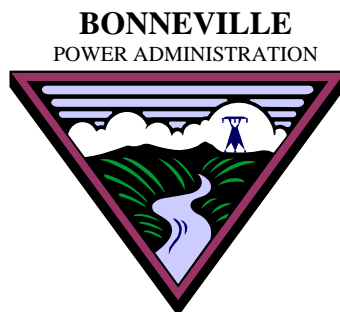


**Bonneville Power Administration
Integrated Program Review
FY 2010-2011 Power and Transmission Program Levels**

**Final Report
November 14, 2008**



Section 1

**Background
and
Summary of Decisions**

Integrated Program Review Final Report for FY 2010-2011 Power and Transmission Program Levels

Background

BPA began its first “Integrated Program Review” (IPR) process in May 2008 in response to customer and stakeholder requests for a consolidated program-level review of BPA’s planned expenses. This process replaced prior public involvement efforts, including the Capital Program Review, Power Function Review and Transmission’s Programs in Review. The IPR is part of the broader Integrated Business Review (IBR). The IBR is structured to give all of BPA’s stakeholders a meaningful opportunity to understand and have input to the decisions that drive BPA’s costs and the amount of costs going into rate decisions. The IPR process is designed to allow persons interested in BPA’s program levels an opportunity to review and comment on all of BPA’s expense and capital spending level estimates in the same forum prior to their use in setting rates. BPA intends to hold an IPR every two years, just prior to each rate case.

This initial IPR focused on FY 2010 and 2011 program levels for BPA’s Power and Transmission Services as well as a review of proposed Power Services FY 2009 program levels. Decisions on FY 2009 Power Services costs were announced in a separate document released July 18, 2008. Seventeen public workshops were held throughout the IPR, proposed spending levels were presented for each of BPA’s programs and active discussion was encouraged by participants. All workshop materials, responses to questions asked during workshops, and additional information requested were posted at www.bpa.gov/corporate/Finance/IBR/IPR/. A managerial level meeting was held on June 30 at which BPA received comments on FY 2010-2011 costs for both Power and Transmission programs.

Early comments included requests by participants for additional information about possible alternative program levels. Specifically, they wanted to understand what would be provided with the proposed increases in BPA spending. They were also interested in understanding the impacts on proposed programs and activities if spending levels were reduced. On July 29, BPA released a “draft report.” While this draft report did not propose different spending levels for the FY 2010-2011 period, it did provide two illustrative scenarios for each program, one that explored the impacts of a 10-percent increase and one that explored the impacts of a 10-percent decrease in proposed program level spending. This material was also presented and discussed at the July 30 workshop.

The comment period for the FY 2010-2011 program levels closed August 15. This report addresses the comments received and outlines BPA’s decisions regarding the FY 2010-2011 program level forecasts. These forecasts will form the basis for Power and Transmission rate case initial proposals for FY 2010-2011 rates.

Many of the forecasts in the initial IPR were not modified as a result of comments received but will be re-evaluated in an additional public process prior to the development of final rate proposals in the spring of 2009.

Summary of Decisions

BPA carefully reviewed and considered the 18 written comments and numerous oral comments on FY 2010-2011 program levels that were made during this public process. This report summarizes the comments and outlines BPA's responses.

BPA received some comments that recommended specific program level decreases or increases; however, the majority of the comments received were general in nature. For example, suggestions were made that BPA lower program levels, that the impact of program level increases on rate payers be considered, and that BPA consider whether the proposed aggressive capital plan is achievable and necessary. BPA understands the concern over potential near-term rate impacts and joins customers and constituents in the desire to minimize the impact to rates. However, as discussed in the IPR workshops, the proposed program levels reflect a number of new requirements and other factors that are exerting pressure on our costs. BPA believes that not addressing these requirements will jeopardize its ability to provide reliable power services, as well as place other key obligations at considerable risk.

The major drivers of increased Power Services costs are related to:

- Improvements and maintenance needed to increase reliability, safety and performance at the Columbia Generating Station nuclear plant (CGS).
- Improvements and maintenance needed to improve reliability in the aging and deteriorating Federal hydro system.
- New reliability standards.
- New biological opinion requirements and the implementation of Memoranda of Agreement (MOAs) with participating tribes.
- The internal costs recovered in power rates (including costs in both Power Services and Agency Services organizations) in 2008 are roughly the same as they were in 2001, seven years ago. Both inflationary pressures and the other drivers listed here require some increases in these costs.

The major drivers of increased Transmission Services costs are related to:

- New mandatory requirements (reliability, environmental, tariff, etc.).
- Integration of new wind resources into the BPA transmission system.
- Increased demand for transmission capacity.
- Need to sustain the aging Federal transmission assets.
- Need to reinvest in historically underinvested areas, such as control house buildings, access roads, etc.
- Global competition for material.
- As with Power, the internal costs both within Transmission and in Agency Services that support Transmission Services are increasing in response to the drivers shown here and the growing Transmission infrastructure.

Drivers of Agency Services costs are largely the same as those for Power and Transmission. The cost increases in many of the Agency Services activities (such as Information Technology, General Counsel, Finance, Supply Chain, and Human Capital Management) are due to the need for increased support of Power and Transmission activities. Agency Services activities are integral to both continuing activities and the achievement of enhanced programmatic goals. In addition to its more traditional General

and Administration activities, Agency Services also includes the centralized Technology Innovation and Confirmation (Research and Development) program. In keeping with a long-term plan outlined in the IPR and previous public involvement efforts, the Technology Innovation and Confirmation program is in the process of ramping up to a stable program size based on a percentage of BPA revenues.

BPA has considered the above cost drivers in light of the comments received and has made the following changes to proposed program spending levels:

For FY 2009:

- For Power and Agency Services internal operations, proposed levels have been reduced by 3 percent.
- The Conservation Rate Credit is reduced by \$4 million.
- The capital investment forecast for Conservation is reduced by \$10 million.

These changes result in a decrease of roughly \$8 million from the FY 2009 Power Services spending levels shown in the initial IPR. In addition, the 3 percent reduction in Agency Services also produces a decrease of \$5 million for Transmission.

For FY 2010-2011:

- Conservation capital will be reduced by \$18 million in FY 2010 and \$10 million in FY 2011. These forecasted reductions reflect further analysis and a revised estimate of what the program can achieve, including a ramp-up period to the expected program levels in FY 2010-2011.
- We have reestablished the renewable rate credit in the forecast. This credit was proposed to be zero in the initial IPR. It has been increased to \$4 million for FY 2010 and \$2.5 million for FY 2011. This increase reflects the expectation that utilities are likely to need additional assistance in acquiring and using renewable resource power to serve their retail loads.
- We have modified the planned Transmission Services Capital as follows:
 - Reshaped the timing of the I-5 corridor project to reflect a more likely and achievable schedule, and
 - Increased the “lapse factor” for transmission capital from 15 percent to 17 percent. (The lapse factor is an assumption that a percentage of planned capital investment will be delayed into the subsequent rate period.)

Note: The lapse factor for all other programs except fish and wildlife and CGS remains at 15 percent. No lapse factor was applied to fish and wildlife or CGS.

The impacts to depreciation and interest expense due to changes in capital investment have been estimated in tables in the Power and Transmission sections of this document, however the final amounts will be determined in the upcoming rate cases.

Additional Review

The decisions on FY 2010-2011 program spending levels outlined here are based on the best information available. We believe that by next spring we should have additional

information that may cause revisions to some program levels for FY 2010-2011. Additional information will likely become available on the following topics:

- A better understanding of BPA’s role in the development of energy efficiency and renewable resources as a result of the Northwest Energy Efficiency Task Force activities, recommendations from the Northwest Power and Conservation Council’s 6th Power Plan which will establish new conservation targets for the region, and a public process BPA intends to hold to discuss its role in energy efficiency;
- Better understanding of the internal costs associated with the transition to new power contracts and rates in 2012;
- More clarity on fish and wildlife costs;
- Further work on Network Open Season planning;
- Further work on BPA’s asset planning and resource strategy resulting in improved estimates of realistically achievable capital spending; and
- Evaluation of the implications for BPA and the region of recent events in global financial markets and indications of a severe economic downturn.

The decisions outlined here will be the basis for our initial rate proposals. We intend to hold a subsequent, abbreviated program review next spring to reconsider the program levels in light of the increased information available at that time.

The following tables display the proposed spending levels for Power and Transmission Services by major categories. These estimates include Agency Services direct costs and allocations in support of each of the programs.

FY 2010-11 Power Expenses Summary

\$ in Thousands	Initial IPR	Final IPR	Change	Initial IPR	Final IPR	Change
Power Program	FY 2010	FY 2010	FY 2010	FY 2011	FY 2011	FY 2011
Columbia Generating Station O&M	269,200	269,200	0	365,000	365,000	0
Corps & Reclamation O&M for Hydro	280,700	280,700	0	296,461	296,461	0
Long Term Generation Program	31,889	31,889	0	32,343	32,343	0
Power Purchases incl DSI Monetized Power	327,189*		*	404,795*		*
Residential Exchange Payments/Other	221,426*		*	220,445*		*
Renewables (incl rate credit)	41,588	45,588	4,000	43,438	45,938	2500
Generation Conservation (including	87,088	87,088	0	86,722	86,722	0
Internal Operations	134,609	135,627	1,018	138,857	139,910	1053
Post-Retirement Contribution	15,598	15,598	0	16,071	16,071	0
Transmission Purchases, Reserve/Ancillary	176,393*		*	177,043*		*
Fish & Wildlife/USF&W/Planning Council	263,541	263,541	0	270,618	270,618	0
Amortization/Depreciation	204,001*		*	216,916*		*
Non-Federal Debt Service	556,184*		*	577,064*		*
Net Interest Expense	177,657*		*	194,291*		*
Other – Colville Settlement, Non-Operating	25,746	25,746	0	28,082	28,082	0
Total	2,812,809	1,154,977	5,018	3,068,146	1,281,145	3,553

*These will be determined in the upcoming rate case.

FY 2009 Power Expenses Summary
(As reported in the 2009 Power Close-Out Report)

	2009 in WP-07 Rate Case	Supplemental Rate Case	Initial IPR	Final IPR Forecast	Change between Initial IPR and Final IPR
Power Program	FY 2009	FY 2009	FY 2009	FY 2009	FY 2009
Columbia Generating Station O&M	242,842	274,342	293,700	293,700	0
Corps & Reclamation O&M for Hydro Projects	248,173	248,173	261,600	261,600	0
Long Term Generation Program	25,751	31,864	31,613	31,522	(91)
Renewables (incl rate credit)	41,917	53,414	43,955	43,955	0
Generation Conservation (including Conservation Rate Credit)	70,347	79,414	84,526	80,526	(4,000)
Internal Operations	111,566	111,566	125,030	121,018	(4,012)
Pension & Post-Retirement Benefits	15,375	15,375	15,277	15,277	0
Fish & Wildlife/USF&W/NWPCC	173,353	173,367	229,439	229,439	0
Other – Colville Settlement, Non-Operating Generation	24,649	21,049	27,413	27,413	0
Total	2,698,421	2,615,184	2,730,011	2,717,549	(8,103)

FY 2010-11 Power Capital Summary

\$ in Thousands	Initial IPR	Final IPR	Change	Initial IPR	Final IPR	Change
Power Program	FY 2010	FY 2010	FY 2010	FY 2011	FY 2011	FY 2011
Corps of Engineers/Bureau of Reclamation	183,200	183,200	0	199,200	199,200	0
Fish & Wildlife	70,000	70,000	0	60,000	60,000	0
Conservation	56,000	38,000	(18,000)	56,000	46,000	(10,000)
CGS	73,600	73,600	0	99,900	99,900	0
CRFM	88,000	88,000	0	96,000	96,000	0
17% Lapse Factor ^{1/}	(36,150)	(36,150)	0	(38,550)	(38,550)	0
Total Capital	280,700	280,700	(18,000)	296,461	296,461	(10,000)

1/ Excludes CGS, CRFM, Fish & Wildlife

FY 2009 Power Capital Summary
(As reported in the 2009 Power Close-Out Report)

\$ in Thousands	2009 in WP-07 Rate Case	Supplemental Rate Case	Initial IPR	Final IPR	Change Between Initial IPR and Final IPR
Description	FY 2009	FY 2009	FY 2009	FY 2009	FY 2009
Corps of Engineers/Bureau of Reclamation	137,000	137,000	154,950	154,950	0
Fish & Wildlife	36,000	36,000	50,000	50,000	0
Conservation	32,000	32,000	42,000	32,000	-10,000
CGS	27,700	27,700	96,700	96,700	0
CRFM	62,400	62,400	63,000	111,000	48,000
15% lapse factor ^{1/}			(29,813)	(28,313)	1,500
Total Capital	295,100	295,100	376,837	416,337	39,500

1/ Excludes CGS, CRFM, Fish & Wildlife

FY 2010-11 Transmission Expense Summary

\$ in thousands	Initial IPR	Final IPR	Change	Initial IPR	Final IPR	Change
	FY 2010	FY 2010	FY 2010	FY 2011	FY 2011	FY 2011
Transmission Description	FY 2010	FY 2010	FY 2010	FY 2011	FY 2011	FY 2011
Transmission Operations	120,405	123,084	2,679	122,661	125,434	2,773
System Operations	56,586	56,573	(13)	57,511	57,497	(14)
Scheduling	10,308	9,423	(885)	10,784	9,868	(916)
Marketing	18,836	19,500	664	19,538	20,225	687
Business Support (Including Internal Support)	34,675	37,588	2,913	34,828	37,844	3,016
Transmission Maintenance	125,717	125,896	179	130,687	130,873	186
System Maintenance	121,919	122,099	180	126,691	126,877	186
Environmental Operation	3,797	3,797	0	3,996	3,996	0
Transmission Engineering	26,503	26,500	(3)	28,014	28,011	(3)
Agency Services	62,640	58,779	(3,861)	62,936	58,940	(3,996)
Post-Retirement Contribution	15,598	15,598	0	16,071	16,071	0
Transmission Acquisition/Ancillary Services (3rd Party Sources)	18,359	18,371	12	18,359	18,371	12
Other Income, Expenses and Adjustments	(2,000)	(2,000)	0	(2,000)	(2,000)	0
Non-Federal Debt Service	5,890*		*	4,690*		*
Interest Expense	150,623*		*	168,664*		*
Amortization/Depreciation	200,810*		*	211,538*		*
Total	724,546	366,228	(994)	761,620	375,700	(1,028)

*These will be determined in the upcoming rate case.

