

Bonneville Power Administration Cost Management

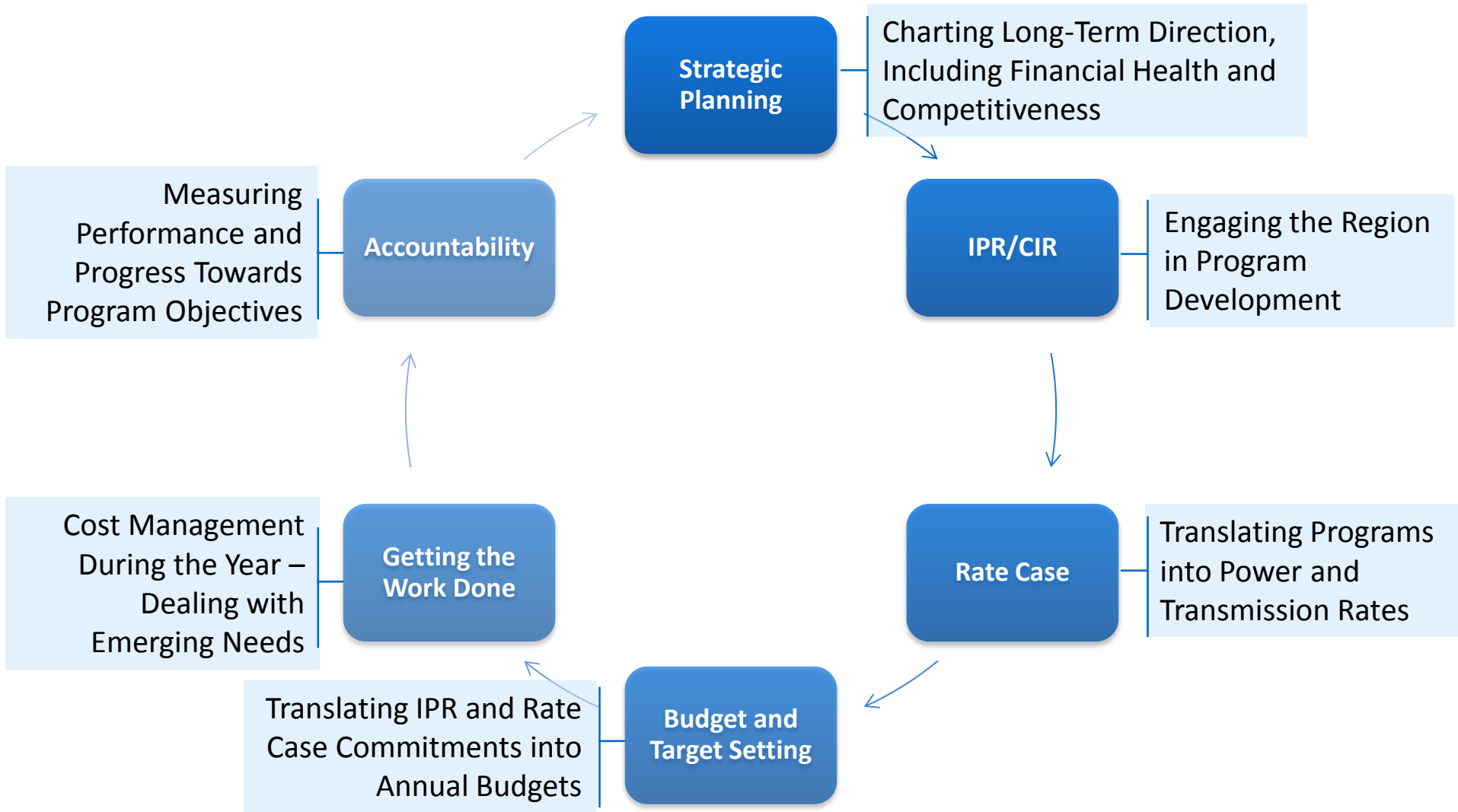
Presented by Brian McConnell
Budget Officer



