Bonneville Power Administration
Integrated Program Review 2
FY 2010-2011 Power and Transmission Program Levels

Final Report
June 19, 2009

BONNEVILLE
POWER ADMINISTRATION

Final Report for Integrated Program Review 2

FY 2010-2011 Power and Transmission Program Levels

SECTION 1: BACKGROUND AND SUMMARY OF DECISIONS

Background

BPA held its first "Integrated Program Review" (IPR1) process in 2008. The IPR1 largely focused on FY 2010 and 2011 program levels for BPA's Power and Transmission Services. Results of that process were made public November 14, 2008, in a report that addressed the comments received and outlined BPA's decisions regarding the FY 2010-2011 program level forecasts. (See www.bpa.gov/corporate/Finance/IBR/IPR/ for additional background and the materials made available during that process). While these expense and capital forecasts formed the basis for Power and Transmission rate case initial proposals for FY 2010-2011 rates, BPA committed to re-evaluating those costs in an additional public process prior to the development of final rate proposals in the spring of 2009.

The Spring Process

BPA held the Integrated Program Review 2 (IPR2) workshops to review spending level decisions made in November 2008. The IPR2 was expected to be abbreviated; however several factors have changed the landscape significantly since the IPR1 and development of the initial rate proposals released in February. The global financial market crisis and the deterioration of the U.S. economy have resulted in high unemployment and severe financial circumstances for many in the Northwest. At the same time, BPA's financial situation declined due to continuing poor hydro conditions and low power market prices, resulting in the potential for a significant increase in power rates for FY 2010-2011. Because BPA recognizes it would be very difficult for the Pacific Northwest to tolerate a large power rate increase in the current economic climate, in the Power rate case, BPA has been working collaboratively with customers to identify risk mitigation tools to decrease the likelihood of a significant rate increase. Likewise, in the IPR2 process, BPA, the U.S. Army Corps of Engineers (Corps), the Bureau of Reclamation (Reclamation), and Energy Northwest (EN) have been working collaboratively to identify potential areas of targeted cost-reduction measures to help keep power rates down. While this IPR2 process is focused on FY 2010-2011, forecasted reductions have also been found in some programs for FY 2009, and are described in this document. These reductions affect the ending FY 2009 cash reserves which can have an impact on power rates in the subsequent rate period.

Three workshops were held in March and April. At the first workshop on March 18, BPA presented an initial set of proposed program levels with little change from the original IPR1 decisions, but discussed the fact that additional actions would be needed to avoid a potentially large power rate increase and that BPA and its partner agencies were in the process of assessing what additional actions they could take to reduce costs. Participants at the meeting heard from utility general managers that they are seeing severe economic impacts to their customers, they are taking severe cost-cutting actions, and they expect BPA, EN, the Corps, and Reclamation to do the same.

A second workshop was held on April 9 to provide a status update on cost reduction efforts. At that meeting, BPA described the efforts it had taken to reduce FY 2009 forecasted operating costs by about $18 million or 2.7 percent, roughly $6.3 million of which is recovered in power rates. The remaining $11.7 million will impact Transmission expense and capital costs. These reductions include elimination of certain employee and executive monetary performance awards, totaling approximately $6.8 million, for the remainder of FY 2009. BPA also described the efforts in progress to reduce FY 2010-2011 forecasted operating costs recovered through power rates by roughly 7 percent. Fish and Wildlife reductions were not yet identified, but BPA indicated that spending levels for meeting new Columbia Fish Accord commitments this year and next are likely to be less than anticipated in the current IPR2 materials. The Corps, Reclamation and EN described their progress on identifying proposed cost reductions: the Corps identified $3.7 million in reductions over the FY 2009-2011 period; Reclamation identified $2.3 million reduction in FY 2011; and EN identified potential fuel cost reductions of $6.8 million in FY 2009 and $12 million in FY 2010, in addition to the changes related to uranium purchases identified at the March 18 meeting, and expected to find additional reductions. While customers expressed appreciation for the work to date, they encouraged the agencies to find additional reductions. BPA, the Corps, Reclamation and EN all committed to review their forecasts again.

Since that time, BPA confirmed its 7 percent FY 2010-2011 internal cost reductions and decreased the forecasts for Fish and Wildlife spending due to the timing associated with ramping up the program. EN committed to additional fuel cost reductions, and the Corps and Reclamation identified additional O&M cost reductions since the April 9 meeting. These reductions were described in the final IPR2 workshop held on April 29, 2009.

The period to provide comment in this process closed May 4. This document describes the program levels that will be used in the FY 2010-2011 rate cases and how they have changed from the original IPR1 assumptions and addresses comments received during the comment period.