FY 2010-11 Transmission Capital Summary

\$ in Thousands	Initial IPR	Final IPR	Change	Initial IPR	Final IPR	Change
	FY 2010	FY 2010	FY 2010	FY 2011	FY 2011	FY 2011
Transmission Program	FY 2010	FY 2010	FY 2010	FY 2011	FY 2011	FY 2011
Main Grid Projects	155,905	150,587	(5,318)	221,346	209,346	(12,000)
Area & Customer Service Projects	31,714	31,714	0	6,256	6,256	0
Upgrades & Additions	91,108	95,710	4,602	107,471	112,585	5,114
System Replacement Projects	134,494	134,494	0	138,423	138,423	0
Environment Projects	5,530	5,530	0	5,752	5,752	0
Customer Financed/Credits	90,165	90,165	0	102,287	102,287	0
Total Indirect Capital	86,100	87,442	1,342	88,696	96,243	7,547
17% Lapse Factor	(89,551)	(100,249)	(10,698)	(101,324)	(103,773)	(2,449)
Total Capital	505,465	495,393	(10,072)	568,907	567,119	(1,788)

Response to General Comments

Many of the comments received during the public comment period on the overall FY 2010-2011 program spending levels relate to BPA's processes, rate levels and decision making rather than to specific programs. More broadly based comments are addressed below.

1. Potential rate increases, cost controls and a budget cap:

- Tacoma Power made the following comments: **Potential Rate Increases:** "The potential rate impact of the proposed agency-wide spending levels for FY 2010-2011 is alarming." **Cost Controls:** "We urge BPA to further review areas under your control where costs could be reduced. Ensure the FY 2010-2011 cost proposal is being developed with the mindset for keeping costs in check and not funding unjustified projects and programs that appear on an organization's 'wish list.' The budgets for each workgroup appear to be created as individual silos and there does not appear to be any cross-agency prioritization. . . . (We) recommend BPA now perform some cross-agency prioritization and reduce these increases by not funding low-priority projects and scaling some of the others."**Budget Philosophy:** "No funding goal (or percentage increase limit) seems to be established from one year to the next and the proposed FY 2010-2011 budget increases are substantial. BPA should exercise diligence to identify projects or program areas where costs could be reduced to offset some of the impacts of the known large cost drivers. . . . BPA should continue to look for creative ways to reduce the impacts from the primary cost drivers by confirming that these (power) funding levels are required. These Agency Services costs need to be reduced, rate of inflation or lower."
- The Joint Public Power group made the following comments. "We suggested in our comments on the 2009 IPR comments that BPA adopt an overall spending limit BPA did not respond to our suggestion in closing out the FY2009 IPR process regarding the need for an overall budgetary cap. There is no evidence of an overall spending limit...BPA should guard against raising its cost structure to the point where it may have competitiveness problems if market energy prices decline in the future...BPA should take into account cost pressures faced by its customers. . . . If secondary revenues don't stay high, BPA could easily be looking at a 20-25% (power) rate increase with the proposed budgets. Agency Services spending increases should be held to the rate of inflation." "We would still like a response to the suggestion. . . . WAPA's MOA with its utilities. . . could serve as a possible model ..."

Response: BPA recognizes that utility customers have concern over the rate level that BPA establishes to recover its costs. Therefore, in the development phase of these proposed spending levels, BPA prioritized and outlined the programs and projects included in proposed spending. In its review, BPA did not employ a cost review standard for determining whether a project or program is justified or not, but rather, the resulting cost of a given project or program is driven by a rise in program requirements, including significant infrastructure improvement and obligations to meet new regulatory requirements. Such projects and programs are not the result of a

“wish list” but are the result of BPA meeting its federal public purpose. Program requirements cannot be met without increasing Power and Transmission spending, as well as spending in support organizations that play an integral role in accomplishing and completing the work. While it is likely these costs will result in some level of increase in Power and, possibly, Transmission rates, we believe this level of spending is necessary to avoid significant costs and/or reductions in long term reliability. We will, however, re-assess these program levels during FY 2009, prior to developing final rate proposals.

BPA has not developed an overall budgetary cap or established a requirement to hold increases to some level, such as the rate of inflation, and does not believe it is appropriate to do so. Setting arbitrary ceilings can be counter productive and result in decisions and program levels that have negative impacts over the long term that far outweigh short-term savings. In developing program levels, BPA uses an Integrated Financial Planning Process that charts the development, approval and implementation of program levels and cost estimates. This process links BPA’s internal spending level development and pre-rate development with the IPR, which allows for open public participation.

Within this framework, BPA believes it is important that the spending level development process include flexibility, allowing BPA to respond to changing circumstances and/or requirements. This flexibility was essential in determining the program levels proposed in the initial IPR for FY 2010-2011. In the development process, for example, BPA recognized that Power Services has effectively had a cap on Power internal operating costs and has been absorbing inflation for seven years. Despite the success of the Efficiency Project Improvement Processes (EPIP), which have helped BPA mitigate cost pressures in many areas, many costs actually have been deferred. This deferral has contributed to the cost pressure BPA now faces. These pressures are such that we can no longer successfully sustain flat costs while maintaining reliability and meeting other obligations. BPA also took into consideration the numerous new initiatives and drivers that are likely to require cost increases. While BPA certainly considers the impact of program levels on its customers, it also tries to find the right balance between low cost and the other “pillars” in its strategy to provide system reliability, environmental stewardship and regional accountability.

One comment suggested that an agreement such as the one that Western Area Power Marketing Administration’s Rocky Mountain and Upper Great Plains Region (WAPA) has with its utility customers could be used as a model for implementing more thorough customer involvement in the front end of the budget process. WAPA, Bureau of Reclamation, and the US Army Corps of Engineers (the Agencies) executed a memorandum of understanding regarding the Pick-Sloan Missouri Basin Program/Fryingpan-Arkansas Project Work Program Review (Program Review MOU) with three preference utility customer associations.

This Program Review MOU is intended to promote active participation, communication and coordination among the Agencies and the preference associations and identifies agreed-upon schedules and formats for the Agencies to provide financial and work program information. It provides for a Technical Committee and

an Executive Committee, both made up of representatives from each of the Agencies and each of the customer associations. Under the MOU, the Agencies provide the preference associations the following information, in a specified format:

- Expense budgets compared to actual expenses for the completed year, with explanations for significant differences (e.g., +/- 10%);
- Annual expenses for two completed years, the current year, and five future years' estimates, with explanations for significant differences;
- A list of cumulative capital expenditures, current year capital investments, and five future years' estimates, including replacement projects;
- FTE for two prior years, current year, and five future years' estimates;
- Comparison of indirects/overheads for two prior years, current year, and five future years' estimates, with explanations of significant differences;
- Most current Construction and Rehabilitation Program 10-year Plan, plus reporting on significant projects that may impact the Power Repayment Study or be of interest to the Technical Committee;
- Current program status report, e.g., overview of critical issues, budget line items, proposed studies, plan or program changes since the last briefing, etc.; and
- As applicable, customer advanced funding and access to receipts funding separately from appropriations, revolving fund, etc.

The Technical Committee meets at least twice per year to review and exchange financial and cost data. The Agencies are supposed to respond timely to the issues raised by the preference associations over future spending activities within the limits of the Agencies' authorities to disclose such information. Upon written notice, a preference association may request additional information and, subject to applicable federal law and regulations, shall have the right to review relevant records at the offices of the Agency. Disputes or disagreements regarding matters involving the Technical Committee may be referred to the Executive Committee for review, and disputes or disagreements regarding issues for the Executive Committee may be referred to the head of the Agency(ies). The appropriate Agency head shall respond to the issue within 20 working days.

BPA believes the Cost Review construct (now called the Integrated Business Review) described in the Regional Dialogue Policy provides all of BPA's customers and constituents a high level of transparency, including most of the same type of financial information provided for review under the Program Review MOU, and much of it in greater detail. BPA considered a formal review process conceptually similar to the Program Review MOU, called the Cost Management Group (CMG), in the Regional Dialogue. The proposed CMG had a defined number of representatives of customer and non-customer interest groups participating. However, BPA found this was one of the major problems with the CMG. As stated in the Long-Term Regional Dialogue Record of Decision (ROD), "one of the CMG's major stumbling blocks is it would represent a limited membership. While there are groups of stakeholders with similar relationships with BPA, they may have widely divergent interests and views of BPA

costs. . . . As NRU notes, ‘based on previous discussion and experience, it would likely be impossible to reach a broad based regional agreement regarding the size of the CMG and the proportionate representation between various stakeholder groups.’” (Regional Dialogue ROD, page 256)

The Program Review MOU provides for exchange of information that is restricted to the Agencies and the preference associations. However, as noted in the Regional Dialogue ROD, “excluding non-customers from the agency’s primary cost review process is contrary to BPA’s stewardship obligations because it would go a long way toward silencing non-customers. BPA needs to have the ability to receive input from constituent groups directly affected by cost decisions. These organizations can provide valuable input on the effect of spending increases and reductions. It is likely that the majority of the issues addressed in the renewables, conservation, and fish and wildlife spending, receive much non-customer attention because they affect or involve those who are doing the on-the-ground work in these areas. Creating separate forums for non-customers would result in a much more cumbersome and costly process and with little communication between the different interests. It is better, and more conducive to creating a collaborative process if all groups communicate with each other and with BPA, rather than just with BPA. . . . BPA’s process does include tribes, states, environmental groups, and other stakeholders as well as customers rather than limiting it to a few customer groups.” (Regional Dialogue ROD page 258)

Unlike the Program Review MOU, in the Regional Dialogue Policy BPA committed to a model which provides extensive opportunity for stakeholders as well as customers to review and give input to our forecasts of spending levels prior to finalizing them. This current IPR process is one part of the overall Integrated Business Review structure that BPA committed to in the Regional Dialogue. In IPR we have provided actual expenses, including indirects/overheads, for the prior two years, and forecasts for the current year and three additional years or through the upcoming rate period. For capital expenditures, we provided actuals for the prior two years and forecasts for the current year and five additional years. We also shared very detailed materials from various asset plans, including assessment of asset conditions and long-range capital plans. The level of detail provided in the IPR appears to be much greater than that provided under the Program Review MOU. For example, BPA provided at least eight full days of workshops and meetings on the FY 2010-2011 proposed costs, and hundreds of pages of materials, far in excess of the data called for in the Program Review MOU for most categories of costs.

The Quarterly Business Review (QBR) is the second part of the Integrated Business Review structure BPA committed to in the Regional Dialogue, and it is intended to be a forum to provide current financial forecasts, current financial results compared to forecasts, periodic updates to capital plans as they change, and information on upcoming issues that could have impact on future financial results. We will be holding the first such meeting in November. We have received input on the structure of those meetings and will solicit additional input.

In addition to information provided through the IPR and QBR processes, BPA, the Corps, and Reclamation, who manage the FCRPS hydrosystem assets through interagency Joint Operating Committees (JOCs), recognize the need for transparency

and will meet with interested parties, stakeholders, and customers on an as needed basis. For example, the agencies now meet twice yearly with the Public Power Council to discuss the hydropower program financial (expense and capital budgets compared to actual costs, FTE, etc.) and operational performance (current and planned investment activities, critical maintenance accomplishments, etc.), as well as other related issues. BPA and the other agencies make a concerted effort to provide information and opportunity for customers and stakeholders to provide input.

We believe the IPR process BPA currently has and the QBR process that is being developed, though less formal than that provided by the Program Review MOU, will provide the information and transparency customers and other stakeholders are looking for, and we will continue to ask for input on how the process can be improved.

2. Levelizing Costs:

- Tacoma Power noted that “there seems to be a general theme of trying to get caught up on capital investment and maintenance. This has resulted in a front-loaded capital and maintenance program that significantly increases costs during the initial years of the program. We are asking that some levelizing take place over the next few years. . . .”

Response: As explained in the IPR workshops, the proposed capital investment levels are driven by in-depth assessments of needs through our asset management planning process and represent what BPA believes is critical to retaining reliable power generation and transmission. However, as suggested in comments, BPA has scrutinized its forecasts and made some revisions based on the recognition that the aggressive schedule for transmission and conservation capital investment may not be achievable. The final IPR levels reflect a revised schedule for one transmission capital project and an increased lapse factor applied to transmission capital (from 15 percent to 17 percent). Considering the probable need for a ramp-in period for the projected increase in conservation capital, the FY 2010-2011 conservation capital has been reduced by \$18 million in FY 2010 and \$10 million in FY 2011.

