

***BPA's strategic direction focuses on the longer term. The current version was revised from an earlier March 2004 version following a public comment process.***

***Even with changes incorporated, the strategic direction is a work in progress that is flexible enough to accommodate changing conditions but tight enough to provide solid and measurable guidance for moving forward.***

**BPA DIRECTION**  
(July 2004)

The expressions of Bonneville Power Administration direction in this paper guide objectives and actions we will pursue to position BPA for the post-2006 period.

**Mission**

The Bonneville Power Administration's mission as a public service organization is to create and deliver the best value for our customers and constituents as we act in concert with others to assure the Pacific Northwest:

- An adequate, efficient, economical and reliable power supply;
- A transmission system that is adequate to the task of integrating and transmitting power from federal and non-federal generating units, providing service to BPA's customers, providing interregional interconnections, and maintaining electrical reliability and stability; and
- Mitigation of the Federal Columbia River Power System's<sup>1</sup> impacts on fish and wildlife.

BPA is committed to cost-based rates, and public and regional preference in its marketing of power. BPA will set its rates as low as possible consistent with sound business principles and the full recovery of all of its costs, including timely repayment of the federal investment in the system.

**Vision**

BPA will be an engine of the Northwest's economic prosperity and environmental sustainability. BPA's actions advance a Northwest power system that is a national leader in providing:

- High reliability;
- Low rates consistent with sound business principles;
- Responsible environmental stewardship; and
- Accountability to the region.

We deliver on these public responsibilities<sup>2</sup> through a commercially successful business.

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<sup>1</sup> Federal Columbia River Power System (FCRPS): The transmission system constructed and operated by BPA and the hydroelectric dams constructed and operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation in the Northwest. Each entity is separately managed and financed, but the facilities are operated as an integrated power system.

<sup>2</sup> Our public responsibilities are defined by the four characteristics listed above.

### **Critical Factors Driving the Strategy**

In this operating environment, eight broad areas present special challenges we must address to realize our vision and add value to the region. These critical factors are driving change within BPA's internal operations and in its approach to regional issues.

- The recent 50 percent increase in BPA power rates has seriously eroded customer trust and confidence, and could pose a threat to the agency's competitiveness if rates were to continue to rise. In addition, BPA is exposed to greater and increasingly complex risks.
- While salmon returns have been improving, escalating costs for fish and wildlife have increased the need to adopt clearly defined objectives and to determine the most cost-effective means of achieving success.
- The true value of the very low-cost federal hydro system is masked by additional costs that have been melded with the low-cost hydro.
- BPA's financial health has suffered as a result of the West Coast energy crisis and Northwest drought of 2000-2001. While our financial position has improved, we must restore and sustain our financial health to ensure that we meet our responsibilities to both ratepayers and taxpayers.
- The region's infrastructure requires investments in generation, conservation and transmission if it is to maintain reliability and adequacy and provide the necessary foundation to support a healthy economy.
- The absence of a regional approach in conservation, generation acquisition, and transmission planning and expansion has hampered regional investment in infrastructure.
- Customers, tribes, and constituents have criticized BPA for the complexity of its ratemaking processes and for its lack of clarity in financial reporting and decision making.
- Faced with the need to cut costs, BPA has substantially reduced investments in innovative technologies and has made deep cuts in investments for its people.

## **Future State of the BPA Business – Post-2006**

The following are strategic objectives that BPA will pursue to fulfill its Mission and Vision.

**Stakeholder Value** (value of mission deliverables as the stakeholders experience it)

### **S1 BPA policies encourage regional actions that ensure adequate, efficient and reliable transmission and power service.**

We believe increased clarity about how much power BPA will provide for load placed on us beyond 2006, and at what price, is essential to assuring adequate infrastructure. The Northwest Power Act and existing contracts create some clarity, but not enough. Without more clarity, BPA, the region's utilities and private developers will hesitate to make needed investments.

To significantly improve this clarity as soon as possible, we will define contractual power supply obligations where they are unclear. We will define the base amount of power each public preference customer is able to buy at a low embedded cost rate and, if we adopt tiered rates, we will define pricing and terms for supply beyond this base amount. We expect BPA's prices for incremental power beyond what we can serve with the existing system to reflect the cost of purchasing power to meet those incremental loads. Being clear about where the responsibility lies for developing or purchasing incremental resources will provide the needed lead time for those with load-serving obligations. Defining long-term contractual obligations and associated price signals is an essential step toward ensuring that the needed investments are made. This is particularly important because it is unclear how much of customers' load BPA will serve beyond 2006. We view the effort to contractually define customer rights to BPA power, potentially supported by a tiered rate structure to help implement these rights, as consistent with the broad customer interest in "allocation" of rights to federal system power.

