

Administrative & Support Services (BPA Total)

	\$ in Millions				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Power Rates 1/					
1. Administrative & Support Services	17.4	16.7	16.7	16.7	16.7
2. PNRR in PBL rates to cover risk	3.0	3.0	3.0	3.0	3.0
3. Total Administrative & Support Services in PBL Rates	20.4	19.7	19.7	19.7	19.7
Transmission Rates 2/					
4. Expensed Administrative & Support Services	30.0	28.1			
5. PNRR in TBL rates to cover risk	2.0	2.0			
6. Capitalized Administrative & Support Services	7.7	7.7			
7. Total Administrative & Support Services in TBL Rates	39.7	37.8			
8. Total Administrative & Support Services included in Rate Cases	60.1	57.5			
9. Assumed Cost Review Agency Challenge 3/	40.0	40.0			
10. Rate Case Corporate & Shared Services Spending Estimates	100.1	97.5			
11. Current Corporate & Shared Services Spending Estimates 4/	116.8	124.6			
12. Delta from rate case estimates	16.7	27.1			

1/ Source: 2002 Final Power Rate Proposal Revenue Requirement Study WP-02-FS-BPA-02 pg. A-38

2/ Source: 2002 Final Transmission Proposal Revenue Requirement Study TR-02-FS-BPA-01 pg.6

3/ Source: Cost Review, page 10, as revised in WP-02-FS-BPA-02 pg. A-38

4/ August 2002 forecast used in Third Quarter Review

The Cost Review recommendation was based on a 50% reduction from 1996 internal services actuals for activities undergoing redesign. Internal services were defined as all costs associated with general and administrative type activities, regardless of where they were performed in the agency - not just Shared Services and G&A costs performed by Corporate and allocated to the business lines. In order to keep these savings identifiable, the reductions in internal services costs shown in the Cost Review and the Final Rate Proposal were not spread across the various expense and capital cost categories within the business lines and in corporate where the savings were anticipated to occur. Nor were they given any annual shape. Instead, they were kept as a lump sum, five-year average and shown as a reduction to the corporate allocation of shared services and G&A to the business lines, even though the savings should come from business line administrative activities as well as from corporate.

Assumptions behind the Cost Review recommended reductions in Administrative & Support Services (as included in PBL and TBL Rate Proposals)

1. Greatly reduced and simplified BPA with reduced staff size - no augmentation or marketing
2. Simplified 90 day rate process - requiring less administrative finance and rate setting work
3. Redesign and implementation of shared services concept - leading to strategically aligned internal services using benchmarking to find efficiencies
4. Cost review recommended considering consolidation of internal services activities with other Federal agencies of the FCRPS and Energy Northwest
5. Communications, constituent relations, promotional activities curtailed. Legal services costs reduced commensurate with reduced agency role in the region.
6. IT cost reductions anticipated with implementation of standardized Enterprise Resource Planning System by 2002. Full implementation complete by 2001.
7. No inflation in base case Corporate numbers.

Corporate General & Administrative Costs

Financial Choices Workshop: September 10, 2002

Subcategories in “Corporate” (Financial Choices 2002)

1. Office of the Administrator
2. Office of the Deputy Administrator: includes Internal Audit, Chief Information Officer, Enterprise Solution Project, Regional; National; and Tribal Relations, strategic planning and communications
3. Office of the Chief Operating Officer: includes COO staff and Chief Financial Officer, excludes Environment/Fish & Wildlife
4. Employee and Business Resources includes Diversity Management, Safety Office, Corporate Purchasing, and Security
5. Office of General Counsel: represents the allocated costs of General Counsel

	FY 2001 ACTUALS	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Corporate (\$ millions)	36	44	48	49	51	53
FTE	229	278	297	297	298	299

Breakdown of Corporate Costs:

- 65% Personnel
- 35% Contracts

Drivers of Increases to Corporate G&A costs:

1. Complex rate setting, market changes, and contract development not anticipated in the Cost Review
2. Accounting policy changes, including re-allocation of costs between business lines (from 44% to 50%)
3. Customization of enterprise system to respond to individual business line needs for financial information
4. Increased IT security, and personal and property security
5. Increased workload due to responding to requests from FERC, DOE, and others
6. Increased focus on risk management
7. Increased support of TBL infrastructure investments

Consequences of cost cuts/tradeoffs:

- Risk of not providing timely and accurate information and policy support to decision makers
- Longer lead time to publish actual and forecasted financial reports, process payments, make accounting corrections, and ‘close’ books
- IT security and physical security risk increased with more incidents of failure
- Loss of institutional knowledge and experience
- Less frequent and less timely communications external and internal to BPA
- Risk of not capturing the efficiencies expected from BPA’s investment in an enterprise resource system

Change in FY2001 Actual Spending to FY2002 Forecasted Spending:

- FY2002 allocation of Corporate to PBL is \$3.4 million or 15% higher than the FY2001 actual spending.
- Increased security costs (IT and personal)
- Increased contract costs for risk management
- Additional FTE, consistent with increased workload (30% of “Corporate” FTE are retirement eligible between FY02 and FY06)
- Actual personnel spending lags forecasted spending due to hiring lags and personnel actions during the year