3. IPR Process:

- The Joint Public Power group made the following comments: A couple of changes would help in evaluating BPA’s proposals: first, BPA should provide alternative packages of spending proposals for evaluation. . . .BPA made a reasonable first start at this in . . . looking at the effects of a 10% cost decrease by function . . . , but more BPA departments need to emulate the detailed analysis that BPA Public Affairs did in taking a detailed look at the impacts of spending reductions. . . . It would be useful and good budgetary practice to have BPA present a formal business case for new incremental spending proposals where BPA would calculate the benefit and the rate of return associated with the incremental spending, so that the proposal could be better evaluated.

- Tacoma Power commented that there should be clear cost-benefit analysis performed and provided as part of the IPR process. . . . BPA must establish a reliable practice to control costs and should do so with significant input from its contractual customers through the IPR process.

Response: We appreciate feedback on our first agency wide IPR process. We expect the next full IPR process to begin in the spring of FY 2010 and will take these comments into account as we plan for that process.

We will also begin Quarterly Business Review (QBR) meetings this year and expect to use these meetings to provide updates of current expense and capital spending compared to forecasts, as well as to notify customers and constituents of current or upcoming issues that could impact BPA's financial situation.

4. Tier 2 Product:

- The Joint Public Power group noted that any costs associated with the development of Tier 2 products should not be included in rates and paid for under the current subscription contracts.

Response: While we understand customer interest in this issue, this is a rate-making issue and should be addressed in the upcoming Power rate case rather than in the IPR forum.

Structure of This Report

Sections 2 through 4 of this document focus on each of the program areas identified in the workshop process and provide detailed information for the following four issues:

- 1) The initial IPR spending levels compared with the FY 2007-2009 rate case average,
- 2) A short description of what is included in the associated costs,
- 3) Comments received on the program area, and
- 4) Final decisions on cost levels for the initial rate proposal, addressing comments received.

Section 2 addresses Power Services costs, including the Fish and Wildlife Program, the Lower Snake River Compensation Plan, and Energy Efficiency/Conservation, which are fully direct-charged to Power Services. Section 3 addresses Transmission Services costs. The majority of Agency Services costs are addressed concurrently with the Power and Transmission programs they support. Section 4 addresses some remaining some Agency Services Programs as well as the Technology Innovation and Confirmation program, which impacts both Power and Transmission.

Section 2

POWER SERVICES



The first two summary tables below provide the change in FY 2010-2011 expense and capital forecasts from the Initial IPR to the Final IPR. The third and fourth tables displays the FY 2009 expense and capital forecasts from the original FY 2007-2009 rate proposal, the initial IPR, and the Final FY 2009 Power IPR Report.

FY 2010-11 Power Expenses Summary

\$ in Thousands	Initial IPR	Final IPR	Change	Initial IPR	Final IPR	Change
	FY 2010	FY 2010	FY 2010	FY 2011	FY 2011	FY 2011
Power Program						
Columbia Generating Station O&M	269,200	269,200	0	365,000	365,000	0
Corps & Reclamation O&M for Hydro	280,700	280,700	0	296,461	296,461	0
Long Term Generation Program	31,889	31,889	0	32,343	32,343	0
Power Purchases incl DSI Monetized Power	327,189	*	*	404,795	*	*
Residential Exchange Payments/Other	221,426	*	*	220,445	*	*
Renewables (incl rate credit)	41,588	45,588	4,000	43,438	45,938	2,500
Generation Conservation (incl ratecredit)	87,088	87,088	0	86,722	86,722	0
Internal Operations	134,609	135,627	1,018	138,857	139,910	1,053
Post-Retirement Contribution	15,598	15,598	0	16,071	16,071	0
Transmission Purchases, Reserve/Ancillary	176,393	*	*	177,043	*	*
Fish & Wildlife/USF&W/Planning Council	263,541	263,541	0	270,618	270,618	0
Amortization/Depreciation	204,001	*	*	216,916	*	*
Non-Federal Debt Service	556,184	*	*	577,064	*	*
Net Interest Expense	177,657	*	*	194,291	*	*
Other-Colville Settlement, Non-Op Gen	25,746	25,746	0	28,082	28,082	0
Total	2,812,809	1,154,977	5,018	3,068,146	1,281,145	3,553

*These will be determined in the upcoming rate case.

FY 2010-11 Power Capital Summary

\$ in Thousands	Initial IPR	Final IPR	Change	Initial IPR	Final IPR	Change
	FY 2010	FY 2010	FY 2010	FY 2011	FY 2011	FY 2011
Power Program						
Corps of Engineers/Bureau of Reclamation	183,200	183,200	0	199,200	199,200	0
Fish & Wildlife	70,000	70,000	0	60,000	60,000	0
Conservation	56,000	38,000	(18,000)	56,000	46,000	(10,000)
CGS	73,600	73,600	0	99,900	99,900	0
CRFM	88,000	88,000	0	96,000	96,000	0
17% Lapse Factor ^{1/}	(36,150)	(36,150)	0	(38,550)	(38,550)	0
Total Capital	280,700	280,700	(18,000)	296,461	296,461	(10,000)

1/ Excludes CGS, CRFM, Fish & Wildlife

FY 2009 Power Expenses Summary
(As reported in the 2009 Power Close Out Report)

\$ in thousands	2009 in WP-07 Rate Case	Supplemental Rate Case	Initial IPR	Final IPR Forecast	Change between Initial IPR and Final IPR
	FY 2009	FY 2009	FY 2009	FY 2009	FY 2009
Power Program					
Columbia Generating Station O&M	242,842	274,342	293,700	293,700	0
Corps & Reclamation O&M for Hydro Projects	248,173	248,173	261,600	261,600	0
Long Term Generation Program	25,751	31,864	31,613	31,522	(91)
Renewables (incl rate credit)	41,917	53,414	43,955	43,955	0
Generation Conservation (including Conservation Rate Credit)	70,347	79,414	84,526	80,526	(4,000)
Internal Operations	111,566	111,566	125,030	121,018	(4,012)
Pension & Post-Retirement Benefits	15,375	15,375	15,277	15,277	0
Transmission Purchases, Reserve/Ancillary Services	177,525	177,515	176,073	176,073	0
Fish & Wildlife/USF&W/NWPCC	173,353	173,367	229,439	229,439	0
Other – Colville Settlement, Non-Operating Generation	24,649	21,049	27,413	27,413	0
Total	2,698,421	2,615,184	2,730,011	2,717,549	(8,103)

FY 2009 Power Capital Summary
(As reported in the 2009 Power Close Out Report)

\$ in Thousands	2009 in WP-07 Rate Case	Supplemental Rate Case	Initial IPR	Final IPR	Change Between Initial IPR and Final IPR
	FY 2009	FY 2009	FY 2009	FY 2009	FY 2009
Description					
Corps of Engineers/Bureau of Reclamation	137,000	137,000	154,950	154,950	0
Fish & Wildlife	36,000	36,000	50,000	50,000	0
Conservation	32,000	32,000	42,000	32,000	(10,000)
CGS	27,700	27,700	96,700	96,700	0
CRFM	62,400	62,400	63,000	111,000	48,000
15% lapse factor ^{1/}			(29,813)	(28,313)	1,500
Total Capital	295,100	295,100	376,837	416,337	39,500

1/ Excludes CGS, CRFM, Fish & Wildlife

A. COLUMBIA GENERATING STATION O&M

\$ millions

Expense

FY 2010		
Initial IPR	Final IPR	Change
269.2	269.2	0
FY 2011		
Initial IPR	Final IPR	Change
365.0	365.0	0

Capital

FY 2010		
Initial IPR	Final IPR	Change
73.6	73.6	0
FY 2011		
Initial IPR	Final IPR	Change
99.9	99.9	0

BPA pays the costs of Energy Northwest's Columbia Generating Station (CGS) nuclear power plant. Energy Northwest (EN) has continued to focus on equipment obsolescence, reliability and plant performance. EN management believes additional investments are necessary to improve safety, reliability and performance. The plant's performance indicators have been low when measured against criteria set by the Institute of Nuclear Power Operations (INPO), but capacity factors have been good.

Comments Received:

- Tacoma Power commented they are concerned with the proposed \$27M increase for 2010 and \$123M increase for 2011... (and) request BPA to continue efforts to influence the reduction of the proposed CGS budget.
- The Joint Public Power Group made the following comments: EN should be aware of the importance of its Long Range Plan (LRP) for BPA ratemaking... It would be most effective if the results of the LRP could set a cap on spending in the years beyond the current budget year. Also, it would be very helpful if the timing of the LRP and the BPA IPR could be better synchronized so that BPA could have reliable information as BPA and the customers go into the IPR process. In addition, BPA and EN should further explore the costs and benefits of moving CGS financial reporting to BPA's fiscal year.

Response: EN believes that the CGS program levels reflect the need to continue improvement efforts and ensure sustained high performance. The increased funding EN has identified for FY 2010-2011 is designed in general to address:

- 1) Deferred maintenance issues,
- 2) Equipment obsolescence and reliability, and

3) Performance improvement initiatives.

These investments should result in improved overall performance of CGS.

BPA has discussed, and will continue to discuss, with EN the need for cost effective, safe, reliable operation of the Columbia Generating Station to benefit the ratepayers of the Northwest. Safety and reliability are paramount goals, but it is essential that we meet those goals in the most cost-effective way possible. BPA is concerned about the rapid rate of increase in costs for CGS operations. In conjunction with Energy Northwest management, a set of performance indicators has been developed. We are actively tracking these indicators on a quarterly basis and will make this information available to the public. This tracking should help ensure that these major increases in spending actually yield the improvements they are intended to produce.

EN management has also proposed to develop a long range plan with significantly increased rigor such that it would provide greater confidence to BPA and others that actual results will be consistent with the plan. We also understand the EN Board has hired independent counsel to evaluate CGS's long range plans and budgets in terms of addressing significant station needs. We believe this is an appropriate step and encourage its continued implementation. We would be interested in working with the Board to see how we could benefit from the counsel of any independent review the Board undertakes. Finally, BPA is considering seeking independent counsel from individuals with significant nuclear plant executive management and operations experience in order to be able to complement our on-site Richland staff's experience. The focus of any contracted additional executive nuclear expertise will be to assure our budget review and oversight authority is executed in a manner that will promote the safe, reliable and cost-effective operation of CGS consistent with the project agreements. We also intend to continue to urge the EN Board to adopt the overarching principle we proposed to the Board last year. As stated below, this principle seeks to provide greater alignment throughout our organizations through focusing on the complementary nature of our missions. That principle is as follows:

“BPA and ENW are committed to long-term, safe, reliable operation of CGS accomplished at the lowest reasonable cost necessary to achieve those objectives. It is also our objective to integrate CGS with the Federal Columbia River Power System and to achieve optimum utilization of the resources of that system taken as a whole and to achieve efficient and economical operation of that system.”

BPA and customers have emphasized the importance of a credible Long Range Plan and the ability of EN to live to that plan. EN produced and updated an LRP in the spring of 2008 in conjunction with the FY 2009 budget. EN has committed to living within the costs identified in the plan, barring any unforeseen regulatory requirements. EN has revised its budget preparation cycle (long range plan) by advancing it by two months. This will allow time for meaningful customer review and input of the CGS budget before it is included in future IPR reviews. EN is exploring options for changing the EN fiscal year to coincide with BPA's fiscal years; however, it is not clear if the benefits of such a move would justify the costs.

Decision: No change to the planned CGS expense or capital forecast for FY 2010-2011.

B. CORPS AND RECLAMATION O&M

\$ millions

Expense

FY 2010		
Initial IPR	Final IPR	Change
280.7	280.7	0
FY 2011		
Initial IPR	Final IPR	Change
296.5	296.5	0

Capital

FY 2010		
Initial IPR	Final IPR	Change
183.2	183.2	0
FY 2011		
Initial IPR	Final IPR	Change
199.2	199.2	0

BPA works with the U.S. Army Corps of Engineers and the Bureau of Reclamation to implement funding for both operations and maintenance (O&M) activities at 31 hydro electric facilities throughout the Northwest and to ensure implementation of all regionally cost-effective system refurbishments and enhancements. BPA's Enterprise Process Improvement Project (EPIP) included a major asset management planning effort that included Federal hydro facilities. Significant drivers of change affecting Corps and Reclamation O&M include the Western Electricity Coordinating Council (WECC) and the North American Electric Reliability Council (NERC) compliance requirements, non routine extraordinary maintenance requirements, and Biological Opinion (BiOp) requirements. BPA expects O&M spending to rise at roughly the rate of inflation (except for non routine extraordinary maintenance activities such as the Grand Coulee Dam Third Powerhouse rehabilitation and other items mentioned above.)

Columbia River Fish Mitigation Project (CRFM) includes the power portion of investment funded by Corps of Engineers appropriations for investment on mitigation efforts for fish and wildlife on the Federal Columbia River dams. BPA becomes obligated to repay the power portion of the costs to the US Treasury at the time the investment is considered complete and placed into service. While the forecast of total investment from FY 2007 through 2011 has not changed significantly, the Corps provided an updated forecast reflecting a change in the expected timing for investment being placed into service, with less than forecast going into service in FY 2007 and considerably more expected in FY 2008 than forecast in the WP-07 rate case.