Regional resource adequacy standards are critical to defining responsibility and accountability. Therefore, our policies will advocate for an appropriate power supply adequacy standard by the region's utilities and regulators. Similarly, we will advocate for an appropriate transmission adequacy standard.

BPA will lead the region in developing a more unified and integrated approach to how the region's transmission system (including ancillary services) is managed and expanded to meet this standard. We believe planning and operating the system in a coordinated and unified fashion (as if it were run by a single utility) can best serve consumers and will enhance the efficiency and operational excellence necessary to improve the cost-effectiveness, adequacy and reliability of the grid.

A stronger regional approach will likely require new institutional structures. Adequacy and efficiency are key drivers behind efforts to form a regional

transmission organization. We will continue to work with regional stakeholders to design a consensus approach to unifying operation and management of the regional transmission grid based on the recently adopted RRG (Regional Representatives Group) Transmission Proposal.

A current proposal by regional stakeholders lays out a basic framework for a phased approach for moving forward based on the needs of the Northwest. The region needs to build on this success and use this platform as a foundation for a final detailed proposal.

We will support further developmental efforts that help to ensure benefits to Northwest consumers. While the current proposal calls for a phased approach, an initial operational state needs to be stable, stand-alone, cost-effective, and functional, so that the region can remain at this state if that proves best. While BPA believes that it is important to have an independent entity that is free of market interests to manage this development, this evolutionary approach must also provide a meaningful set of checks and balances to ensure regional accountability and responsiveness to regional needs.

BPA is committed to assuring fulfillment of key principles before it joins any transmission operation organization, such as honoring existing contracts and avoiding significant cost shifts among customer classes. Only after the detailed proposal is fully developed will BPA decide if it should sign agreements to join the organization.

**S2 FCRPS performance and expansion meet availability, adequacy, reliability and cost-effectiveness standards.**

BPA will make prudent investments in its power and transmission system.

On the power side, we will continue to work with the U.S. Army Corps of Engineers and the Bureau of Reclamation to ensure implementation of all regionally cost-effective system refurbishments and enhancements to federal hydro projects. We will work with Energy Northwest to improve the efficiency and cost-effectiveness of the Columbia Generating Station nuclear plant.

On the transmission side, we will work with our customers to determine cost-effective adequacy and reliability standards to guide BPA transmission system operation, maintenance and expansion. We will expand transmission network service to support the resulting reliability and adequacy objectives. We will integrate new generation to the BPA grid under terms that meet generators' development needs and schedules while equitably allocating and recovering the costs they add to the system. We will improve our operation and maintenance practices to increase the available transfer capacity of the transmission system.

**S3 BPA ensures development of all cost-effective energy efficiency in the loads BPA serves, facilitates development of regional renewable resources,**

**and adopts cost-effective non-construction alternatives to transmission expansion.**

BPA will continue to treat energy efficiency as a resource and define our goals in terms of megawatts of energy efficiency acquired. Even if we adopt tiered rates, we are very likely to continue to need limited amounts of new resources. We expect conservation to continue to be a cost-effective resource to meet this limited need, with first priority by law. Accordingly, our goal is to continue to ensure that the cost-effective conservation in the load we serve gets developed, since this amount is very unlikely to exceed our total need. We will ensure this amount is developed with the smallest possible BPA outlay. We will do this through a combination of acquisition of conservation, adoption of policies and rates that support others' development or acquisition of cost-effective conservation, and support of market transformation that results in more efficient electric energy use.

It is less clear that BPA will need additional renewable resources as cost-effective acquisitions, though this may occur. Since we expect the bulk of the resource development responsibility to rest with the region's utilities, our main focus will be on facilitating regional development of renewable resources by others. We will do this by developing products and services that facilitate renewable resources through the flexibility of the federal hydro system (e.g., wind storage and shaping services).

BPA will actively evaluate non-construction solutions to transmission needs, including demand-side management, on equal footing with new transmission construction.

