

Bonneville Power Administration Strategic Objectives 2010-2016

July 7, 2009

A. Introduction

BPA has updated its long-term strategic objectives in light of its changing business environment. These strategic objectives fully support BPA's *mission* and public purpose as legislated by Congress. They also support the "four pillars" of BPA's *vision*, which encapsulate BPA's aspirations for the future. (See the four bullets in the vision statement below).

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's¹ 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 and transmission 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 responsibilities² through a commercially successful business.

¹ Federal Columbia River Power System (FCRPS): The transmission system constructed and operated by BPA, the hydroelectric dams constructed and operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation in the Northwest, and nonfederal generation capability acquired by BPA under long-term arrangements. The transmission and power systems are separately managed and financed, but as much as possible, the facilities are operated as an integrated power system.

² The four characteristics listed above define BPA's public responsibilities and are the "four pillars" of BPA's vision.



Values

Trustworthy stewardship: *As stewards of the FCRPS, we are entrusted with the responsibility to manage resources of great value for the benefit of others. We are trusted when others believe in and are willing to rely upon our integrity and ability.*

Collaborative relationships: *Trustworthiness grows out of a collaborative approach to relationships. Internally we must collaborate across organizational lines to maximize the value we bring to the region. Externally we work with many stakeholders who have conflicting needs and interests. Through collaboration we discover and implement the best possible long-term solutions.*

Operational excellence: *Operational excellence is a cornerstone of delivering on the four pillars of our strategic objectives (system reliability, low rates, environmental stewardship, regional accountability), and it will place us among the best electric utilities in the nation.*

B. Business Environment – Major Strategy Drivers

Among the many evolving external challenges and opportunities before BPA and the region, three major events are converging. Either individually or together, the following strategy drivers have the potential to fundamentally alter the electricity industry: 1) energy security, independence and reliability; 2) climate change; and 3) a severe, prolonged economic recession.

Energy Security, Independence and Reliability. Industry concerns continue regarding potential disruptions to U.S. energy supplies, accompanying price volatility, over-dependence on foreign and carbon-based fuels, and potentially significant shifts in the historical distribution of electricity loads and resources. Tightening of regulatory requirements and increased oversight for reliability compliance is expected to continue.

Climate Change. Climate change action is a significant priority of the Obama Administration, Congress, states, and many BPA public and private sector stakeholders in the region. While the outcome of national climate change policy debates is unclear, along with the ultimate scope and timeframes for implementation, state renewable portfolio standards and mechanisms for executing national policies continue to mature and drive change. Energy cost increases due to the inclusion of carbon emissions prices are likely. Climate change concerns also are driving major new investments in renewables, energy efficiency, smart grid, new large-scale storage and the electrification of transportation.

Economic Recession. The economic recession poses difficult challenges for many Pacific Northwest citizens, including BPA's customer, constituent, and tribal stakeholders. Northwest job losses are outpacing those of other regions. The public and private sectors share deep concerns about ensuring their own and BPA's cost-effectiveness. Keeping rates low is and will continue to be a central focus.

In addition, state governments, business and the public are increasingly looking to the federal government to provide leadership in finding solutions to the economic problems – at least in the



near term. The federal government has responded with a range of significant measures, including the American Recovery and Reinvestment Act (ARRA), to restore confidence, stimulate economic growth, and create jobs. The extent and timing of economic recovery remains unclear.

These major developments create both significant uncertainty and opportunity for the electric industry. BPA anticipates continued expansion of domestic renewable resources (primarily wind) in the region. This will be accompanied by an ongoing need to ensure system reliability in integrating these intermittent resources and pressures for increased infrastructure investment, as well as calls for changes to regional market design to enable increased renewables penetration.

C. BPA Strategic Objectives 2010-2016

Overview

BPA's strategic objectives are portrayed in the *BPA Strategy Map* on page 12. Each ellipse defines a major long-term outcome that BPA believes is critical to fulfilling its mission and vision. These strategic objectives describe BPA's intended "destinations" for 2010-2016. The colors of each strategic objective highlight which of the "four pillars" it supports. The four "perspectives" of the strategy map show how each layer of strategic objectives depends on and supports the other layers. To achieve the "four pillars" in the long-term, we must be successful across all four perspectives.