Comments Received:

- The Joint Public Power group made the following comments: While improvement is always possible, it appears that the Integrated Business Management Model developed by the Corps, Reclamation and BPA has resulted in a fairly rigorous asset-based planning and management program. . . . The ramp up of capital

expenditures continues to be significant. . . . The agencies should be encouraged to broaden their supplier network so they are not captive to a small number of suppliers. . . . (T)he agencies should be encouraged to take steps to reduce or eliminate inefficient O&M, rather than just escalating O&M costs by a fixed amount.

- Montana Northwest Power and Conservation Council members commented that funding for an additional turbine at Libby should be removed.
- Tacoma Power noted that BPA should exercise diligence to scale back some initiatives and stretch out implementation to offset the impacts of proposed asset management initiatives.
- Affiliated Tribes of Northwest Indians (ATNI) commented that funding for FCRPS cultural resources program must be increased, and they are concerned about the Corps not being able to finish its work with the 15-year period or by 2012.

Response: BPA, the Corps, and Reclamation developed the hydro asset planning process to ensure the hydro generating assets are operated, maintained and invested successfully to ensure benefits to the region continue over the long term. Low cost power, power reliability, and trusted stewardship are the three objectives guiding the asset planning process, and the agencies are constantly challenging themselves to maximize them. Equipment health and condition, operational requirements, financial performance, and risk and consequences are continually evaluated and assessed in determining the expense and capital resource requirements for the program. As noted in IPR workshops, the hydro system is aging and requires extensive investment to ensure its continued long term performance. Also, new regulatory requirements associated with the updated Biological Opinion and WECC/NERC reliability compliance are requiring additional O&M expense resources to ensure the agencies are in compliance. The agencies will continue to exercise diligence in managing the program by evaluating capital investments and O&M expense requirements to ensure adequate long term performance and benefits of the hydrosystem.

As encouraged in the comments received, the agencies will strive to ensure the broadest number of suppliers is available to meet the hydrosystem's needs, consistent with government procurement practices. For example, the Corps recently met with major hydropower contractors to understand how contracts could be written to solicit more interest from them. Additionally, the agencies are continually evaluating business decisions to ensure revenue is maximized while operating and maintaining a safe, low cost, and reliable system.

Regarding cultural resources activities, the funding levels for such activities across the FCRPS were derived from the System Operations Review (SOR) and agreed to by the Corps, Reclamation, BPA, and the tribes. The term of the agreed-upon funding was for 15 years, which ends in 2012. A number of changes in the funding levels for Cultural Resources will be addressed during development of a new agreement for funding that will take effect in 2012, after the 15-year original term is completed. The agencies expect to begin work on developing a new funding agreement during FY 2009.

Regarding the comment that there is no scientific basis for funding an additional turbine at Libby to support Kootenai River sturgeon, the Libby 6th unit was identified as a potential project for planning purposes only and was listed that way while describing the system asset planning process. There was no funding included in the plan for this work as it did not meet hydro capital investment criteria; it was merely identified as a potential project. If a decision were to be made that a 6th unit at Libby was necessary due to ESA considerations, funding would have to come by displacing other capital projects in the plan.

Decision: No change to the planned Corps and Bureau of Reclamation expense or capital forecast for FY 2010-2011.

C. LONG-TERM GENERATING PROGRAM

\$ millions

Expense

FY 2010		
Initial IPR	Final IPR	Change
31.9	31.9	0
FY 2011		
Initial IPR	Final IPR	Change
32.3	32.3	0

This program consists of BPA’s long-term acquisition contracts for output from generating resources such as Cowlitz Falls, Billing Credits Generation, Wauna Co-generation project, Elwah Dam, Idaho Falls Bulb Turbine, and Clearwater Hatchery Generation. Most of the expenses associated with the long-term generating projects are based on energy production at the generating units and, therefore, are offset by revenues. There is little opportunity for improvement because prices are fixed by contract.

Comments Received:

None

Decision: No change to the planned Long-Term Generation Project forecast for FY 2010-2011.

D. ENERGY EFFICIENCY & CONSERVATION

\$ millions

Expense

FY 2010		
Initial IPR	Final IPR	Change
87.1	87.1	0
FY 2011		
Initial IPR	Final IPR	Change
86.7	86.7	0

Capital

FY 2010		
Initial IPR	Final IPR	Change
56.0	38.0	18.0
FY 2011		
Initial IPR	Final IPR	Change
56.0	46.0	10.0

FY 2009 Expense			
Original WP-07	Initial IPR	Final IPR	Change
70.3	84.5	80.5	(4.0)
FY 2009 Capital			
Original WP-07	Initial IPR	Final IPR	Change
32.0	42.0	32.0	(10.0)

(As reported in the 2009 Power Close Out Report)

BPA’s Energy Efficiency and Conservation program is designed to capture the anticipated 35 to 40 percent increase in public power’s share of the region’s conservation target in the FY 2010-2011 period (i.e., 70 aMW per year).

Comments Received:

- Idaho Conservation League commented that the IPR should include additional support for efficiency/conservation programs.
- Tacoma Power stated it does not support increases in conservation spending that would affect the Tier 1 rate.
- The Joint Public Power group raised a concern about spending increases. The region has been able to achieve conservation under current levels. They would be more comfortable with the spending if they knew what would be included in new long-term contracts.
- Columbia Inter-Tribal Fish Commission (CRITFC) supports full funding of conservation. BPA should expand conservation programs as much as possible.

Response: Tiered rates will not start until FY 2012, which is beyond the scope of this IPR. BPA’s post-2011 energy efficiency costs will be included in Tier 1 rates as outlined in the Final Long Term Regional Dialogue Policy (July 2007). That said, BPA has designed its proposed spending for energy efficiency to capture the anticipated 35 to 40 percent increase in public power’s share of the region’s conservation target in the FY 2010-2011 period (i.e., 70 aMW per year). It is uncertain what level of utility self-funding for conservation will occur during this time. Therefore, BPA’s proposed spending levels assumed that 20 percent (or 14 aMW/year) of public power’s share of the regional conservation target would be delivered by utilities using their own funds. BPA also proposes energy efficiency capital spending for this period to supplement utility funding under bilateral contract arrangements. The incentives customers have, including

the high water mark credits, to fund conservation themselves are not expected to be enough to ensure achievement of the cost-effective conservation targets.

There remain, however, several outstanding processes and planning areas that have not concluded at this time and need to be resolved before BPA can determine the proper level of energy efficiency capital for FY 2010-2011. These areas include:

- 1) The Northwest Energy Efficiency Taskforce (NEET) activities and future recommendations,
- 2) The Council's 6th Power Plan, which will likely establish new, higher conservation targets for the region,
- 3) BPA's Resource Program, and
- 4) BPA's public process to determine its role in energy efficiency in the post-2011 period. This last process will begin early in the 2009 calendar year.

The information acquired through these processes and plans will help BPA determine the appropriate capital funding levels for its energy efficiency program.

Despite the current lack of certainty prior to these processes BPA feels comfortable reducing the proposed capital spending by \$18 million in FY 2010 and by \$10 million in FY 2011. This reduction in capital assumes that utilities will deliver additional conservation savings using their own funding (i.e., 33 percent, or 23 aMW, in 2010 and 27 percent or, 19 aMW, in 2011) to guarantee higher targets are met. However, to achieve the energy efficiency targets that the agency has committed to, further reductions to the Energy Efficiency budget are not appropriate at the current time. BPA expects to have better information regarding BPA's energy efficiency program requirements before BPA considers if changes in forecasts are appropriate next spring.

Decision: No change to the planned Conservation/Energy Efficiency expense forecast for FY 2010-2011. The Capital forecast will be reduced by \$18 million for FY 2010 and \$10 million for FY 2011.

E. FISH AND WILDLIFE DIRECT PROGRAM

\$ millions

Expense

FY 2010		
Initial IPR	Final IPR	Change
230.0	230.0	0
FY 2011		
Initial IPR	Final IPR	Change
236.0	236.0	0

Capital

FY 2010		
Initial IPR	Final IPR	Change
70.0	70.0	0
FY 2011		
Initial IPR	Final IPR	Change
60.0	60.0	0

BPA expends ratepayer revenues in the implementation of measures addressed to the recovery of Columbia River fish listed as threatened or endangered under the Endangered Species Act (ESA) and to the mitigation of impacts to fish and wildlife from the development and operation of the FCRPS. This dual mitigation and recovery responsibility requires a comprehensive approach to implementing the Direct Fish and Wildlife Program (Direct Program) that integrates the ESA requirements of the FCRPS biological opinions from the U.S. Fish and Wildlife Service and National Oceanic and Atmospheric Administration (NOAA) Fisheries, with the broad resource protection, mitigation and enhancement objectives of the *Columbia Basin Fish and Wildlife Program* adopted pursuant to the Northwest Power Act.

BPA meets these complementary fish and wildlife mitigation and recovery objectives in the Direct Program primarily through the negotiation and award of contracts to state, federal, and tribal entities. Drivers for increased contract costs in FY 2010-2011 are new Biological Opinion requirements and the 2008 Columbia Basin Accords agreements with states and tribes on fish and wildlife costs. These additional contract commitments are to be implemented as expeditiously as possible to accomplish specific projects or program outcomes addressed to the impacts of federal hydropower development and operation in the Columbia River. Project results will be credited and accounted for as contributions toward the recovery and mitigation obligations of BPA.

Comments Received:

- **New BiOP and Fish Accords, Proposed Budget Increase:** CRITFC expressed strong support for BPA's proposal to increase its fish and wildlife funding to fully implement the MOA signed on May 2, 2008. CRITFC and BPA staffs are working to better refine the expense and capital portions of this funding. CRITFC will continue working with BPA staff in the near term to better refine these expense and capital budgets. It is their understanding that these revised budgets will be included in BPA's IPR close-out letter and incorporated into the BPA rate case analysis.
- **Cost Effectiveness, Duplication and Unnecessary Efforts:** Tacoma Power stated BPA should carefully review this proposed increase and look for duplicate efforts and items that are not required. Focus needs to be placed on choosing alternatives that provide the desired results in the most cost-effective manner.
- **Budget Management Plan, Long Term Budget Cap, Carry Over and Inflation:**
 - The Joint Public Power group made several comments.
 - First, BPA needs to develop a fish and wildlife budget management plan. Program budgets should be fixed, regardless of whether the program spent

all funds in the previous year. Excepting BiOp and MOA commitments, the establishment of funding should not create a locked-in future expectation to the budgeted funds if they are not spent in the current fiscal year.

- Second, because of the risks that operational costs will be substantially higher than expected it is imperative that BPA establish and abide by a long-term budget for the Integrated Fish and Wildlife Program costs.
- Third, BPA stated it will make a decision on how to handle unspent funds as part of the development of a budget management plan for overall program budget management, and that it plans to develop the plan this summer. Customers would like BPA to set a timetable for definition of BPA funding requirements, completion of a budget management plan and a review process for customers and other stakeholders.
- Fourth, customers are uncomfortable with the automatic inflation adjustment and would like greater detail on how and when BPA plans to address the issue of a budget cap.
- Fifth, it is imperative that BPA not only consider the recommendations made by its customers, but take action to implement these recommendations. BPA needs to set a schedule for development and implementation of a budget management plan, to address how the Northwest Power and Conservation Council Program, Memoranda of Agreement with States and Tribes, a new biological opinion, and other elements of BPA's fish and wildlife budget will be integrated and managed.

Program Review:

- The Joint Public Power group commented that customers would like to see BPA work closely with the Council to ensure a comprehensive program review that involves the Independent Scientific Review Panel. In particular, RM&E needs to undergo rigorous scrutiny. There are projects currently funded by ratepayer dollars that have little relation to the effects of hydropower construction and operation and should be funded through other sources or eliminated. The funding should be seen as comprehensive for both fish and wildlife and the proposed budget should not increase beyond its current limit.
- Washington Department of Fish and Wildlife commented that BPA should continue to support, and consider costs associated with funding the following projects: Pacific States Marine Fisheries, Commission Coded Wire Tag Project, the Smolt Monitoring Program, the Fish Passage Center, Comparative Survival Study, StreamNet, the Columbia Basin Fish & Wildlife Authority, and the Lower Snake River Compensation Program.
- Washington Governor's Salmon Recovery Office commented that BPA should consider the needs of regional salmon recovery organizations in Washington. Greater funding would enable enhanced coordination to meet the needs of the 2008 BiOp and Columbia Basin Fish Accords.

Science Review:

- The Joint Public Power group recommended that the current requirements for Independent Scientific Review Panel review should be continued for all projects funded by BPA. BPA has noted a commitment to ensuring independent science review, but needs to outline the process that guarantees this.

Economic Review:

- The Joint Public Power group supports the Independent Economic Advisory Board (IEAB) and request that it be adequately funded.

Cultural Resources:

- ATNI expressed concern whether BPA can provide more information on the cost components for how these cultural resources responsibilities (for BPA Fish and Wildlife Mitigation Program Projects) will be met for FY 2009 and elaborate on the tribal consultation/ coordination components related to these costs.