**S4 BPA will deliver cost-effective solutions for meeting fish, wildlife and environmental responsibilities, measured against clearly defined performance objectives.**

BPA will move beyond measuring the success of fish and wildlife programs by how much it spends or how far it checks down a "to do" list of specific actions. Working in concert with other regional parties, we will strive to define the biological objectives – such as survival rates – then pursue the most cost-effective ways to achieve those biological objectives. BPA will work in concert with others to clearly define its fish and wildlife mitigation responsibilities under the Endangered Species Act and the Northwest Power Act. We will compare alternatives to identify the most cost-effective way to achieve the defined objectives and fulfill our responsibilities.

**S5 Provide open, non-discriminatory transmission services at rates that are kept low through achievement of BPA's objectives at the lowest practical cost.**

Fundamental to BPA's role as a transmission provider, we will continue to ensure open, non-discriminatory transmission services. BPA will target future

transmission costs and revenues based on meeting reliability, adequacy and cost-recovery objectives in the most efficient manner, and then seek to manage to these levels. We are sensitive to the rate pressures of additional infrastructure investment and will manage costs to keep rate increases as low as possible, while fulfilling our obligation to the nation's taxpayers.

**S6 The post-2011 benefit that BPA provides to investor-owned utilities for their residential and small-farm consumers is equitable based on the Northwest Power Act.**

BPA will ensure equitable allocation of FCRPS benefits to residential and small-farm consumers served by the region's investor-owned utilities within the statutory framework of the Northwest Power Act.

**S7 BPA's lowest firm power rates to public preference customers reflect the cost of the undiluted Federal Base System (FBS), are below market for comparable products, and are kept low through achievement of BPA's objectives at the lowest practical cost.**

BPA will target future power costs and revenues and then pursue strategies to achieve them. For example, to minimize the "dilution" of the low-cost existing system with higher-cost purchases, we intend to propose limiting our sale of power that is sold at the lowest firm rate to roughly the amount that the existing system can supply. We will explore accomplishing this through a combination of new long-term power contract features and a tiered rate structure that distinguishes between FBS power that is low cost and power that comes from higher-cost resources.

BPA will carry out all its objectives at the lowest practical cost. BPA's intent is that these actions will make rates for FBS power lower after 2006 than today's levels consistent with sound business principles, and that rates will remain substantially below market prices for comparable long-term products.

We have not reached a conclusion about the amount or nature of a "Slice" product BPA should sell after the expiration of the current contracts in 2011. We expect to conduct an evaluation of the product based on our experience to date, and reach a decision based on conversations with customers and others in the Regional Dialogue process.

**S8 Explore a post-2006 DSI service option with a known or capped value.**

We recognize the region's longstanding relationship with Northwest Direct Service Industries (DSIs), their contributions to the development and repayment of the FCRPS, the value the DSIs have contributed to the system due to their unique load character, and the jobs they have historically created. While BPA does not have a legal obligation to serve the DSIs after current contracts expire in 2006, in past Regional Dialogue proposals our customers have indicated the willingness to support a limited level of service from BPA to the DSIs. BPA,

working in cooperation with other power customers and regional interests, is willing to explore post-2006 DSI contractual arrangements with DSIs that have shown they are viable and have been good business partners. Critical aspects of any new agreement include reaching agreement on a known or capped cost with limited rate impacts on other customers, and the ability to sustain and create jobs in this sector. We do not know if arrangements that meet all of these tests are achievable, but we are willing to explore them.

**S9 FCRPS assets are managed to protect BPA ratepayer and federal taxpayer interests for the long term.**

Federal taxpayers have made a tremendous investment in the FCRPS. BPA ratepayers have been repaying that investment for more than 65 years. We need to ensure the continuation of this longstanding partnership – to provide the benefits of the federal system to our customers in return for their commitment to pay the costs of the system. This will help ensure that the federal taxpayers can continue to expect full and timely repayment of their investment. Long-term contracts between BPA and its customers may be the best means to ensure that citizens in the region continue to benefit from the federal system and that the taxpayers' investment is protected. Long-term contracts must be structured to protect both taxpayer and ratepayer interests. We are strongly inclined toward offering 20-year contracts assuming reasonable terms can be negotiated. Our statutory requirements to set rates as low as possible consistent with sound business practices will guide us to protect both BPA ratepayer and federal taxpayer interests.

**S10 Customer, constituent and tribal satisfaction, trust, and confidence meet targeted levels.**

We recognize that our customers provide the funding for everything we do. This makes customer satisfaction crucial to BPA, as it is crucial to a business. More broadly, customer, constituent and tribal satisfaction reflect both how fully the agency is meeting the needs of each group and how clearly BPA communicates its abilities and limitations in meeting those needs. BPA will work collaboratively with its customers and constituents to clarify and build consensus on our direction and objectives. We will seek to meet our objectives consistently. Consistency, transparency, clarity and responsiveness to regional views are our key means to increase satisfaction, confidence and trust within the region.