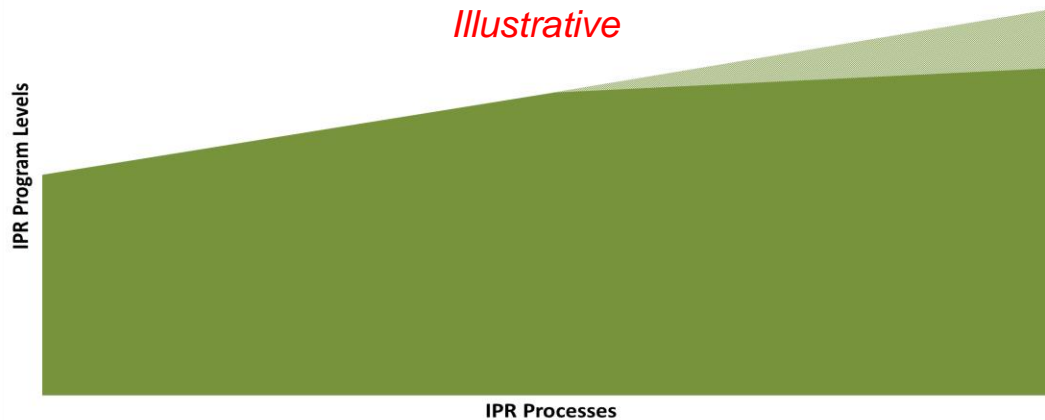
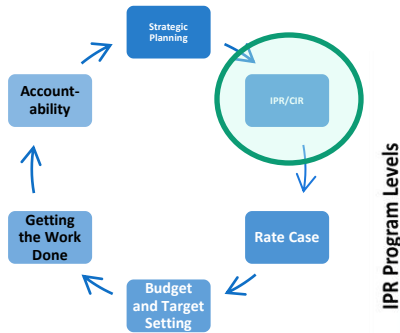
Agenda

- Focusing on the full cost management cycle – from strategic planning through accountability
- Evolution of the Integrated Program Review (IPR)
- Translating the IPR and Capital Investment Review (CIR) into budgets and targets
- Within-Year cost management – achieving results with flexibility
- Future improvements for 2016 IPR

Program Delivery and Cost Management Cycle



Evolution of the IPR



2010 IPR

- Based on prior year rate case cost estimates with an assumed efficiency reduction to inflation/ COLAs
- 5 and 7% reduction analysis prepared and reviewed
- Estimates were reviewed but often grew faster than inflation

2012 IPR

- Cost targets set based on prior year rate case cost estimates with efficiency reduction
- Extensive justification required if target exceeded
- Initial publication described programs and customers requested specific workshops

