apply a lapse factor for IT investments.

BPA's Response: IT is ramping up significantly to support efforts across the Agency, and has been achieving its planned capital spending for the last couple of years. All planned spending is expected to be implemented; therefore, no lapse factor is being applied to IT capital.

At this time, BPA is including a \$250,000 reduction to IT from initial IPR spending levels annually in FY 2012-2013; this will reduce and/or delay the number of laptop refreshes in those years. This reduction produces around \$90,000 in Power Services expense savings and \$160,000 in Transmission Services expense savings annually in FY 2012-2013 from the initial IPR spending levels.

Internal Business Services (IBS)

- **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 21 BPA held a second workshop to discuss the proposed increases to Internal Business Services programs. In summary, BPA clarified that there is no overlap between Corporate Strategy and IBS and clarified the drivers for Agency Services increases. In addition, BPA has taken another look at Human Capital Management costs based on customer comments, as described below.

Human Capital Management (HCM)• **PNGC**

- Is concerned that BPA's current allocation of human capital is not as reflective of the priority of reliability as it could be.
- Encourages a balanced mix of FTEs and contractor employees at BPA along with a special focus on the retention of key, productive employees.

BPA's Response: BPA believes its current allocation of human capital is very reflective of the priority of reliability. HCM regularly monitors the condition of its workforce through Asset Management, and BPA's Talent Management Strategy is asset-minded and risk-informed. BPA is committed to maintaining a workforce that is productive, cost efficient and aligned with the Agency's values.

- **NRU** – HCM 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 attended an IPR workshop on June 21 to discuss the impact of reductions to the HCM program and to respond to questions.

BPA has identified \$670,000 in reductions from initial IPR spending levels annually in FY 2012 and 2013. BPA will re-prioritize Agency-wide system training and reduce investment in the employee health and wellness program in FY 2012-2013. This reduction produces \$150,000 in Power Services expense savings and \$520,000 in Transmission Services expense savings annually in FY 2012-2013 from the initial IPR spending levels.

General Counsel

- **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: BPA has identified \$500,000 in suspensions from General Counsel's initial IPR spending levels in FY 2012 and 2013. These suspensions remove the contingency for a second rate case hearing officer in the 2013 Rate Case and the 2012 off-year hearing officer for 7(i) processes and arbitration and decrease the budget for filling behind staff. As a result, BPA may experience reduced responsiveness from the General Counsel's office. This decision produces savings of \$290,000 to Power Services and \$210,000 to Transmission Services from initial IPR spending levels annually in FY 2012-2013.

Corporate Strategy and Technology Innovation

- **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: BPA is reducing Corporate Strategy's initial IPR spending levels by \$3.55 million in FY 2012 and 2013. This change reflects suspension of \$2.0 million investment in the Technology Innovation (R&D) program and also reduces support in contracting for analytical support in areas of Variable Energy Resources (VER) integration by \$1.55 million. This reduction produces annual average savings of \$1.8 million to Power Services and

Transmission Services from initial IPR spending levels in FY 2012 and FY 2013. Corporate Strategy has also identified an additional \$864,000 in savings for FY 2011.

Facilities (Non-Electric Plant)

- **General Verbal Comments at June 21 Workshop** – 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: GSA has increased BPA's lease costs as a result of a new market appraisal. 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. This request was denied by GSA. BPA is now seeking relief through a waiver request to GSA Headquarters. In the meantime BPA plans to absorb the increased rent level in FY 2011.

BPA has identified \$3.3 million in reductions in FY 2011 and \$3.35 million annually for FY 2012 and 2013 from non-electric plant maintenance.