Strategic Objectives

The following section highlights each of BPA's strategic objectives followed by a brief description. The objectives are grouped under four strategic themes:

- Stakeholder Perspective
- Financial Perspective
- Internal Operations Perspective
- People & Culture Perspective

Stakeholder Perspective

S1 – Policy & Regional Actions. BPA policies result in regional actions that ensure adequate, efficient and reliable regional transmission and power service.

BPA develops policies and facilitates collaborative actions to produce the best outcomes for regional consumers and their requirements for adequate, efficient and reliable electricity. This reflects BPA's broad mandate and ongoing intent to advance innovative, regional solutions that balance diverse stakeholder interests. BPA will continue its active leadership, facilitation and participation in industry policy and implementation venues, including but not limited to: BPA public policy and decision-making processes; state, regional and West-wide planning and resource adequacy initiatives; national reliability entities; and similar channels to ensure the best outcomes for the region.



S2 – FCRPS Operations & Expansion. Operation and expansion of FCRPS³ power and transmission facilities meet availability and reliability standards in the most regionally cost-effective manner.

FCRPS operations are increasingly complex and challenging. The Northwest transmission grid and federal power system are now operated in ways not historically envisioned, due to dramatic changes in markets, generation resources and transmission patterns. These changes are placing increasing stress and congestion on the grid and creating new requirements for flexibility and capacity in the power system. Expanding and upgrading the aging FCRPS power and transmission infrastructure is key to sustaining reliability.

BPA is committed to ensuring transmission availability and reliability through new transmission construction and upgrades and will facilitate an increase in the supply of non-federal capacity services to integrate wind and other generation resources. Likewise, with the need to integrate large amounts of variable generation into the transmission system, BPA will continue to examine and adjust its system and coordination capabilities to ensure the grid continues to operate reliably.

BPA is committed to ensuring generation availability and reliability through infrastructure investments in ongoing hydro-efficiency projects with the U.S. Army Corps of Engineers and Bureau of Reclamation. Infrastructure investments include replacements and upgrades with these partners and at the Energy Northwest Columbia Generating Station nuclear plant. BPA will continue to improve ways of meeting competing demands on the system, including the following: altering power production related to fish-related operations; hydro balancing reserves and firming power for wind; and obligations for irrigation, flood control and navigation.

S3 – Tiered Power Rates. BPA's Tier 1 power to preference customers reflects the cost of the undiluted FBS⁴ and BPA offers excellent unsubsidized Tier 2 power that meets customer needs.

BPA will keep rates as low as possible consistent with sound business principles and BPA's other objectives. BPA will provide power at cost to its preference customers. The output of low-cost power from the federal system is limited. Given the resource deficits the region will face in coming years, resource requests from BPA's preference customers are expected to exceed the power available from the existing federal system. To address this issue and preserve the benefits of the federal system for preference customers, BPA is implementing a Tiered Rates Methodology. Preference customers are allocated rights to buy defined quantities of power at a Tier 1 rate based on the cost of the existing federal system. Preference customers may buy additional power from BPA at a Tier 2 rate reflecting BPA's cost of acquiring additional power. The Tier 2 rate will not be subsidized by the existing low-cost system. In this way, tiered rates

³ FCRPS stands for Federal Columbia River Power System. It encompasses 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 as much as possible, the facilities are operated as an integrated power system.

⁴ FBS stands for Federal Base System. It refers to the resources BPA uses to serve the firm energy loads of its customers, including FCRPS hydroelectric projects and resources acquired by BPA under long-term contracts, such as the output of the Columbia Generating Station, a non-federal nuclear plant.



will provide a price signal to utilities in determining whether to acquire incremental resources from BPA or other providers. Tiered rates will also incentivize customers to capture all cost-effective energy efficiency to minimize purchases above the Tier 1 level. BPA will offer excellent Tier 2 rates that respond to customer needs and will provide information on Tier 2 options early enough for customers to make well-informed choices between Tier 2 and nonfederal sources. BPA will include as much Tier 2 pricing certainty as possible, consistent with legal requirements and risk protection.