Mitigation Settlement of Southern Idaho and Albeni Falls:

- Idaho Department of Fish and Game proposed consideration of a settlement of the wildlife mitigation obligation for Southern Idaho and Albeni Falls. BPA should calculate a reasonable estimate of the value for the rate case so a settlement is not foreclosed.

Response: Because a new BiOp and Fish Accords exist, BPA has made a proposed spending increase for Fish and Wildlife Program implementation in FY 2010-2011, resulting in upward adjustment in funding from the current rate period to \$230 million and \$236 million, respectively. These proposed spending levels reflect the funding needed to implement both the new FCRPS Biological Opinion (BiOp) and the Columbia Basin Fish Accords (Accords) without reducing funding for other non-BiOp and/or non-Accord elements of the Program. While the proposed spending includes the funding necessary to meet Fish Accord commitments to individual Accord signatories, the spending is not broken down into individual components. In total the spending proposed is what BPA believes is necessary for meeting its individual Accord and BiOp commitments while not reducing funding for other elements of the Program.

Cost Effectiveness, Duplication and Unnecessary Efforts:

BPA continues to place a premium on enhancing Fish and Wildlife Program performance and on managing and administering contract implementation to deliver project outcomes as biologically effective results – at the lowest cost and within budget. We see this as a two-pronged undertaking:

- 1) The Program itself must be firmly grounded in measurable performance expectations expressed as biological and environmental objectives; and
- 2) Projects must be designed around discrete work elements tailored to expected outcomes that are explicitly addressed to the Program's performance objectives.

A durable and sustainable shift in Program emphasis is not an overnight undertaking; it is evolutionary, requiring the persistent attention of BPA Fish and Wildlife Division staff as well as buy in and commitment from other Fish and Wildlife Program partners such as the

Northwest Power and Conservation Council and the Fish and Wildlife co-managers. BPA will continue to examine and evaluate the current portfolio of effort to better spend existing resources even as we are developing additional projects to meet BiOp responsibilities and Accord commitments. The premise for existing, expanded, or newly initiated project commitments is the same: work supported by ratepayer funds will be evaluated on the basis of results that are a contribution toward explicit objectives. This is the basis of the performance construct upon which the Council has built the Program and BPA has based its BiOp actions.

Mitigation settlements for Southern Idaho and Albeni Falls: Mitigation settlements can be an effective strategy for meeting BPA's wildlife responsibilities under the Northwest Power Act. Durable, workable settlement agreements require the participation of all affected sovereigns with jurisdictional or management authority over fish and wildlife resources in the area affected by the FCRPS and encompassed by the terms of settlement proposed. These sovereign interests need to be representative of the broad public interest in mitigation responsibilities of BPA, and serve as a surrogate for the affected resources, to whom the mitigation obligation is actually owed. These attributes can confound the likelihood and timing of successfully negotiated agreements, and make it difficult to project and incorporate cost-estimates into future Program levels and budget planning.

As a practical matter, any successfully concluded agreement would have to occur within the limitations of BPA's financial flexibility. According to a recent BPA analysis (July 2008), BPA's available Treasury borrowing authority could be fully utilized by 2016. We are not budgeting for a wildlife agreement at this time due to uncertainty about whether negotiations can be successfully concluded, and in recognition that a potential Idaho wildlife mitigation settlement must fit within the scope of BPA's limited borrowing authority. BPA continues to explore strategies for maximizing its current borrowing authority, as well as potential new alternatives that might be developed.

Budget Management Plan, Long Term Budget Cap, Carry Over and Inflation:

BPA acknowledges that with the new BiOp and Fish Accords, and the related Program spending level increases in FY 2009, there are many new management implementation complexities. Although policies are being developed, important unanswered questions remain that will need to be addressed as we gain experience.

In coordination with the region, BPA will provide an opportunity for input and comment regarding the questions, issues, and policies surrounding the Fish and Wildlife proposed spending, including many of the comments proposed by BPA's customer representatives that will be considered in the development of this plan. Among the suggestions to be addressed in the plan are carry over of unspent funds, economic review, inflation and a long-term spending plan for the Integrated Fish and Wildlife Program. Science Review will be addressed in a separate document that is under development and will be provided to customers and other constituents for feedback.

BPA believes its future cost projections accurately reflect the range of impacts to the operation of the FCRPS related to implementation of both the new BiOp and Columbia Basin Fish Accords. Additional financial consequences relating potential outcomes associated with the BiOp litigation are too speculative to address at this time, and will be

addressed as necessary in the future in base budgets. BPA has included adjustment clauses in rates in the past to address this risk, and will consider doing so in the future.

BPA customers commented that outside the BiOp and Accord commitments, unspent funds should not be carried forward nor made available for funding projects in the future. BPA believes that there is a potential for actual Fish and Wildlife Program spending to come in below the proposed spending in FY 2010, due to the ramp-up of the expanded program. This may occur because most of the new Fish Accord projects will not be in place before the end of the FY 2008 implementation period; under-spending is thus likely to continue into FY 2009 given the time needed to complete ISRP review and required permitting processes. Additionally, the FY 2009 spending projection reflects an assumption that actual expenditures for new work would occur at 75 percent of the full project budget.

This ramp-up assumption was applied for FY 2009; in actuality, many new projects have *project-year* budgets (the contract implementation period spans two fiscal years) that will spill into FY 2010, further extending the Program ramp-up period. BPA's proposed \$230 million spending in FY 2010 is reflective of the funding level necessary for meeting Fish Accord and BiOp commitments, while allowing for no reduction of funding for the other non-BiOp and/or non-Accord elements of the Program. Given the potential for a more protracted ramp-up of Program spending for new BiOp and Accord commitments than expected, BPA may choose to introduce a probability distribution around this proposed spending in the formal FY 2010-2011 rate case, to model the anticipated range of uncertainty of actual spending relative to the proposed of \$230 million for FY 2010.

As part of its FY 2007-2009 project funding decision BPA decided it was reasonable to carry over \$8.8 million in unspent funding from the previous rate period, so as not to create a "use-it-or-lose-it" incentive. For FY 2010-2011, as it relates to projects outside the BiOp/Accords, BPA will make a decision on how to handle unspent funds as part of the development of a spending management plan for overall Program implementation planning. BPA expects to complete development of this plan during the autumn of 2008 and will provide an opportunity for Council, customer and Program stakeholder input.

BPA's FY 2009 proposed spending does not reflect an adjustment for inflation; however, BPA has proposed an annual adjustment of 2.5 percent per year starting in FY 2010. BPA agrees that with the addition of an annual inflation adjustment, the Program budget in total could function as an overall funding commitment or cap. For example, BPA does not plan to allow the general carryover of unspent funds for the non-Accord portion of the Program; those dollars would be otherwise returned to ratepayers by being kept in BPA's cash reserves. Conversely, if work can be implemented at lower than forecasted amount, flexibility from lower-than-expected contract costs may need to be used to cover potentially higher-than-forecasted needs of other projects. This approach, with the addition of the inflation adjustment, provides both flexibility and substantial certainty in making future project funding decisions within an overall established budget for FYs 2010-2011. However, longer-term, BPA's commitment under the FCRPS BiOps is to specific performance requirements and not to specific work or a set amount of money.

Customers suggested that BPA look for potential ways to reduce funding of other projects where there are duplicative efforts and/or a lack of a clear FCRPS mitigation nexus. BPA

believes such an assessment is appropriate, and that it should logically occur as part of the Council's upcoming project review initiative, prior to any future solicitation for additional project proposals.

Independent Science Review: As noted earlier, BPA is committed to ensuring adequate independent science review consistent with the intent of the Science Review amendment to the Northwest Power Act. BPA, Fish Accord parties and the Council are currently drafting a white-paper outlining the process for Science Review of new project commitments in the Accords; BPA will soon be seeking customer input and feedback on this approach.

Independent Economic Advisory Board (IEAB): BPA supports the Council utilizing the IEAB for cost-effectiveness assessments, as appropriate.

Cultural Resources: Similar to prior fiscal years, BPA will continue to spend approximately \$4.5 million per year in FYs 2010-2011 to meet the cultural resources requirements of the agency. Costs include compliance activities for transmission services and fish and wildlife mitigation projects, as well as the long-term funding commitments made in the System Operations Review of the FCRPS. For example, during FY 2008, the Fish and Wildlife Program (Program) directly supported two archaeologists to expedite on the ground contract actions. For FY 2009, BPA recruited an additional three archeologists dedicated to cultural resource compliance activities for Transmission Services and the Program.

As during previous years, cultural resource compliance spending in FYs 2010-2011 is part of the overall agency funding commitment for environmental assessment and protection in support of fish and wildlife mitigation and transmission projects. BPA archaeologists mostly charge their time directly to projects, but costs would total approximately \$500,000 if included as a separate Program expense. In addition, some cultural resource surveys and reports are contracted out, and there are additional indirect costs associated with mitigation measures for transmission services and fish and wildlife. Environmental planning, tribal affairs, project management, and other agency staff work closely in consultation with Tribes, Tribal Historic Preservation Officers, and State Historic Preservation Officers. Although the costs of these activities are typically not attributed as a specific cultural resource expense, they are encompassed within projected program levels and expenditures.

Decision: No change was made to the planned Fish and Wildlife expense and capital forecast for FY 2010-2011. BPA will continue to examine and evaluate the current portfolio of effort, to better spend existing resources, even as we are developing additional projects to meet BiOp responsibilities and Accord commitments. BPA will develop an overall Fish and Wildlife Spending Management Plan – in coordination with the region. There will be an opportunity for input and comment to address questions, issues and policies surrounding the Fish and Wildlife proposed spending. Many of the comments proposed by BPA's customer representatives will be addressed in the development of this plan.

F. U.S. FISH AND WILDLIFE SERVICE: LOWER SNAKE RIVER FISH & WILDLIFE COMPENSATION PLAN

\$ millions

Expense

FY 2010		
Initial IPR	Final IPR	Change
23.6	23.6	0
FY 2011		
Initial IPR	Final IPR	Change
24.5	24.5	0

This program funds 11 hatcheries and 15 satellite facilities owned and operated by the Fish and Wildlife Service (FWS), and fisheries agencies of states of Oregon, Washington, Idaho and the Nez Perce and Shoshone-Bannock tribes and the Confederated Tribes of the Umatilla. This program is legislatively mandated to mitigate for the existence and operation of the four lower Snake River hydroelectric dams constructed in the 1970s.

Comments Received:

- Washington Department of Fish and Wildlife supports the funding for the LSRCP. Note that this does not include potential future costs associated with ESA and the BiOp.
- IDFG supports the proposed LSRCP budget. BPA should recognize the need to fund hatchery programs in addition to fishery mitigation programs.
- Alaska F&W supports the funding of deferred maintenance for LSRCP hatcheries.

Response: BPA’s proposed LSRCP spending reflects moderate increases in the near-term to address a backlog of non-recurring maintenance needs. Much of this non-recurring maintenance has been deferred since 2002 so as to maintain total LSRCP spending within rate case commitments.

The increase in funding is for deferred and extraordinary maintenance expenditures, and is not a permanent increase in spending for routine management, maintenance, and operations of hatchery facilities. Purposes include the avoidance of higher costs associated with addressing unexpected failure of equipment and facility infrastructure on an emergency basis, and managing the increased risk to human and fish health and safety. These risks increase as the useful life of existing equipment and infrastructure approaches and passes the threshold of biological effectiveness and cost-efficiency. Consequently, continued deferral of this maintenance could result in economic impacts that exceed the near-term savings from a deferral.

Regarding potential future additional LSRCP costs associated with ESA consultation and compliance with the FCRPS Biological Opinion, and informed by the federal hatchery review process, BPA would look first to the LSRCP cooperating parties to absorb these costs into the existing spending levels to the maximum extent possible. A related unresolved issue is that the BPA-USFWS direct funding agreement covers expense funding only (for operations, maintenance, monitoring and evaluation costs for these

hatcheries). To the extent that major capital investments may become necessary, there is no funding source at this time.

The relationship between mitigation and conservation hatchery purposes, and the appropriate mix of production to support both, is beyond the scope of the IPR. However, BPA’s funding responsibilities should naturally relate to activities necessary for mitigating the effects of the federal hydrosystem on fish populations. Consequently, to the extent that hatchery purposes can be segmented, BPA’s responsibilities would encompass FCRPS mitigation, and not harvest augmentation.

The region continues to debate the efficacy and relative impacts of artificial production on the long-term fitness and reproductive success of native and wild stocks.

Supplementation hatcheries which are operated for the purpose of rebuilding salmonid populations which have historically been depressed due to FCRPS impacts are supported at levels reflected in BPA’s Fish and Wildlife Program budget commitments. Future funding for hatchery infrastructure, including expansion or reprogramming of existing capacity, will be informed by the outcome of the ongoing hatchery review process.

Decision: No change to the planned Lower Snake River Compensation Program forecast of expense and capital.

G. RENEWABLE RESOURCES

\$ millions

Expense

FY 2010		
Initial IPR	Final IPR	Change
41.6	45.6	4.0
FY 2011		
Initial IPR	Final IPR	Change
43.4	45.9	2.5

BPA’s goal for renewable resources is to ensure the development of its share of cost-effective regional renewable resources at the least possible cost to BPA ratepayers. BPA’s share will be based on the regional load growth (about 40 percent) of its Public Utility customers. BPA will cover its share through power acquired by BPA from renewable resources to serve its public customers and/or renewable resources acquired by publics with or without financial assistance by BPA.