Summary of Program Level Changes

BPA recognizes the serious impact a large power rate increase could have on the region in the current economic downturn. While BPA believes the proposed spending levels identified in the IPR1 process were appropriate and prudent from both a long- and a short-term perspective under normal conditions, BPA executives determined that it is important that the Agency take additional cost-reduction actions to reduce the increase to power rates in light of the adverse economic conditions in the Region. They asked that all parts of the agency whose costs impact power rates reduce their internal operations costs below the levels identified in the earlier IPR1. However, should economic conditions and/or BPA's financial conditions improve during the rate period, BPA may consider restoring some of these reductions to improve its ability to meet its objectives.

Significant reductions in cost forecasts have resulted during this IPR2. In total, power cost reductions totaling $106 million over the FY 2010-2011 rate period have been identified, averaging about $53 million per year. Another $43 million in power cost reductions were identified for FY 2009. These reductions do not include potential reductions to depreciation and interest expense. These reductions will make a major contribution to the effort to reduce the size of the potential Power rate increase.

As BPA reviewed planned spending levels in this IPR2 process, the primary emphasis was on reducing proposed costs that impact Power rates. The forecasted reductions are summarized here, and are described in more detail in the sections following.

- Internal cost reductions impacting Power rates (including the result of reductions in both Power Internal Operating costs and Agency Services costs allocated to Power) are $2.3 million for FY 2009, $9.6 million for FY 2010, and $12.0 million for FY 2011. This represents a 7 percent reduction in internal costs that affect power rates.
- The Corps reduced their spending level forecast for FY 2010-2011 by $7.4 million, they also reduced FY 2009 costs by $2.6 million.
- Reclamation reduced their spending level forecast for FY 2010-2011 by $2.8 million. They also reduced their FY 2009 costs by $810 thousand.
- BPA, in coordination with the Columbia River Inter-Tribal Fish Commission (CRITFC), has updated the anticipated spending levels for meeting new Columbia Fish Accord commitments in FY 2009 and FY 2010, and is forecasting $15 million per year less spending as a result of new work in the Fish Accords not ramping up as quickly as expected.
- EN costs have been reduced by a total of $11.3 million in FY 2010 and $40.1 million in FY 2011. $28.2 million of this two year reduction is related to a uranium fuel purchase made in FY 2009, which increases FY 2009 costs but results in lower over-all fuel costs over the rate period and the three-year period FY 2009-2011. Additionally, EN committed to O&M reductions of $800,000 in 2010 and 2011 and to making an additional $11 million reduction either through fuel cost reductions or non-fuel O&M cost reductions.
- Long-term Generating Program costs have been reduced by $1.4 million in FY 2010 and $1.6 million in FY 2011 due to new analysis of the likely costs.
- Conservation changes net a $1.5 million decrease in FY 2010 and no change in FY 2011.
- Technology Innovation Research and Development costs have been reduced by $2.6 million for FY 2011.
- “Other” Power costs have been reduced by $1.8 million in FY 2010 and $3.6 million in FY 2011, reflecting the decision to not pursue the Flexible PF Rate Program in those years.

Potential Increased Wind Integration Costs

As BPA continues to analyze what spending will be required to provide the integration necessary for the many planned wind projects in the region, it is becoming apparent that internal system and staffing costs related to that integration may be higher than reflected in the program levels presented in this report. This may put unexpected cost pressures on BPA during the FY 2010-2011 rate period. BPA is unable to know at this time what the necessary costs will be, though they are not expected to exceed $10 million per year. BPA is working to determine the requirements and as they become more clear, BPA will provide information to stakeholders. No additional costs have been included in program levels at this time.

Summary of General Comments Received

- Cost reductions:
  - Central Lincoln PUD noted that a change between 2010 and 2011 rates of 9.4% is steep. Further cuts should be taken to get to no more than a 5% increase year-to-year.
  - Multiple parties recommended that BPA should be reviewing all costs and expenses at this time to avoid a rate increase.
  - Public Power Council (PPC), Pacific Northwest Generating Cooperative (PNGC Power), Benton Rural Electric Association, Umatilla Electric Company and Springfield Utility Board believe more needs to be done in the area of cost reductions that further reduce or eliminate the need for a wholesale power rate increase.
  - Snohomish PUD thanks BPA for re-examining its own programs and those of its business partners; this process has been fruitful in minimizing the upcoming rate increase. Snohomish also urges BPA to examine its internal costs on an ongoing basis, and asks that in future IPR processes BPA explicitly tie program activity and subsequent budget changes, both increases and decreases, to BPA's long-term strategic plan.
  - A private citizen recommended that anyone working at BPA making more than $65,000 a year should have their wages decreased by 20% and anyone making more than $100,000 a year decreased by 25% and anyone serving as a volunteer should not be paid at all.