S4 – Transmission Access & Rates. BPA provides open, non-discriminatory transmission services.

BPA is committed to providing open access transmission services to all customers as described in the BPA tariff filed with the Federal Energy Regulatory Commission (FERC) while observing the FERC Standards of Conduct. BPA will provide service at cost-based rates that are as low as possible consistent with sound business principles, while making investments to maintain reliability, manage congestion, and provide firm transmission and related services to deliver power from new resources, particularly renewable resources.

S9 – Stakeholder Satisfaction. Customer, constituent and tribal satisfaction with BPA is high.

BPA recognizes that its customers provide the funding for everything it does. This makes customer satisfaction crucial to BPA. More broadly, customer, constituent and tribal satisfaction reflects how fairly and effectively BPA is balancing the needs of its various stakeholder groups and how clearly BPA is communicating its abilities and limitations to meet those needs. BPA will regularly seek feedback from its customer, constituent and tribal stakeholders to understand their satisfaction with the quality of BPA's relationships, programs, services and communications.

S7 – Environment, Fish & Wildlife. BPA's Endangered Species Act, NW Power Act, National Environmental Policy Act, Fish Accords and other environmental responsibilities are met using a performance-based approach.

As a trusted steward for the FCRPS, BPA will collaborate with an array of regional stakeholders in meeting its environmental responsibilities. A major focus will be on fulfilling unprecedented commitments to actions intended to improve conditions for fish and wildlife, and to mitigate the environmental impacts of the FCRPS. BPA will continue enhancing its strategies and actions for meeting its environmental compliance and remediation responsibilities by employing a range of efforts to measure progress and results relative to desired outcomes.

S8 – Climate Change. BPA is prepared for the physical, economic and policy changes stemming from climate change developments, and promotes and implements cost-effective strategies to address these changes.

Climate change poses potentially profound and fundamental changes to the energy and electricity sector. These changes will affect environmental conditions, electric system investment choices and electricity rates, among others. Regulations addressing climate



change may begin to price carbon emissions which, in turn will significantly impact electricity markets. In addition, climate change policies are expected to promote investments in conservation, renewable energy and smart grid technologies. The potential physical effects of climate change and subsequent regulatory responses could each, independently, have dramatic impacts on how BPA manages the FCRPS and on BPA's costs, revenues, and risk. To meet national and regional policy goals and to serve customers' electricity needs, BPA will be proactive in understanding and responding to resource choices and regulatory impacts of climate change. BPA also will examine how climate change may alter hydrology and federal hydro generation capability in the Northwest. To support reductions in the region's carbon footprint, BPA will advance energy efficiency investment, integration of renewable resources, smart grid and technology innovation.

S5 – Energy Efficiency. BPA and public power cooperatively accomplish public power's share of regionally cost-effective energy efficiency and demand management.

Electric energy efficiency is BPA's first priority resource for meeting power needs. Capturing cost-effective energy efficiency will reduce costs to consumers, reduce risks and help achieve carbon emissions reduction targets. BPA will work closely with its preference customers to help them achieve their portion of the regional targets for energy efficiency. Demand response has significant potential to help meet increasing capacity needs as intermittent resources, such as wind, are added to the system.

S6 – Renewable Energy. BPA actively enables renewable resource integration and development through cost-effective, innovative solutions.

Cost-effective renewable resources are second in priority only to energy efficiency for meeting future power needs. They offer numerous advantages over other generation sources, including reduced exposure to carbon emissions, and to fuel price volatility. However, many challenges need to be addressed in order to capture the full benefit of renewables for the region and BPA's customers. These include integrating resources with variable output into the existing system in a way that preserves reliability, protects fish recovery efforts and is cost effective. BPA is committed to work collaboratively with wind developers, operators, utilities and other stakeholders to implement innovative approaches to these challenges.