**Financial Performance**

**F1 BPA has sustainable capital access.**

BPA will develop a capital investment and funding program that will ensure sustained access to adequate capital to accomplish its mission without relying on additional borrowing authority from the U.S. Treasury.

**F2 BPA consistently recovers its costs over time.**

BPA sells cost-based wholesale power and transmission services at rates consistent with sound business principles that are designed to fully recover the taxpayers' investment in the FCRPS. We remain committed to meeting all of our financial obligations in full and on time. BPA will measure its progress in recovering its costs by managing to sustain positive Net Revenues over time and will maintain its Accumulated Net Revenue at targeted levels.

**F3 BPA maintains adequate cash flow for liquidity.**

BPA will continue to apply the financial standard it adopted in 1992. That means it will plan to achieve and maintain a Treasury payment probability (TPP) target that is the equivalent of a 95 percent probability of making its annual Treasury payment for a 2-year period and 88 percent for a 5-year period, for future rate periods. Maintaining a high TPP has enabled BPA to make its payments to Treasury on time and in full for the last 20 consecutive years. This also helps retain our high credit quality and access to cost-effective capital, which in turn lowers costs for ratepayers in the long term.

**Internal Operations** (efficiency and effectiveness of FCRPS operations)

**I1 Effective cost management (with emphasis on best practices, innovation and simplicity) through our systems and processes.**

BPA has a responsibility to conduct its business efficiently. Efficiency is needed if BPA is to produce the full range of stakeholder benefits expected of it. An essential feature of efficiency is cost management. BPA must be focused on how decisions and actions influence costs - costs that must ultimately be borne by our customers - and actively work to reduce those costs consistent with running our overall business responsibly. While we must always be striving to reduce our costs, we must always consider the consequences fully, including the risks of not meeting our objectives.

BPA has been engaged in a major effort to reduce its costs, and this effort will continue. Cost-consciousness will be reinforced by how we organize to accomplish our work, how we decide what to do, and how we perform our work.

While we have adopted industry practices for many of our key business functions (i.e., transmission maintenance, hydro operations, systems planning and business systems applications) we acknowledge that many more of our internal operating processes need to be streamlined. We will more widely benchmark industry and public sector best practices for such functions as information technology, human resources, supply chain and finance with the goal of adopting system and process efficiencies that add value to the manner in which we conduct our business, and ultimately to restore confidence in BPA's ability to effectively manage our resources.

We have created many complex systems, processes and contracts in response to our customers' and stakeholders' desires, and in response to regulatory requirements. These complexities are expensive to administer and difficult to understand. Contractual complexity and diversity of contract provisions has also contributed to tension among our customers, and between BPA and customers. The result is reduced confidence and trust in BPA and some discord within the customer community. Our challenge is to re-tool our systems, processes and our contracts (when they are renewed) to be simpler, less costly, transparent, to create less tension among BPA's customers, and to better respond to our customers' and stakeholders' needs.

**I2 One BPA consistent with Standards of Conduct.**

Over the last decade, BPA has increasingly separated its transmission and power functions, driven in part by Federal Energy Regulatory Commission Standards of Conduct (SOC) – protocols for organizations that both operate transmission and market power. The SOC are intended to help ensure nondiscriminatory access to transmission. BPA continues to fully support SOC with the goal of ensuring all customers open, nondiscriminatory access to transmission. At the same time, BPA has an obligation to provide power and

transmission services at the lowest possible cost consistent with sound business principles. This does not mean achieving lowest cost through discriminatory behavior as a transmission provider. It does mean that, while ensuring open access, we otherwise manage our business in the most efficient, economic fashion, consistent with our legal obligations. Consequently, we have an obligation to reassess our implementation of SOC and find ways to capture cost savings and efficiencies that resulted from moving separation of business lines beyond what was necessary to comply with SOC. The original degree of separation was predicated on the belief BPA would be divided into two discrete organizations under national energy restructuring. This no longer appears necessary, and is not longer a part of our vision. Therefore, we will focus on optimizing internal operations and systems for the single agency, while still complying with the SOC. We believe we can also improve customer service, make better use of capital, improve system operations, and improve workforce succession planning.

