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

- **Strategic Planning**
  - Charting Long-Term Direction, Including Financial Health and Competitiveness

- **IPR/CIR**
  - Engaging the Region in Program Development

- **Budget and Target Setting**
  - Translating IPR and Rate Case Commitments into Annual Budgets

- **Getting the Work Done**
  - Translating Programs into Power and Transmission Rates

- **Accountability**
  - Measuring Performance and Progress Towards Program Objectives

- **Rate Case**
  - Cost Management During the Year – Dealing with Emerging Needs
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

Program Development and Review
(Objectives with Cost Estimates)

Capital Investment Review (CIR)
Integrated Program Review (IPR)

Start-of-Year Budgets and Financial Targets

Rate Case (BP-18)
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.