General Comments Pertaining to Agency Services Cost Reductions

- **ICNU** – BPA needs to reduce Agency expense levels; ICNU recommends these levels be held to actual FY 2009 levels
- **Western Montana G&T in support of NRU**
 - Recommends another \$4-5 million reduction in the Agency Services budgets with no specific line item suggestions at this time.
 - 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 2012-2013, the Agency must be very judicious about increasing its internal costs.
 - 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.
- **SCL, Western Montana G&T, Tacoma Power, EWEB in support of PPC**
 - Recommends BPA reduce its overrun of the Agency Services IPR2 budget in FY 2011 by 50 percent – a reduction of \$12 million or a total of \$257 million.
 - BPA should limit the escalation in Agency Services to 3 percent per year in FY 2012 and FY 2013 from the recommended FY 2011 level of \$257 million. This would result in budgets of \$265 million in FY 2012 and \$273 million in FY 2013. This proposal would produce reductions of approximately \$31 million/year or \$21 million/year after accounting for removal of spending on hydro property insurance.
 - BPA needs to put an overall limit on the allowable escalation in Agency Services costs, and then enforce that limit.
- **PNGC** – There are numerous cost drivers that result in the need for new or additional Agency Services. This is an area of BPA cost that deserves careful scrutiny in every IPR. Each IPR cycle should review what outdated programs could be eliminated in order to reduce costs.

- **Snohomish County PUD** – 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.

BPA's Response: The Agency Services program levels were thoroughly reviewed by Power and Transmission management and BPA executives to ensure the proposals would provide adequate and needed support to the Power and Transmission programs. Low risk and/or low priority projects were removed from the proposed spending levels. Reduction scenarios were also provided by each department to show the potential impacts to Power and Transmission programs. BPA has heard the comments provided in the IPR process and has conducted further review of the programs and drivers of the increases in Agency Services. This additional review has led to further reductions to the Agency Services levels from those shown in the IPR workshops and reflected in the draft IPR Close-Out letter.

BPA has explored areas allowing for potential reduction with moderate to minimal risk. In addition to the program spending reductions and suspensions already identified in this status update for Finance, Risk, Information Technology, Internal Business Services, Human Capital Management, General Counsel, Corporate Strategy, Technology Innovation and Facilities, BPA has also identified reductions and/or program suspensions to Internal Audit, Public Affairs and Workplace Services.

Public Affairs is taking a \$200,000 reduction from initial IPR spending levels annually in FY 2012-2013. This reduction reduces support provided for public interest groups, service contracts and eliminates the grant/sponsorship program. This reduction provides annual savings of \$100,000 each to Power Services and Transmission Services from initial IPR spending levels in FY 2012-2013.

Workplace Services is reducing \$200,000 and suspending nearly \$180,000 from initial IPR spending levels annually in FY 2012-2013. This reduction restructures the personnel transportation program and produces savings of roughly \$80,000 to Power Services and \$120,000 to Transmission Services from initial IPR spending levels annually in FY 2012-2013. The suspension defers some Headquarters maintenance projects and produces savings of \$80,000 to Power Services and \$100,000 to Transmission Services from initial IPR spending levels annually in FY 2012-2013.

BPA is also suspending 50 percent of Agency performance awards in FY 2012-2013, resulting in total savings around \$3.9 million from initial IPR spending levels for those years with \$1 million of that applicable to Power Services. Additional adjustments to allocations and COLA assumptions create \$4.1 million in expense savings for Power Services and roughly \$3.1 million in expense savings for Transmission Services annually in FY 2012-2013.

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

CONCLUSION

BPA appreciates the stakeholder participation in the IPR process and has taken seriously the comments and concerns expressed by IPR participants. The proposed spending levels

outlined in workshops and the final spending levels described in this report received significant internal scrutiny and review. BPA endeavored to identify the spending levels required to maintain and enhance the value of the system while minimizing additional burden on the region. BPA believes that the spending levels announced here reflect the appropriate spending levels necessary to enable BPA to meet its obligations, program responsibilities and goals in FY 2012-2013, given the state of the regional economy.

Many of the reductions and suspensions reflect cost deferrals in some cases for a short term and in other cases over a longer term. Debt restructuring, capitalizing more conservation and delayed nuclear fuel conversion and enrichment cost are three examples of cost deferrals that could impact revenue requirements in the future. Customers have asked for more aggressive capitalization for all nuclear fuel purchases and NREX at Corps and Reclamation facilities. Due to regional economic conditions BPA has determined to undertake significant cost deferrals and does not believe that additional deferrals are prudent for the long-term viability of the FCRPS.

Reductions and suspensions to programs outlined in this final report will have an impact on the Agency's initiatives and therefore will be monitored closely. However, BPA acknowledges the impact that a potentially large rate increase could have on the region during these times of economic hardship. BPA will continue to scrutinize operations for efficiencies and will work with the region to communicate any changes.