Comments Received:

- The Idaho Conservation League commented that BPA should restore renewable facilitation and use a portion to begin looking for reasonable investments in renewable resources.
- Tacoma Power stated that BPA should not increase the budget for renewable resources.
- The Joint Public Power group opposes BPA’s proposal to completely remove the renewable option from the Conservation Rate Credit. They suggest that it be

ramped down gradually from \$6 million today to \$2 million by 2011. The renewable option should be extended to support small projects like customer-owned solar PV and it should also cover the purchase of Environmentally Preferred Power. BPA should continue to offer the \$559/kw credit for solar PV. Renewable Northwest Project commented that \$4 million is inadequate to meet customer needs for new renewables. BPA should continue its leadership by taking a broader approach to renewables.

- CRTIFC supports full funding of renewable resource programs.

Response: Comments received reflect opposing views, some suggesting that BPA should increase renewable resource spending and others suggesting BPA should not increase renewable spending. Joint comments submitted by the Public Power Council, Industrial Customers of Northwest Utilities, Northwest Requirements Utilities, Northwest Generating Company and the Public Generating Pool noted that some utilities may continue to need assistance in procuring renewable resource generation in the short-term and that the signing parties opposed BPA's proposal to completely remove the Renewable Option from the Conservation Rate Credit. The joint comments suggested decreasing the Renewable Option funding levels from \$6 million to \$4 million in 2010 and \$2.5 million in 2011. The joint comments also suggested that the Renewable Option should continue to support small-scale customer-owned renewable projects and allow the purchase of Environmentally Preferred Power.

Decision: BPA agrees that utilities will likely need additional assistance in acquiring and using renewable generation to serve their loads. Therefore, BPA will include in its FY 2010-2011 initial rate proposal, \$4 million in 2010 and \$2.5 million in 2011 for the Renewable Option to the Conservation Rate Credit.

H. POWER INTERNAL COSTS/ POST-RETIREMENT BENEFITS

\$ millions

Expense

FY 2010			
Initial IPR	Final IPR	Change	
150.2	151.2	1.0	
FY 2011			
Initial IPR	Final IPR	Change	
154.9	155.9	1.0	
FY 2009 Expense			
Original WP-07	Initial IPR	Final IPR	Change
126.9	140.3	136.3	4.0

(As reported in the 2009 Power Close Out Report)

Internal Operations includes Agency Services that provide support to the programs and organizations within Power Services and are either allocated to Power Services, or direct-charged to Power Services, as well as the internal operating costs of Power Services itself.

Although programs have increased in scope and responsibility, as stated earlier, Power Services has effectively had a cap on power costs for seven years and the internal operations costs in 2008 are virtually the same as they were in 2001. The deferral of costs creates cost pressures such that Power can no longer sustain flat costs. Increases over the 2001-2008 levels are necessary for FY 2009 through 2011 because of greater wind integration efforts than expected, greater-than-expected costs for Regional Dialogue contract and tiered rates work, greater-than-planned resource acquisition efforts, and increased IT, Supply Chain, Legal, Financial and other activities necessary to achieve the programs describe above.

Re-organizations that were not reflected in initial IPR numbers are reflected in the final IPR numbers. These reorganizations resulted in greater efficiencies and a more accurate allocation of Business Support function costs. The result is a slight shift in allocated costs of \$1 million from Transmission internal costs to Power internal costs.

There was no change in Post-Retirement Benefits.

Decision: No change to total Agency Internal Operating Costs other than \$1 million shift in allocation from Transmission to Power.

COST DECISIONS TO BE MADE AS PART OF THE RATE CASE

The following section provides information on areas for which the costs will be determined in the FY 2010-2011 rate proposal. They have been included in the IPR to provide an opportunity for participants to understand the basis for these costs.

I. POWER PURCHASES, INCLUDING MONETIZED BENEFITS TO DSIs

\$ millions

FY 2010		
Initial IPR	Final IPR	Change
327.2	*	0
FY 2011		
Initial IPR	Final IPR	Change
404.8	*	0

* Power Purchases, including monetized benefits to DSIs, will be determined in the Final Rate Proposal.

J. TRANSMISSION PURCHASES, RESERVE/ANCILLARY SERVICES

\$ millions

FY 2010		
Initial IPR	Final IPR	Change
176.4	*	0
FY 2011		
Initial IPR	Final IPR	Change
177.0	*	0

* Transmission Purchases and Reserve and Ancillary Services will be determined in the appropriate rate cases.

K. RESIDENTIAL EXCHANGE PROGRAM

\$ millions

FY 2010		
Initial IPR	Final IPR	Change
221.4	*	0
FY 2011		
Initial IPR	Final IPR	Change
220.5	*	0

* Residential Exchange benefits will be determined in the Final Rate Proposal.

L. TOTAL NET INTEREST, AMORTIZATION/DEPRECIATION AND NON-FEDERAL DEBT SERVICE

\$ millions

Net Interest

FY 2010			
	Initial IPR	Final IPR	Change
Power	177.7	176.1*	(1.6)
FY 2011			
	Initial IPR	Final IPR	Change
Power	194.3	192.0*	(2.3)

Amortization/Depreciation

FY 2010			
	Initial IPR	Final IPR	Change
Power	204.0	197.5*	(6.5)
FY 2011			
	Initial IPR	Final IPR	Change
Power	216.9	208.1*	(8.8)

Non-Federal Debt Service

FY 2010			
	Initial IPR	Final IPR	Change
Power	556.2	556.2*	0
FY 2011			
	Initial IPR	Final IPR	Change
Power	577.1	577.1*	0

*These are a very preliminary estimates provided for information only. The final amount will be determined in the rate case and could be considerably different due to such things as updated actual 2008 data.

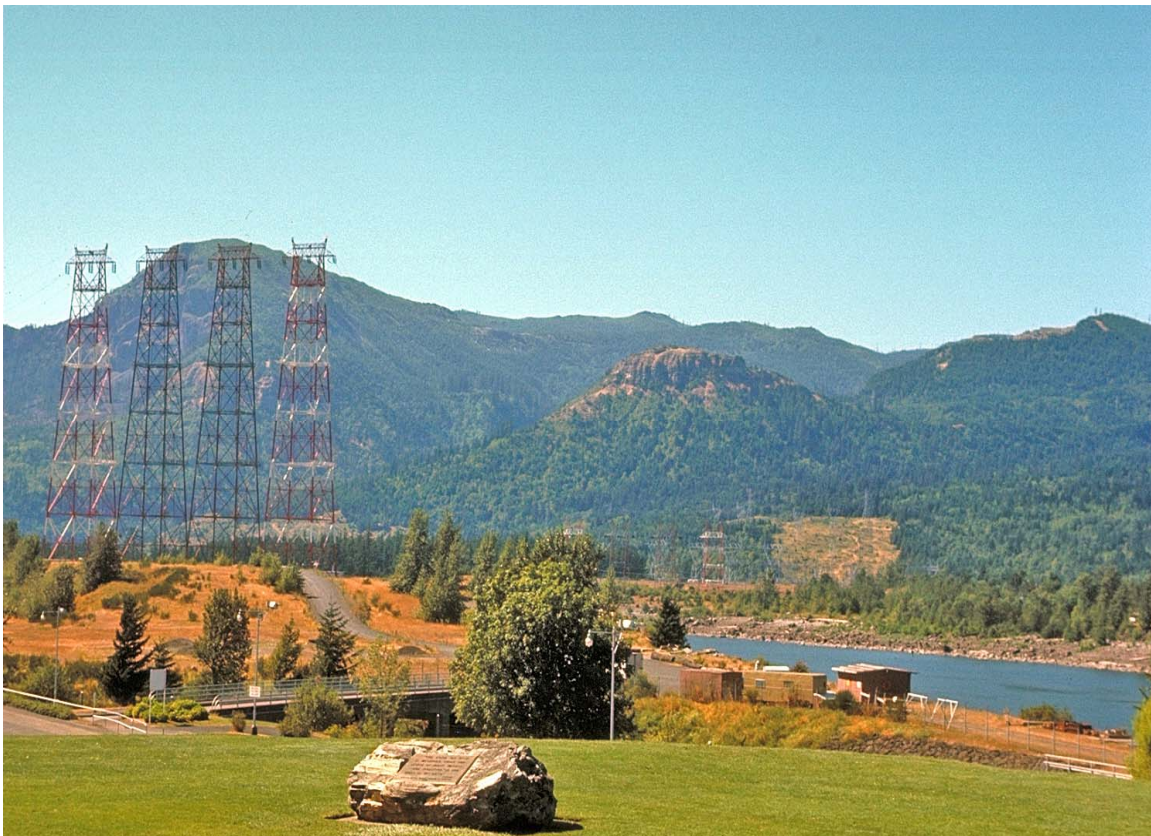
Decision: Changes since the initial IPR numbers reflect the decisions described above related to the decreased Conservation capital for FY 2010 and 2011. Other changes that affect the current estimates are revised estimates of FY 2008 investments and revised reserves estimates resulting in different interest earnings assumptions. The final levels of these forecasts will be determined in the final rate proposal.

M. DEBT MANAGEMENT

Debt management issues are not decided in the IPR. BPA’s development of assumptions and decisions on debt management are rate case issues and will be discussed in that forum. However, levels of new capital investment are an important driver of the capital recovery costs in the rate case, and new capital spending is within the scope of the IPR, as discussed above, BPA believes it is important to show the impact of past and future debt management decisions in the IPR since they impact power rates. This IPR final report is intended to portray BPA’s current thinking on these issues; it does not make any decisions associated with debt management issues other than new capital spending levels.

Section 3

TRANSMISSION



FY 2010-11 Transmission Expense Summary

\$ thousands	Initial IPR	Final IPR	Change	Initial IPR	Final IPR	Change
	FY 2010	FY 2010	FY 2010	FY 2011	FY 2011	FY 2011
Transmission Description						
Transmission Operations	120,405	123,084	2,679	122,661	125,434	2,773
System Operations	56,586	56,573	(13)	57,511	57,497	(14)
Scheduling	10,308	9,423	(885)	10,784	9,868	(916)
Marketing	18,836	19,500	664	19,538	20,225	687
Business Support (Including Internal Support)	34,675	37,588	2,913	34,828	37,844	3,016
Transmission Maintenance	125,717	125,896	179	130,687	130,873	186
System Maintenance	121,919	122,099	180	126,691	126,877	186
Environmental Operation	3,797	3,797	0	3,996	3,996	0
Transmission Engineering	26,503	26,500	(3)	28,014	28,011	(3)
Agency Services	62,640	58,779	(3,861)	62,936	58,940	(3,996)
Post-Retirement Contribution	15,598	15,598	0	16,071	16,071	0
Transmission Acquisition/Ancillary Services (3rd Party Sources)	18,359	18,371	12	18,359	18,371	12
Other Income, Expenses and Adjustments	(2,000)	(2,000)	0	(2,000)	(2,000)	0
Non-Federal Debt Service	5,890*	*	*	4,690*	*	*
Interest Expense	150,623*	*	*	168,664*	*	*
Amortization/Depreciation	200,810*	*	*	211,538*	*	*
Total	724,546	366,228	(994)	761,620	375,700	(1,028)

*These will be determined in the upcoming rate case.

FY 2010-11 Transmission Capital Summary

\$ in Thousands	Initial IPR	Final IPR	Change	Initial IPR	Final IPR	Change
	FY 2010	FY 2010	FY 2010	FY 2011	FY 2011	FY 2011
Power Program						
Main Grid Projects*	155,905	150,587	(5,318)	221,346	209,346	(12,000)
Area & Customer Service Projects	31,714	31,714	0	6,256	6,256	0
Upgrades & Additions**	91,108	95,710	4,602	107,471	112,585	5,114
System Replacement Projects	134,494	134,494	0	138,423	138,423	0
Environment Projects	5,530	5,530	0	5,752	5,752	0
Customer Financed/Credits	90,165	90,165	0	102,287	102,287	0
Total Indirect Capital***	86,100	87,442	1,342	88,696	96,243	7,547
17% Lapse Factor	(89,551)	(100,249)	(10,698)	(101,324)	(103,773)	(2,449)
Total Capital	505,465	495,393	(10,072)	568,907	567,119	(1,788)

*Re-spread of I-5 Corridor

**Security Enhancements

***Change in AFUDC/Corp OH

A. TRANSMISSION OPERATIONS

\$ millions

Expense

FY 2010		
Initial IPR	Final IPR	Change
120.4	123.1	2.7
FY 2011		
Initial IPR	Final IPR	Change
122.7	125.4	2.8

Transmission Operations consists of four separate programs: Systems Operations; Transmission Scheduling; Transmission Marketing; and Business Support.

- System Operations include technical operations, substation operations, control center support, and power system dispatching.
- The Scheduling program includes expenses for reservations, pre-scheduling, real-time scheduling, scheduling after-the-fact (ATF), and technical support.
- The Marketing program contains expenses for transmission sales, contract management, and marketing business strategy and assessment.
- Business support includes expenses for logistics services, aircraft services, and the Agency Services costs that provide support to the programs and organizations within Transmission Services and are direct-charged to Transmission.
- Although programs have increased in scope and responsibility, the internal operations costs have been held virtually flat for seven years. Increases reflect the IT, Supply Chain, Legal, Financial and other activities necessary to achieve the programs described above.