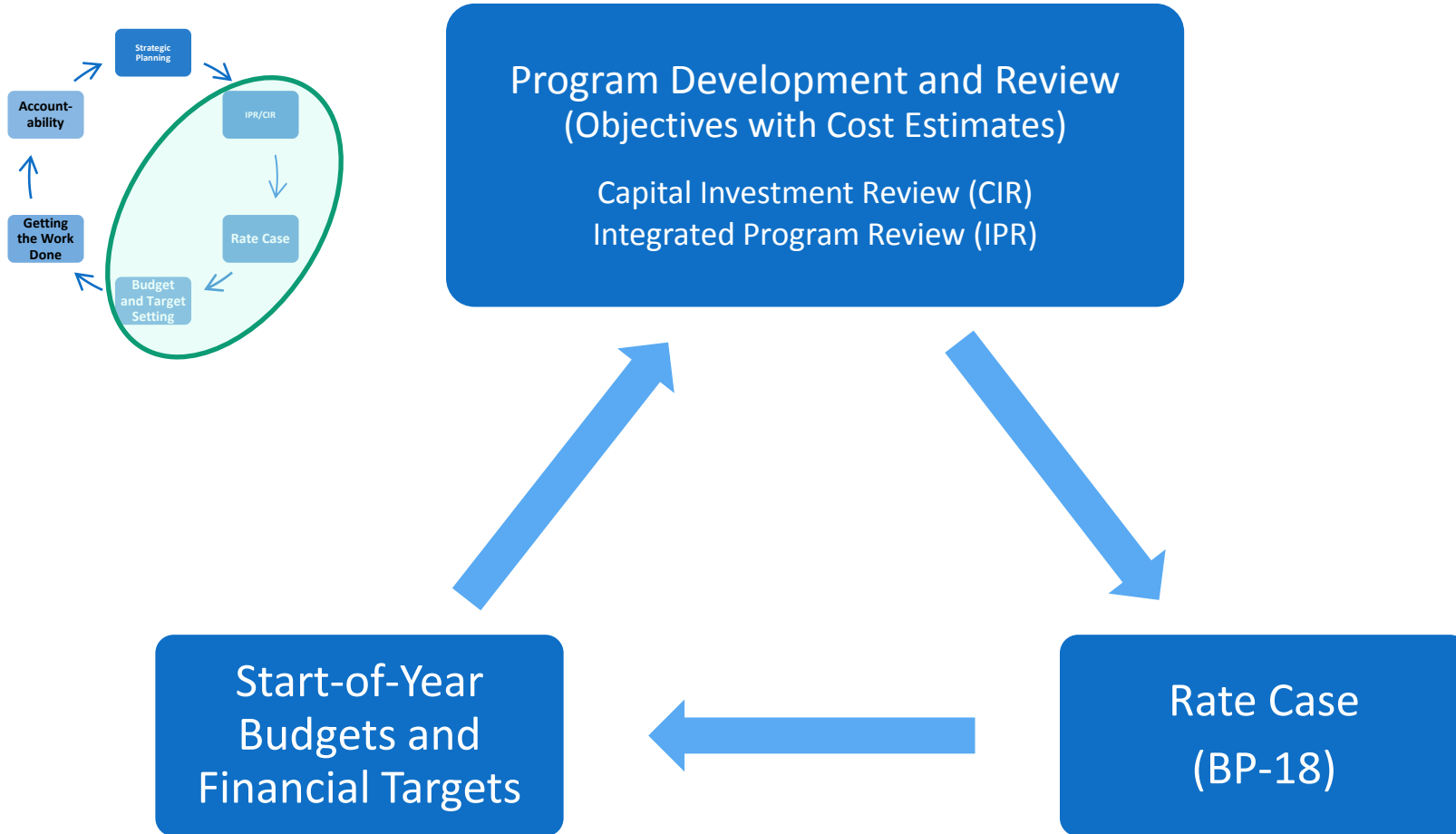
2014 IPR

- Incorporated budget pools led by executives
- Prior year spending used as starting point for proposed spending levels
- Funding requests were more heavily scrutinized
- Undistributed reductions accounted for historical underspending
- Customer input strongly influenced outcome

2016 IPR

- Emphasis on both current and long-term affordability, rates, and program priorities
- Revised budget pools led by executives
- Prior year spending used as starting point for proposed spending levels

Translating IPR/CIR into Budgets and Targets



Within-Year Cost Management – Getting the Work Done

Start-of-Year Budget (SOY) process sets funding agreements

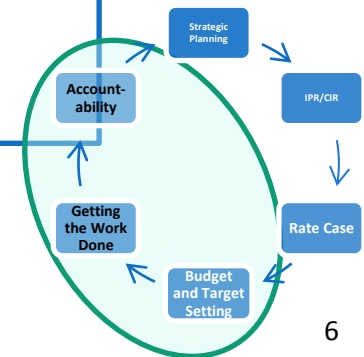
- CFO sets initial guidance, informed by spending levels in rate cases
- Cost containment is supported by business line and departmental targets
- Manager performance contracts include a cost management element
- Program budgets closely scrutinized and prioritized against new work
- Budget variances from rate case levels shared publicly

Within-year budget tracking

- Executives continuously oversee financial performance
- Monthly spending reviews that include tracking, forecasting and reprioritizing
- Monthly monitoring of performance against financial targets
- Budget Pool Managers scrutinize quarterly forecasts
- Status updates shared with customers and stakeholders

EOY results

- Actual spending measured against targets and factored into manager performance reviews
- EOY performance shared with customers and stakeholders and published in annual report
- EOY results influence programs in subsequent years



Improvements for the 2016 IPR

1. We will show customers and constituents the trade-offs made between programs - the funding requests on the margin.
2. All FTE requests will need to be justified. We will not automatically budget up to an historic allocation.
3. We will use cost targets based on analysis of both short- and long-term rate levels, financial health and competitiveness.
4. We will differentiate firm versus flexible elements of BPA's cost structure.
5. We will better integrate capital and expense program funding decisions, emphasizing debt repayment and O&M impacts of capital investment decisions.