

# Corps of Engineers O&M/Bureau of Reclamation O&M

## Financial Choices Workshop: September 10, 2002

**\$ in Millions**

|   | FY 2000      | FY 2001      | FY 2002             |                   |             | FY 2003             |                   |             |
|---|--------------|--------------|---------------------|-------------------|-------------|---------------------|-------------------|-------------|
|   | Actuals      | Actuals      | June 2001 Rate Case | Aug 2002 Forecast | Delta       | June 2001 Rate Case | Aug 2002 Forecast | Delta       |
| 5 Corps of Engineers O&M                      | 104.1        | 115.0        | 108.0               | 136.5             | 28.5        | 112.0               | 145.2             | 33.2        |
| 6 Bureau of Reclamation O&M                   | 46.1         | 53.2         | 47.0                | 55.7              | 8.7         | 48.3                | 62.2              | 13.9        |
| 7 NORM - PNRR 1/                              |              |              | 2.7                 | 0.0               | (2.7)       | 6.1                 | 0.0               | (6.1)       |
| 8 Revenue Offsets from Generation Investments |              |              | 0.0                 | (7.5)             | (7.5)       | 0.0                 | (7.5)             | (7.5)       |
| <b>9 Total Corps and Bureau Expenses</b>      | <b>150.2</b> | <b>168.2</b> | <b>157.7</b>        | <b>184.7</b>      | <b>27.0</b> | <b>166.4</b>        | <b>199.9</b>      | <b>33.5</b> |

**\$ in Millions**

|   | FY 2004             |                   |             | FY 2005             |                   |             |
|---|---------------------|-------------------|-------------|---------------------|-------------------|-------------|
|   | June 2001 Rate Case | Aug 2002 Forecast | Delta       | June 2001 Rate Case | Aug 2002 Forecast | Delta       |
| 5 Corps of Engineers O&M                      | 112.0               | 146.2             | 34.2        | 112.0               | 148.3             | 36.3        |
| 6 Bureau of Reclamation O&M                   | 48.3                | 64.0              | 15.7        | 48.3                | 65.9              | 17.6        |
| 7 NORM - PNRR 1/                              | 6.1                 | 0.0               | (6.1)       | 6.1                 | 0.0               | (6.1)       |
| 8 Revenue Offsets from Generation Investments | 0.0                 | (7.5)             | (7.5)       | 0.0                 | (7.5)             | (7.5)       |
| <b>9 Total Corps and Bureau Expenses</b>      | <b>166.4</b>        | <b>202.7</b>      | <b>36.3</b> | <b>166.4</b>        | <b>206.6</b>      | <b>40.2</b> |