Financial Perspective

F1 – Capital Access. BPA has sustainable capital access.

The electric utility industry has always been highly capital intensive. Sustaining adequate access to capital is fundamental to the major strategic investments BPA plans to undertake for FCRPS expansion and reliability, renewable energy integration, energy efficiency, and fish and wildlife. While BPA's large increase in U.S. Treasury borrowing authority provided through the American Reinvestment and Recovery Act will meet many funding needs, it does not assure adequate capital funding in perpetuity. Maintaining a robust third-party financing program will be essential, as additional sources of capital are explored to assure adequate long-term access to capital. Sustaining high credit ratings on BPA-backed financing will be a critical element in this effort.



F2 – Cost Recovery. BPA consistently recovers its costs over time.

BPA sets cost-based wholesale power and transmission rates designed to fully recover its operating costs and its obligation to repay U.S. taxpayers for their investment in the FCRPS. BPA satisfies this obligation with interest through its payments each year to the U.S. Treasury. These payments are made only after all other obligations are met, so making them represents fulfillment of all of BPA's cost recovery obligations. To ensure BPA continues to make these payments, the agency sets a high probability of repayment in its rate-setting processes. As necessary, BPA includes cost-recovery adjustment clauses in its rates in anticipation of unpredictable or unduly severe events such as extreme low water conditions, new court-ordered fish measures or other severe impacts on revenues or costs.

F3 – Cash Flow. BPA maintains adequate cash flow for liquidity.

A hydroelectric-based system, such as the FCRPS, undergoes a high level of volatility in year-to-year and within-year revenues and costs. BPA must have sufficient financial resources to assure that it has the ability to meet its financial obligations every year and at any point during the year. Those resources can take the form of positive cash flows from current operations, cash reserves, deferred borrowing, the ability to adjust rates or the ability to borrow cash on a short-term basis. Maintaining access to a sufficient level of liquidity to cover all financial obligations when they are due is critical to BPA's financial strength.

Internal Operations Perspective

I1 – Systems & Processes. BPA meets the demands of business operations efficiently and effectively through standardized, continuously-improved systems and processes.

BPA will broaden its use of disciplined, repeatable, standardized business processes and systems to deliver value in the most efficient and effective manner. We will continually improve systems and processes to meet evolving business needs and deliver high value to our customers and internal clients.

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

Federal Energy Regulatory Commission (FERC) Standards of Conduct (SOC) require BPA to separate its transmission marketing and system operations from its wholesale power marketing functions. To provide best value to the region, BPA must be aligned, speak with a consistent voice, eliminate redundancies and collaborate across the power and transmission functions where appropriate while adhering diligently to the SOC and providing non-discriminatory, open access to transmission.

I3 – Governance & Internal Controls. BPA's governance and internal controls are robust, balanced and adhered to across the organization.

To assure expected outcomes, BPA will manage an effective governance structure based on adequate controls, clear guidelines, and appropriate policies and procedures for directing day-to-day business operations.



I4 – Asset Management. BPA maximizes the long-term value of FCRPS power and transmission assets through integrated asset management practices.

As a steward of the FCRPS, BPA will manage its assets and capital investment decisions with a comprehensive understanding of the long-term costs, benefits, risks, and strategic opportunities the region faces. In critical areas, power and transmission assets are aging and need increased maintenance or replacement. New capacity is needed to ensure the agency can provide adequate, efficient and reliable services. BPA will employ a rigorous, risk-informed and transparent asset management program that applies leading practices in planning, investing, operating and disposing of assets.

I5 – Technology Innovation. BPA solves business challenges and enables breakthroughs using a program of disciplined research and technology innovation that is recognized to deliver high value to the region.

BPA will advance research, development and adoption of technologies that improve the reliability, cost-effectiveness, efficiency and environmental sustainability of the FCRPS. BPA will use an approach that is directed toward advancing its strategic objectives. It will foster a wide range of credible business-driven initiatives, continuously refocus resources on the most promising efforts, and ensure that regional stakeholders will benefit from the lessons learned and breakthroughs achieved. BPA will collaborate in this program with other utilities and regional, national and international partners.