Changes in this area are strictly shifts from other areas. Increases of \$3.9 million in FY 2010 and \$4.0 million in FY 2011 are a result of costs related to Office of Workers' Compensation being moved from Transmission Agency Services to Transmission Operations. This increase is somewhat offset as a result of reorganizations that were not reflected in the initial IPR and are reflected in the final IPR. These reorganizations result in a slight shift in allocated costs of \$1 million from Transmission internal costs to Power internal costs.

B. TRANSMISSION MAINTENANCE: SYSTEM MAINTENANCE AND ENVIRONMENTAL OPERATIONS

\$ millions

Expense

FY 2010		
Initial IPR	Final IPR	Change
125.7	125.8	0.1
FY 2011		
Initial IPR	Final IPR	Change
130.7	130.8	0.1

Maintenance consists of technical training, heavy mobile equipment maintenance, maintenance costs for system management, joint cost, power system control, system protection control, transmission line and substation.

The slight change in this area is due to reorganizations and is offset elsewhere in Transmission.

C. TRANSMISSION ENGINEERING

\$ millions

Expense

FY 2010		
Initial IPR	Final IPR	Change
26.5	26.5	0
FY 2011		
Initial IPR	Final IPR	Change
28.0	28.0	0

Engineering consists of: the research and development program; transmission system planning and analysis; regional association fees and costs associated with cancelled capital projects and inventory adjustments.

Comments Received on Transmission Expenses Generally:

- Tacoma Power expressed concern about the rate of increase in program spending. BPA should find ways to reduce them to more acceptable levels.
- ATNI suggested that BPA should provide more information on the cost components for how these cultural resources responsibilities (for Transmission Services) will be met for FY 2009 and to elaborate on the tribal consultation/coordination components related to these costs.

Response: As noted in workshops, Transmission operating costs are increasing due to a myriad of new requirements being placed on BPA including: mandatory reliability, environmental and tariff requirements; integration of wind resources; increased demand for capacity; the need to sustain aging transmission assets; and the need to renew investment in areas that have been historically under-invested. We believe that without these increases, BPA’s ability to provide reliable transmission could seriously be jeopardized. Three EPIP’s have been or are being implemented that are having significant positive impacts on our processes, addressing Performance Management, “Plan, Design, Build”, and Supply Chain. However, the need to expand the system, address increased reliability standards and respond to the other FERC regulatory measures, such as Order 890, results in more costs, including not only capital investment and increased operations and maintenance costs, but additional support costs as well. The increased level of support needed from IT, Supply Chain, legal, and finance put additional pressure on our spending levels.

From 2009 to 2010 Transmission Maintenance increased by 13 percent. From 2010 to 2011 the rate of increase in these programs slowed to 4 percent. The largest FY 2009 to

FY 2010 increases in Transmission Maintenance are in the areas of Non-Electric Maintenance and Right-Of-Way (ROW) Maintenance.

Non-Electric Maintenance is increasing due to the implementation of the Facilities Asset Management Plan. The Facilities Asset Management Plan specifies a program of addressing the deferred maintenance on BPA's non-electric facilities identified during recent condition assessments. This has been an area that BPA has historically cut back spending but this work can no longer be deferred. The Facilities Asset Management Plan will bring BPA's facilities up to acceptable maintenance levels over the next 6 to 7 years with a focus in FY 2010 and 2011 on addressing critical deficiencies impacting personnel safety and transmission operations. Examples of critical life safety projects include the installation of lighted exit signs, emergency egress lighting, and panic hardware on doors. The program also places priority on addressing reliability issues on facility systems and equipment that are inadequate or have exhibited failures such as failing HVACs and roofs vital to the protection of the transmission equipment.

With the ROW Maintenance program, the primary driver for this sub-program is WECC/NERC compliance. The newly developed standards went into place in June 2007, making compliance with NERC's regulations for controlling vegetation along transmission line rights-of-way mandatory. BPA experienced a tree contact in 2007 and another in June of 2008. We provided our mitigation plans to WECC, noting that we were confident we could maintain compliance with the standards. As the largest transmission owner in the Pacific Northwest and a critical partner in the Western Interconnection, BPA understands the serious consequences vegetation threats pose. We take full responsibility for ensuring the reliability of our transmission grid, and we are taking unprecedented measures to identify and remove vegetation threats along our transmission lines to ensure we are in strict compliance with the vegetation standards systemwide. As a result, our expenses for right-of-way maintenance need to increase.

For Transmission Operations, the overall increase from FY 2009 to FY 2010 was 5 percent. From FY 2010 to FY 2011 the increase was less than inflation.

The drivers for the increases in Transmission Operations are:

- Mandatory reliability compliance; documentation and reporting have increased substantially.
- Increased workload to support wind integration.
- Increased demand for transmission capacity.
- Increased training needs due to constant influx of new equipment types, models, and technologies.

The increased funding will be used to:

- Provide tools to manage the system, e.g., automate remedial action scheme (RAS) arming, voltage control, and short-term wind forecasting.
- Increase management of conditional firm initiatives.
- Increase dynamic scheduling capability.

- Recognize opportunities to create more efficient inspection, documentation and switching processes and practices through internal and external benchmarking.
- Develop recruitment efforts that can supplement the success in the Apprenticeship Program.
- Digital communication to major federal projects and neighboring Balancing Authorities (BAs).

With regard to cultural resources, in some instances transmission maintenance activities may potentially impact cultural resources but are much less likely to do so than new projects where we are constructing on previously undisturbed ground. Most maintenance activities occur on previously disturbed ground where any cultural resources are likely to be known. However, if maintenance crews are performing work that may include previously undisturbed ground (e.g., creating a new section of access road, building a new culvert, etc.), then the Regional Natural Resource Specialist will contact the potentially affected Tribe(s) and/or contact BPA’s Tribal Affairs to coordinate communication. Communication would occur similarly as described in the capital section on page 47.

Proposed spending has been adequate to cover all cultural resource preservation issues related to transmission activity to date.

Decision: Overall Transmission Operations and Maintenance expenses were reduced by \$1.0M per year for FY 2010 and 2011. This minor reduction was the result of efficiency related reorganizations and allocation of Agency Services costs. Additionally, there is a shift in OWCP costs from Transmission Agency Services to Transmission Operations.

D. AGENCY SERVICES/PENSION/POST-RETIREMENT BENEFITS

\$ millions		
Expense		
FY 2010		
Initial IPR	Final IPR	Change
78.2	74.4	(3.9)
FY 2011		
Initial IPR	Final IPR	Change
79.0	75.0	(4.0)

- Agency Services in Transmission is the equivalent cost category as internal operating costs in Power Services. These Agency Services costs provide support to the programs and organizations within Transmission Services and are either allocated or direct-charged to Transmission.
- Although programs have increased in scope and responsibility, the internal operations costs have been held virtually flat for seven years. Increases reflect the IT, Supply Chain, Legal, Financial and other activities necessary to achieve the programs described above.

- Decreases of \$3.9 million in FY 2010 and \$4.0 million in FY 2011 are as a result of costs related to Office of Workers' Compensation being moved from Transmission Agency Services to Transmission Operations.

Decision: No change to Agency Services Costs other than to reflect moving the OWCP costs from Transmission Agency Services to Transmission Operations.

E. TRANSMISSION CAPITAL

\$ millions

FY 2010		
Initial IPR	Final IPR	Change
505.5	495.4	(10.1)
FY 2011		
Initial IPR	Final IPR	Change
568.9	567.1	(1.8)

Transmission capital is made up of four categories: Main Grid, Area and Customer Service, Upgrades and Additions, and Environment. Main Grid consists of major network reinforcements including McNary-John Day, Big Eddy and I-5 corridor. Area and Customer Service projects, and Upgrades and Additions assure that BPA meet's reliability standards and contractual obligations to its customers for serving load. The Capital Environment program addresses regulatory and liability issues at facilities likely to be adversely affected by water and environmental resources.

Comments Received:

- The Joint Public Power group appreciated the development of an asset management program to set priorities based on condition and risk.
- Tacoma Power commented that too much is planned in the early years of the construction program. Cost leveling should be performed over the next few years. Given the shortage of line construction personnel, we question if the work can actually be accomplished or that BPA will pay premium prices for labor.
- The Joint Public Power group supports BPA's efforts to make investments needed for reliability. Investments should not be made unnecessarily. Given the large increases in the capital program, BPA should delay projects in future periods if it can be done without significant risk to reliability or load service.
- CRITFC does not support any reductions that reduce system reliability.
- PPC renews its request to meet with Transmission Services regarding its capital budget prior to that budget's inclusion in the OMB budget.

Response: As noted in IPR workshops, the transmission capital forecast represents increases that are necessary to meet several important pressures. The forecast is based on in-depth evaluation, assessment and prioritization as part of asset management planning.

Several comments indicate concerns that the capital program is front-loaded. The primary concern is the rate impact in FY 2010-2011; some utility customers would like it levelized to defer some costs out to FY 2012-2013. A secondary issue is Transmission's ability to staff the significant increase in work and the accompanying costs associated with contracting work out. There were concerns that the present labor shortage for line construction personnel will not only make it difficult to complete the capital program, but also the market premium for contract labor will push the capital program up.

Given the significant increase in the forecasted capital program and the labor shortage concerns raised in comment, it may be that more of a ramp-up period will be required. A larger lapse factor than proposed in the initial IPR forecast would recognize that possibility. The application of a 17-percent lapse factor, increased from the 15-percent lapse factor in the initial IPR, to the FY 2010-2011 period and reshaping the timing of the I-5 corridor project to reflect a more likely and achievable schedule has the affect of levelizing the program to some extent. It is expected that in 2012 and beyond there would be no lapse factor applied. In addition, the revenue requirement impacts of the capital program (depreciation, non-federal debt service, and net interest expense) in 2010 and 2011 are primarily from the 2008-2009 rate period. Likewise, the 2010 and 2011 capital program impacts the 2012 and 2013 capital program.

Transmission is currently looking at a number of ways to supplement and outsource needed human and construction resources. Major supply contracts for material and labor are being implemented. Coordination of projects with neighboring utilities will be required to maintain overall competitive pricing for the region.

Line construction personnel continue to be in high demand throughout the western U.S. BPA has joined a consortium of utilities in the West to examine best practices for construction employees, engineers, and materials. All three are in high demand and given our multi-year work plans we anticipate working through many resources to ramp-up accordingly. In addition, since we are planning our asset management programs for 3-5 years, we will be able to give contractors ample time to spread their workload to achieve the necessary upgrades.

Contract labor prices remain competitive in the Northwest. Since we currently have four major contract suppliers, we hope to maintain competitive pricing. Currently much of our work is done with in-house labor supplemented with crew members from contractors. Engineering, Procurement and Construction (EPC) or turnkey contracts will also be used to meet the high demand of construction labor. As we monitor all bid awards against in-house labor costs we will strive to contain our overall costs.

As mentioned in the June 30th technical workshop on Transmission's Asset Plan, Transmission is in catch-up mode, due to aging infrastructure and the capital program is filled with time critical investments, e.g. wood pole, spacers and breaker replacement programs, which make it very difficult to levelize the capital program.

Based on an assessment of FY 2009 new projects, one half of new starts are replacement projects needed to support the aging infrastructure. The other half of our new starts are nondiscretionary; nondiscretionary projects which include emergency replacements, mandatory replacements/upgrades/additions, and tariff generated projects.

These time critical projects are defined for FY 2009 capital as follows:

- Replace critical failed equipment or operational function. Funding needed to replace failed equipment and for operational functions that is critical to the reliable operation of the BPA transmission system. Examples include: failure of a power transformer; failure of a line protective relay; failure of station or communication batteries; major component failure of a Remedial Action Scheme; failure of a transmission line circuit; failure of a control system like SCADA.
- Mandatory replacements /upgrades/additions. Funding for projects to mitigate violations or resolve non-compliance or prevent non-compliance of federal law, including regulatory requirements or standards, such as FERC, NERC, environmental, and OSHA. The project submittal identifies the statute, requirement, or standard, including the specific section or clause, that applies and states why the project must start in the fiscal year in which it is reviewed.
- Tariff Generated Projects. Funding for projects in response to a Transmission Service Request, Generation Interconnection Request or Line/Load Interconnection Request made pursuant to BPA's OATT (Tariff).
 - 1) 100% Customer Financed/BPA owned Projects: Funding for all customer-financed projects with executed agreement. The project submittal identifies the specific customer agreement that applies and states why the project must start in the fiscal year in which it is reviewed.
 - 2) Network Open Season Projects: Funding for projects developed in response to the Network Open Season. The project submittal identifies the specific customer agreements that apply, the PTSA (contract) conditions have been satisfied and states why the project must start in the fiscal year in which it is reviewed.
 - 3) NT Projects: Projects required to accommodate current NT load and forecasted NT load growth. The project submittal identifies the specific customer agreement that applies and states why the project must start in the fiscal year in which it is reviewed.

In response to earlier customer requests to meet with Transmission Services regarding its proposed capital spending prior to the development of the Federal budget, the Agency held the Capital Planning Review as an interim step aimed at giving the stakeholders a consolidated view of and input into BPA's capital investments. To accomplish this, BPA combined the capital review processes for the Power Services and Transmission Services. Through the Capital Planning Review, BPA involved stakeholders in capital management decisions, giving stakeholders the opportunity to influence how the agency makes capital investments that affect future power and transmission rates. Proposed spending estimates were presented for a five-year period (in response to customer comments that a longer horizon is necessary for capital). All capital projects were addressed including projects that have not yet been approved (new starts) and capital investments that are expected to be placed into service during the upcoming rate period.