**\$ in Millions**

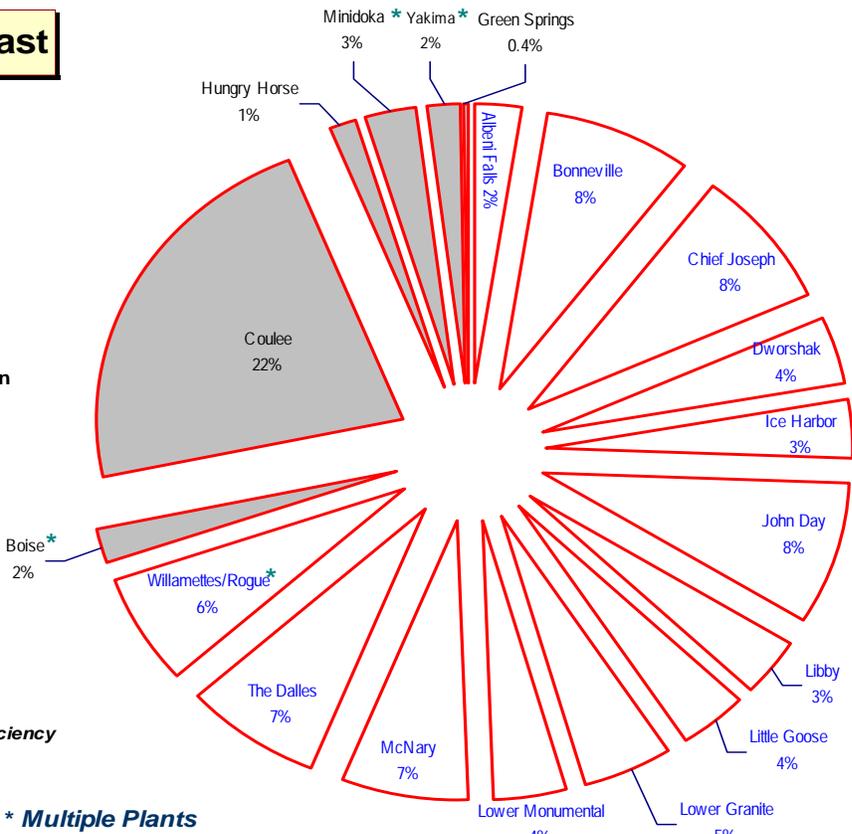
|   | FY 2006             |                   |             | Average Delta 2003-2006 | Total Delta  |
|---|---------------------|-------------------|-------------|-------------------------|--------------|
|   | June 2001 Rate Case | Aug 2002 Forecast | Delta       |                         |              |
| 5 Corps of Engineers O&M                      | 112.0               | 150.9             | 38.9        |                         |              |
| 6 Bureau of Reclamation O&M                   | 48.3                | 67.6              | 19.3        |                         |              |
| 7 NORM - PNRR 1/                              | 6.1                 | 0.0               | (6.1)       |                         |              |
| 8 Revenue Offsets from Generation Investments | 0.0                 | (7.5)             | (7.5)       |                         |              |
| <b>9 Total Corps and Bureau Expenses</b>      | <b>166.4</b>        | <b>211.0</b>      | <b>44.6</b> | <b>38.7</b>             | <b>154.6</b> |

### BUDGET FORECAST SUBCATEGORIES:

#### FY2002-2006 Budget Forecast

- Bureau of Reclamation (BOR)
- Corp of Engineers (COE)

**Thirty-One (31) Hydro Plants:**  
 System Capacity: 22,061 MW  
 Average Generation: 77,873 GWh  
 Plant capacities range from 6,809 MW at Grand Coulee to 3.4 MW at Boise Diversion



COE: \$727 million  
 BOR: \$315 million  
**TOTAL: \$1,042 billion**  
 (Does not include revenue offset associated with new generation at Green Springs and Elwah/Glines and efficiency improvements)

## **DRIVERS OF DIFFERENCE FROM RATE CASE:**

### Cost Review Recommendations:

1. The Corps, Reclamation, and BPA should develop an integrated capital/asset management strategy for the Federal Columbia River Power System (FCRPS).
2. Establish a Joint Operating Committee composed of the Corps, Reclamation, and BPA to facilitate the development and implementation of the strategy.
3. The strategy should incorporate Operations and Maintenance (O&M) of the FCRPS, coordinated capital investment planning, and development and application of integrated performance measures.
4. Performance should be measured (against targets), reported, and incentives should be created to ensure the asset management success of the FCRPS.
5. Benchmark all O&M aspects of the FCRPS assets against industry standards and adopt and implement “best practices” collaboratively.
6. The Joint Operating Committee(s) should develop common objectives for guiding power related planning, budgeting, operational, and investment decisions of the FCRPS.
7. Consolidate accounting and financial systems, human resources, and information technology systems of the Corps, Reclamation, and BPA.