**I3 Risks are managed within acceptable bounds.**

BPA's ability to deliver public benefits depends on its continued commercial success and that of our customers. Effective risk management is a vital ingredient to our success. BPA has always faced numerous risks such as hydro supply variability. Today, however, BPA faces an increasingly complex array of risks, including:

- Ongoing uncertainty surrounding industry restructuring and deregulation;
- Market price volatility;
- Energy industry credit risk;
- Capital asset performance; and
- Damage to physical assets from vandalism or terrorism.

The amount of load BPA will serve in the future is another key risk, along with the resource risk attendant to serving that load. In this business climate, commercial success requires sophisticated risk management. BPA will continue to strengthen its risk management governance, policies and practices. It will increasingly employ a coordinated, systematic and integrated risk management plan to effectively and efficiently manage risks to achieving its strategic objectives. In doing this, BPA will clarify its tolerance for risks and will work to minimize the cost of managing risk within that tolerance. BPA will consider using a broad range of tools for mitigating risk including, but not limited to, such actions as rate adjustment clauses, planned net revenue for risk, etc.

**I4 BPA is a leader in the application of technologies that increase the value of mission deliverables.**

BPA is a leader in the application of technologies that increase the value of mission deliverables. BPA will re-energize its dedication to technological innovation. We have a proud history of helping create and apply technologies

critical to our own business challenges and the industry's development. Technological innovation remains important to fulfilling BPA's mission. We have an opportunity in the Pacific Northwest to support innovative industries that focus on developing new technologies that promise to add value to our power, transmission, and public benefits objectives. We will increase resources and support for investments in technological innovations where we believe they will enable us to meet our objectives at lower cost, or improve our accomplishment of objectives at the same cost.

**I5 Collaborative relationships with customers, constituents and tribes are supported by our managing to clear, long-term objectives with reliable results.**

We recognize we can benefit from the customers', constituents', and tribes' insights and experience. We will work collaboratively to identify issues, potential alternatives and options, as well as to increase understanding of the trade-offs we are balancing to ultimately attain as much alignment or agreement as possible on long-term objectives.

**I6 BPA's processes, decision making and performance are transparent.**

BPA will employ performance and financial standards to increase internal and external understanding of our processes, including decision making. We will improve the clarity, content and frequency of reports on our performance, particularly financial performance. We will do this in ways that are consistent with law, standard reporting regulations, commercial interest and fair disclosure. We believe these practices will enhance our trust and credibility with our customers, constituents, other stakeholders and tribes.

**I7 Decision making reflects consistent application of specified criteria.**

We will improve the quality of our critical business decisions by consistently applying a rigorous decision-making process. BPA will assess the impacts and risks of decisions against agency strategic objectives using a consistent approach and set of decision criteria. We will rigorously evaluate impacts on and risks to five key factors:

- BPA's finances and business;
- External stakeholders;
- The environment;
- BPA's legal mandates; and
- BPA's people.

In addition, BPA will clarify internal delegations of authority while ensuring that decisions are tested against the five key factors.

**People and Culture.** Taken together, the following four objectives redefine what we mean by a High-Performing Organization (HPO).

**P1 Leaders set clear direction and are accountable for results.**

BPA must be clear about its Strategic Direction. We will articulate our mission, vision, strategic objectives and how performance will be achieved through specific initiatives. We will hold ourselves accountable for achieving these results.

**P2 BPA invests in a talented work force to achieve strategic results.**

BPA succeeds only through its highly skilled, knowledgeable, creative and customer service-oriented employees. BPA anticipates the loss of key institutional knowledge and skills due to significant attrition from the large number of staff currently eligible for retirement or who will become eligible over the next 5 years. Within FTE constraints, we will need to do some strategic external hiring to address this risk. We also need to restore investments in employee development that have recently been curtailed. In general, BPA will implement a strategic approach to staffing and employee development that meets its long-term objectives.

**P3 Effective feedback motivates and aligns employees around meaningful work.**

People are motivated when they have meaningful work that is clearly aligned with organizational objectives. Through balanced scorecards, managerial performance contracts and other performance management tools, BPA will establish clear objectives and accountabilities. These will provide the foundation for appropriate systems to reward good individual and team performance and to address poor performance.

**P4 BPA's positive work environment enables its people to do their best work.**

BPA will support and enhance a positive work environment to attract and retain the great talent needed to fulfill its challenging public service mission. A positive work environment allows people to do their best work and to bring the full benefit of their diverse backgrounds, styles and skills to meet the needs of BPA.