I6 – Collaboration. BPA strengthens collaborative relationships internally and externally to support achievement of objectives.

BPA recognizes the benefit of drawing on the insights and experience of its customer, constituent and tribal stakeholders. BPA will work collaboratively both externally and internally to identify issues and priorities, increase understanding of the trade-offs BPA must balance, and develop potential alternatives. Likewise, BPA will pursue as much alignment or agreement as possible on how to meet long-term objectives that benefit the region as a whole.

I7 – Risk-Informed Decision Making & Transparency. BPA's processes, decision making and performance are transparent, risk-informed and based on structured analysis.

The complexity of BPA's business frequently requires major decisions that present significant risks and opportunities to BPA and the region. As an agency committed to public service, BPA will make major business and financial decisions transparently to better ensure credibility with stakeholders. BPA will use a standardized repeatable framework to determine appropriate actions to meet objectives consistent with sound business principles. This approach will consider risks and opportunities to the agency from a range of perspectives, including business, financial, legal, environmental, stakeholder and employee perspectives.



People & Culture Perspective

P1 – Performance. Leaders set clear expectations, and all individuals accept accountability and are recognized for quality performance.

BPA's People and Culture strategy ensures that its workforce and workplace are capable of executing and supporting the agency's objectives. Critical to this capability is an environment in which management sets clear business outcomes and aligns employee performance expectations to those results, and where employees are self-motivated to embrace and fulfill those expectations. These actions in turn lead to individual accountability for personal work products and contributions to organization-wide results. BPA will consistently deliver clear employee performance expectations and align them with agency business objectives and recognition opportunities.

P2 – Talent & Development. BPA's workforce is highly skilled and talented to achieve agency objectives.

BPA needs a highly skilled and talented workforce to be successful. BPA will optimize the capability of its workforce by leveraging current skills through effective, strategic development initiatives and activities, along with proactive recruitment, to create a workforce that can meet rapidly changing business needs. BPA will foster an environment where employees are self-motivated to take the necessary actions to learn, develop and grow their professional skills and expertise in support of the agency's strategic direction. As business needs change and evolve, so will skill, knowledge, and ability requirements of employees. BPA will continuously meet the changing demands of its business by actively developing and recruiting, and increasing the diversity of its workforce.

P3 – Engagement. BPA has a highly engaged workforce.

Employee engagement is the level of commitment an employee feels to the workplace. Highly engaged employees are involved in and enthusiastic about their work. Increasing the level of each employee's engagement is central to BPA's achievement of its business objectives. An increasingly engaged workforce produces direct, positive effects on business outcomes through higher morale, increased productivity, improved safety and other measures aligned to the agency's strategic objectives. BPA will proactively work to increase employee engagement at all levels of the organization.

P4 – Work Environment. BPA has a safe and positive work environment.