### Cost Review Recommendations **Implemented** and other information:

1. Integrated Asset Management Strategy for the FCRPS has been completed. (Recommendation 1 above)
2. Joint Operating Committees (JOCs) between Reclamation, the Corps, and BPA have been established. (Recommendation 2 above)
3. The JOCs have developed common objectives for guiding power-related planning, budgeting, operational, and investment decisions of the FCRPS. *The agencies continue to evolve an overall business model for the FCRPS.* (Recommendation 6 above)
4. The JOCs are coordinating O&M and capital investment planning for the FCRPS, and have developed and applied integrated performance measures. (Recommendation 3 above)
5. System Performance Measures and Targets have been established and performance incentives created. (Recommendation 4 above)
6. Systemwide material condition assessment completed. Material condition processes and new information are being refined. (New action)
7. FCRPS hydropower costs and performance are now routinely benchmarked against the hydro generating industry. (Recommendation 5 above)
8. Despite the fact that Reclamation, The Corps, and BPA are three separate agencies in different Departments within the Federal government (Interior, Defense, and Energy), the agencies have made significant changes and improvements in business practices. The agencies have implemented coordinated budgeting and program management, share workforce capabilities for cost-effective maintenance, implemented cooperative research efforts, and are

looking at other improvements such as joint recruiting and training efforts. Because of the unique missions and authorities of each agency, it is not likely that an actual physical consolidation of administrative systems will occur. (Recommendation 7 above)

The rate case flat-lined the Corps and Reclamation budgets for the FY 2002 to FY 2006 rate period as recommended by the Cost Review. This was based on extremely ambitious generalized efficiencies to be gained in multiple areas of each agency. **However, the Cost Review budget could not reflect the detailed information gained from the actual implementation of the rest of the Cost Review recommendations (i.e., coordinated budgeting and planning, material condition assessment information, benchmarking, etc.)**

From FY 1990 to FY 1996, FCRPS hydropower availability decreased from 92 to 82 percent. This was due to under-funding of an aging system and an increase in funding for fish requirements. The additional funding for fish came at the expense of power, as fish requirements were given a higher priority. A similar decline would occur if budgets were reduced to rate case/cost review levels. *(Note: Since FY 1996 availability has increased from 82 to 88 percent in FY 2001)*

Benchmarking results show that the FCRPS facilities are *below* industry standards for expected costs for O&M and capital.

Below are some of the major cost drivers that represent a majority of the increase from the rate case:

| <u>Major Cost Drivers</u>                | <u>2002-2006 Impact *</u> |
|--|---------------------------|
| • Increased Security                     | \$34M                     |
| • Assignment of F&W costs to budget      | \$69M                     |
| • Grand Coulee Cost Reallocation         | \$21M                     |
| • Labor costs (capable workforce)        | \$24M                     |
| • O&M for Green Springs, Elwah/Glines    | \$14M                     |
| • Potential performance incentive payout | \$20M                     |
| • Labor costs (wage increases, OT)       | \$36M                     |

\* **Note:** The 2002-2006 forecasted costs are variable and are refined annually in our budgeting process.

## **CONSEQUENCES OF COST CUTS/TRADEOFFS:**

### **FCRPS Consequences of Funding at Rate Case Levels**

- Declining availability
- Declining power generation reliability for both power and non-power requirements
- Increased Forced Outages
- Increased return to service times for generating units
- Reduced ability to provide ancillary services for transmission
- Reduced transmission system reliability
- Reduced ability to generate revenues
- Jeopardize implementation/compliance requirements of Biological Opinions
- Units out of service due to disrepair would require replacement power from the market. Replacement power probably would not be green.
- Increased long-term capital costs due to neglected maintenance and degradation of base material condition of plants
- Increase in long-term O&M costs

*In general, declining reliability, availability, and ability to generate revenue for the FCRPS.*

## **CALCULATION OF REVENUE OFFSETS/EFFICIENCY GAINS:**

Additional revenue from Green Springs, Elwah/Glines, and efficiency improvements total \$7.5M/yr. Analysis continues to determine if additional revenues can be gained.

Total Revenue offset = \$37.5M for 2002-2006 rate period.

## **MECHANISMS FOR ENFORCING SPENDING LEVELS:**

Budgets are managed at or below agreed upon levels as defined in Annual and Five Year Power Budgets for the Corps and Reclamation.