As previously noted, BPA held extensive discussions with customers and other stakeholders to develop approaches to provide regional transparency and accountability

for BPA cost management efforts. As a result, BPA initiated a new process this year for regional stakeholders to engage BPA on planned program spending levels that will form the basis for input to both Power Services and Transmission Services rate setting. The overall process is the Integrated Business Review (IBR) which consists of two major sub-processes: 1) the IPR and 2) the Quarterly Business Review (QBR).

For Cultural Resources, once a transmission project is in the final planning stages and we are ready to begin the environmental work, BPA sends written notification to each of the potentially affected tribes. We typically follow up with phone calls to the Cultural Resources Manager, Natural Resources Manager, and THPO. In the notification we offer formal consultation and by phone call, offer to meet at the staff level to discuss the proposed project and any issues they might have. If more than one tribe may be impacted, we typically request that one tribe represent the affected tribes as the lead tribe. Ongoing discussions are conducted with the lead Tribe which has the responsibility to inform the other tribes of any issues. The Project Manager, Environmental Lead, Tribal Account Executive (and others as appropriate) will meet periodically at the staff level to keep tribal staff informed (we send them letters as well, to keep them informed) and offer to meet with any tribal council members, as tribal staff deem appropriate.

During the estimating phase, BPA's Tribal Affairs provides an estimate of costs, typically for tribal monitoring during construction, which is included in the approved capital project proposal. The lead Tribe may share with us any cultural resource issues around the proposed project route and we try to make adjustments to avoid cultural resource sites. At times, we may uncover cultural resources that neither BPA nor a tribe was aware of (e.g., Decatur Island burial site), at which point work is stopped. BPA must then assess what is appropriate and required to preserve the resource. Any needed funding amounts goes back through the capital budget group, but in every case money is added to mitigate for cultural resource preservation (e.g., in the case of Decatur Island, over \$1.5 million was added to the capital project proposal). BPA's relationship with tribes in the Pacific Northwest is important and is conducted on a government-to-government level, which ensures that matters such as cultural resource preservation is respected. Project Managers, Environmental Leads and Tribal Affairs work proactively with all potentially affected tribes on any proposed Transmission project.

Decision: BPA believes that the forecasts for capital investment do not include any "unnecessary" work, and that the schedule is based on sound assessment and prioritization of the work that is necessary. However, as suggested in comments, BPA has reviewed the timelines for its capital Transmission programs. BPA has determined that the timing of the I-5 Corridor project as proposed in the initial IPR is likely too optimistic and that an adjustment to the schedule is appropriate. For that reason, the large investment planned for FY 2011 will be moved to FY 2012. Additionally, in recognition of the difficulty in implementing such a large increase in the capital program, as pointed out in comments, the 15-percent lapse factor applied to all Transmission capital in the initial IPR forecasts has been increased to 17 percent for all Transmission capital.

COST DECISIONS TO BE MADE AS PART OF THE RATE CASE

The following section provides information on areas for which the costs will be determined in the FY 2010-2011 rate proposal. They have been included in the IPR to provide an opportunity for participants to understand the basis for these costs.

F. TRANSMISSION ACQUISITION AND ANCILLARY SERVICES

\$ millions

FY 2010		
Initial IPR	Final IPR	Change
18.4	18.4*	0

FY 2011		
Initial IPR	Final IPR	Change
18.4	18.4*	0

Includes 3rd party only

* The actual amount will be determined in the Final Rate Proposal.

G. TOTAL NET INTEREST, AMORTIZATION/DEPRECIATION AND NON-FEDERAL DEBT SERVICE

\$ millions

Net Interest

FY 2010			
	Initial IPR	Final IPR	Change
Transmission	150.6	151.1*	
FY 2011			
	Initial IPR	Final IPR	Change
Transmission	168.7	168.6*	

Amortization/Depreciation

FY 2010			
	Initial IPR	Final IPR	Change
Transmission	200.8	200.8*	0
FY 2011			
	Initial IPR	Final IPR	Change
Transmission	211.5	211.5*	0

Non-Federal Debt Service

FY 2010			
	Initial IPR	Final IPR	Change
Transmission	5.9	5.9*	0
FY 2011			
	Initial IPR	Final IPR	Change
Transmission	4.7	4.7*	0

*These are a very preliminary estimates provided for information only. The final amounts will be determined in the rate case and could be considerably different due to such things as updated actual 2008 data.

Decision: Changes since the initial IPR numbers reflect the decisions described above related to the change in the planned schedule for construction of the I-5 corridor project, and the increased lapse factor applied to Transmission capital. The changes in capital result in a small reduction in interest which is offset by a reduction in AFUDC. Other changes that affect the current estimates are revised estimates of FY 2008 investments and revised reserves estimates resulting in different interest earnings assumptions. The final levels of these forecasts will be determined in the final rate proposal.

H. DEBT MANAGEMENT

Debt management issues are not decided in the IPR. Decisions and assumptions on debt management are rate case issues and will be discussed in that forum. However, BPA believes it is important to show in the IPR the impact of past and future debt management decisions since these impact power rates. This IPR final report is intended to portray BPA’s current thinking on these issues; however it does not make any decisions associated with debt management issues.

BPA’s debt management process is largely driven by actual and forecasts of future capital investments in the FCRPS. Management of this program entails comprehensive review of options for reducing debt service costs based on assumptions about capital spending, interest rate yield curves, and retaining access to capital. However, the primary driver of costs in this area is capital spending levels. The IPR includes discussion on these items because it is important for participants to understand the implications of past debt management decisions and proposed capital spending levels. That said, review during the IPR has led to some changes, the impacts of which are estimated here. The levels for these cost categories may be different in the Final Rate Proposal.

Section 4

AGENCY SERVICES



AGENCY SERVICES

Agency Services include direct program support costs as well as general and administrative costs. These activities are integral to and in support of the work described in the Power and Transmission sections. The costs are distributed to and embedded in the Power and Transmission costs.

Some of the larger programs and their drivers are:

- Supply Chain's spending is driven by the programmatic levels of Transmission O&M and construction, Fish and Wildlife, Energy Efficiency, Technology Innovation, and Workplace Services (non-electric facilities build, repair and maintenance), and the agency's supplemental labor force and contract services requirements.
- General Counsel supports BPA programs through legal advice and representation.
- Internal Audit supports governance and serves BPA managers through audits, reviews, analyses, and other services.
- ColumbiaGrid was created to promote regional transmission planning in response to Federal Energy Regulatory Commission (FERC) Order 890.
- Finance provides general accounting and financial reporting, cash management, Treasury and third-party financing, accounts payable and receivable services, rate case revenue requirement development and support, financial planning, Agency budget development and support and Agency cost management support.
- Information Technology proposed spending reflects implementation of system enhancements to meet emerging business requirements and to support efficiencies in organizations across the Agency; implementing changes due to mandatory regulation such as Federal Information Security Management Act and OMB Circular A123; and maintaining the reliability of hardware through maintenance and refresh.
- The Security and Emergency Response program is designed to ensure the protection of BPA's workforce, physical and electronic assets and support the reliability of BPA's operations and services to the Pacific Northwest.
- HCM's proposed spending reflects both the significant EPIP savings and the resources to deliver the full range of HCM activities including labor relations, employee relations, hiring and recruiting, training, benefits, personnel policy development and management, etc.
- Workplace Services consists of facilities (HQ and Ross O&M and non-electric facilities including field office facilities), leases, space management, office services, printing and mail services.

Comments Received:

- Tacoma Power commented that BPA should not initiate any R&D before customers can review the projects. Customers should be involved in the Technology Confirmation/Innovation Council and have access to reports.

- Tacoma Power also noted that total internal agency costs are increasing by 39.3%. BPA should review these costs and find ways to reduce them to more acceptable levels (inflation or less).
- The Joint Public Power group commented that [Agency Services] spending increases should be held to the rate of inflation.

Response: Regarding Agency Services costs in general: Many of the Efficiency Project Improvement Program (EPIP) savings have been achieved in Agency Services, including Human Capital Management, Information Technology, and Public Affairs. Several of the EPIPs also recommended process improvements that resulted in the consolidation of many functions (from the Business Units to Agency Services), including Supply Chain, Metering and Billing, Load Forecasting, and Contract Administration. Finance also experienced a consolidation of business and management support from Power and Transmission to a central group. These consolidations have led to a change to Agency Services costs, making them appear higher than if consolidation had not occurred.

Power and Transmission programs and projects are significant drivers of Agency Services costs. Growth in existing programs and/or new initiatives has resulted in increased demand for Agency Services supporting activities. Some of the most significant power and transmission program changes and their impacts on Agency Services are:

- Supply Chain's spending is driven by the programmatic levels of Transmission O&M and construction, Fish and Wildlife, Energy Efficiency, Technology Innovation, Workplace Services (non-electric facilities build, repair and maintenance), and the agency's supplemental labor force and contract services requirements. The FY 2010 and FY 2011 proposed spending estimates have fully incorporated the efficiency savings from the Supply Chain and Plan-Design-Build EPIPs resulting from the Work Planning and Scheduling System and the "80 percent stable work plan" for transmission. Other pressures are the redesign of inventory and purchasing processes, internal controls, and performance to ensure compliance with Agency Master Lease initiative.
- Workplace Services consists of facilities (HQ and Ross O&M and asset management), leases, space management, office services, printing, and mail services. The overall trend for Workplace Services' base program is to stay level with the exception of the new facilities asset management program. Condition assessments conducted as part of Facilities Asset Management (FAM) plan determine current risk exposure. Increased proposed funding is included to address backlog of facilities-related deferred maintenance.
- Information Technology spending was reduced before all of the efficiencies needed to support the reductions were completed; realization of the efficiencies requires expenditure of expense dollars. Pressures include:
 - Capital projects implement business units Enterprise Process Improvement Program initiatives which provide business units with savings while IT funds ongoing expense support tail. Expense support tails need to be funded as capital projects are approved. Provide automated solutions to support wind integration

- Providing automated solutions to support Regional Dialogue.
 - Responding to emerging cyber threats (e.g. spam filters, whole disk encryption to protect Personal Identifying Information)
 - Introducing and leveraging emerging technologies (e.g. hierarchical storage, virtualization/multi-cores, IPv6)
- General Counsel’s forecast is driven by increased need for legal services in transmission due to increased investments and Transmission Service Agreements, resumptions of the Residential Exchange Program (REP) with attendant legal review, increases in Fish and Wildlife programs, new reliability standards, and compliance requirements.
 - Customer Support Services program levels reflect new workload associated with implementation of increasingly complex Regional Dialogue contracts, the necessity of administering existing power subscription agreements in parallel with preparing for implementing Regional Dialogue contracts, and increased BPA data and forecasting requirements for loads, resources and REP, all requiring enhancements to billing, contracts and load forecasting systems. The impacts of specific initiatives such as WREGIS, FERC Order 890 implementation, Resource Program, etc., are not specifically known, but are expected to be addressed within the forecasted levels of FTE and budgets.
 - Finance’s expense level as increased primarily due to the consolidation of staff from Power and Transmission. FY 2010-2011 cost increases are slightly higher than inflation to allow for increased financing and accounting support of growing Power and Transmission activities. Finance provides general accounting and financial reporting, cash management, Treasury and third- party financing, accounts payable and receivable services, rate case revenue requirement development and support, financial planning, Agency budget development and support and Agency cost management support.
 - Growth in the Security and Emergency Response program is limited to capital spending as security has increased at Headquarters and field sites. This program is designed to ensure the protection of BPA’s workforce, physical and electronic assets and support the reliability of BPA’s operations and services to the Pacific Northwest.

No comments were received in the IPR process concerning the Northwest Power and Conservation Council proposed spending agreement. The Council’s proposal for FY 2010 is the same, \$9.683 million, as presented in the IPR workshop. The Council’s proposal for FY2011 is \$9.934 million, which is \$73 thousand higher than the IPR workshop. The Council received no comment on the proposed spending agreement during the Council’s public process.

The proposed Agency Services program levels are essential to the accomplishment of business unit and agency initiatives.

Regarding BPA's Technology Innovation program, the Research and Development (R&D) program is driven by a strategic need to focus on solutions to technology related

business challenges. Our research agenda is described in a set of publicly available technology roadmaps easily accessed from this link on BPA's home page (<http://www.bpa.gov/corporate/business/innovation/>). As they become available, research results are also posted to that web page.

Customer review of our research agenda, as expressed in our technology roadmaps, is welcome at any time. Roadmaps are updated periodically to address changes in the current state of technology and changes in BPA's business challenges. Comments on our roadmaps should be addressed to BPA Technology Innovation Office - DE-3, PO Box 3621, Portland Oregon 97208-3621.

We are considering a means for customer involvement in our Technology Confirmation / Innovation Council. To that end we have met with the executive leadership of several utilities including Tacoma Power. To date, no utility has expressed an interest in helping guide BPA's R&D agenda. We will continue to explore means of more fully engaging customers. Terry Oliver, BPA's Chief Technology Innovation Officer, is available to brief any party on our R&D effort. Please contact your BPA Account Executive.

Decision: No change to Agency Services total program levels as presented in the IPR workshops and as reflected in the Council's proposed spending agreement.