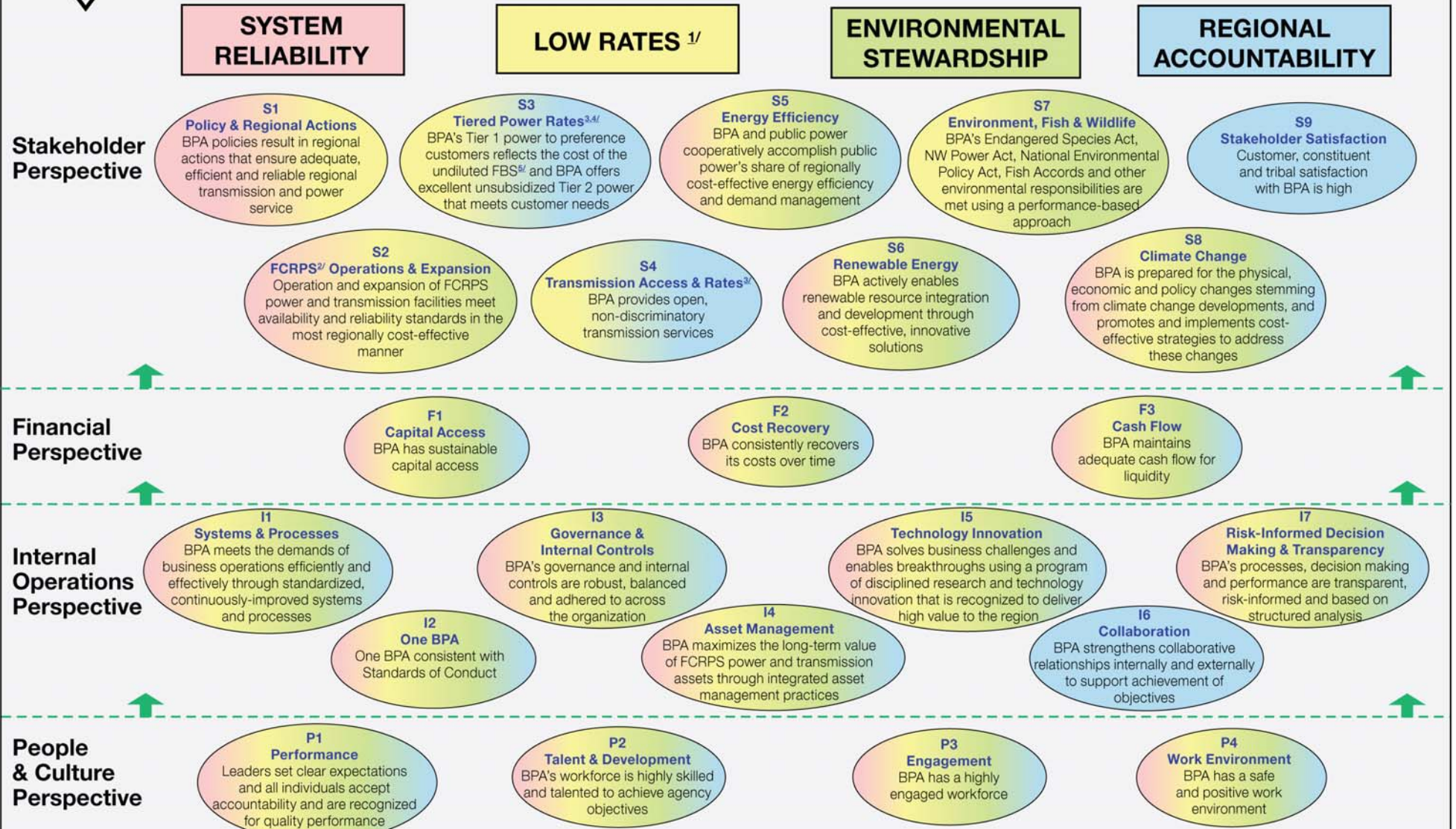
BPA creates a safe and compelling work environment that enables employees to do their best work and where employees' ideas and viewpoints are valued and leveraged. Protecting the public, staff and the work environment is a priority whenever activities are planned and performed. Accordingly, safety is a prime consideration in the work practices of all employees and will be consistently promoted, advocated and supported at all levels of the organization. BPA employees will demonstrate the highest ethical behavior in support of the public trust. Working together, managers and employees will support a harassment-free workplace.

For additional information on BPA Strategy 2010-2016, please visit: www.bpa.gov.





Agency Strategy Map (2010 – 2016)



1/ Consistent with sound business principles.

2/ Federal Columbia River Power System (FCRPS): The transmission system constructed and operated by BPA, the hydroelectric dams constructed and operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation in the Northwest, and nonfederal generation capability acquired by BPA under long-term arrangements. The transmission and power systems are separately managed and financed, but as much as possible, the facilities are operated as an integrated power system.

3/ Power and transmission rates are kept as low as possible consistent with sound business principles while achieving BPA's objectives.

4/ Tier 1 power rates are below market for comparable products.

5/ Federal Base System.