Response: BPA and its partner agencies have found significant reductions in planned costs for FY 2009-2011. BPA does not believe it would be prudent to make additional reductions. Participants in this process have been generally supportive of BPA's proposed expansion of the capital program in support of energy efficiency, renewable generation, fish and wildlife responsibilities, economic stimulus, and assuring the long-term reliability of both the hydroelectric and transmission systems. A capital program of this magnitude requires an internal infrastructure that supports that program, which puts pressure on expenses. Increasing regulatory compliance requirements and the increasing complexity of the business environment all put tremendous pressure on expense and capital programs. BPA and its partners have identified significant reductions from otherwise prudent program levels to minimize the power rate increase and its impact on the regional economy. BPA believes further cuts could jeopardize its ability to meet key strategic objectives and responsibilities.

Comments on Issues Other than Costs

- There were several comments related to Stepped Rates.
- Multiple parties recommended that BPA should stop serving DSIs.
- Snohomish PUD believes that a rate increase of no more than 5.0% should be achievable given the cost reductions of $50 million and expanded short-term borrowing authority.

Response: Comments regarding Stepped Rates, the level of power rates, and service to the DSIs will be addressed in the ongoing rate case and the ongoing DSI service decision process.

Changes to FY 2009 Power Costs

These are not within the scope of the IPR2 process, but reductions have been targeted in many programs in the current year in order to help mitigate the potential rate increase for the FY 2010-2011 period.

Table 1
Changes in FY 2009 Power Costs from SOY

PROGRAM	SOY	Revised Spending Levels	Change
$ in thousands	FY 2009	FY 2009	FY 2009
Power			
Columbia Generating Station	293,450	296,000	2,550
Corps and Reclamation	261,600	258,205	(3,395)
Long Term Generation Program	31,613	31,961	348
Renewable Resources includes Rate Credit	41,504	41,504	-
Conservation	82,710	67,910	(14,800)
Internal Operations 1/	122,924	120,673	(2,251)
Fish & Wildlife	200,000	185,000	(15,000)
Other-Colville Settlement, Non-Op Generation	27,413	17,223	(10,190)
Total	1,061,214	1,018,476	(42,738)

1/ Internal Operation costs include both Power Services and Agency Services Internal Operating Costs.

Table 2
Changes in FY 2010-2011 Power Costs from IPR1

	IPR1		Final IPR2 Decisions		Change	
$ in thousands	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011
Power						
Columbia Generating Station	269,200	365,000	257,900	324,900	(11,300)	(40,100)
Corps and Reclamation	280,700	296,461	278,528	288,543	(2,172)	(7,918)
Long Term Generation Program	31,889	32,343	30,455	30,767	(1,434)	(1,576)
Renewables includes Rate Credit	45,588	45,938	45,588	44,638	-	(1,300)
Conservation	87,088	86,722	85,588	86,722	(1,500)	-
Internal Operations 1/	135,627	139,910	127,272	130,425	(8,355)	(9,485)
Post-Retirement Contribution	15,598	16,071	15,447	15,579	(151)	(492)
Fish & Wildlife	263,583	270,714	248,583	270,714	(15,000)	-
Other-Colville Settlement, Non-Op Generation	25,746	28,082	23,946	24,482	(1,800)	(3,600)
Total	1,155,019	1,281,241	1,113,307	1,216,770	(41,712)	(64,471)

1/ **Total Reductions to internal costs are $9.6 million for FY 2010 and $12.0 million for FY 2011.** Note that the reduction amounts shown here appear to be smaller than reported in the April 24th draft decisions report. This is due to a more accurate display of where the April 24th proposed reductions will impact Power programs. **Some of these reductions are now reflected in other power programs rather than in the Internal Operations line on the Power income statement.**

FY 2010-2014 Power Capital Forecasts

No comments were received nor were any changes made to the proposed Power Capital program levels proposed for FY 2010-2014 in BPA's initial IPR2 estimates.

PROGRAM	IPR1		Final IPR2 Decisions				
$ in thousands	FY 2010	FY 2011	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Power Capital							
Corps and Reclamation*	183,200	199,200	185,000	201,000	198,000	210,000	212,000
Fish & Wildlife	70,000	60,000	70,000	60,000	50,000	50,000	50,000
Conservation*	38,000	46,000	39,000	47,000	56,000	56,000	56,000
CGS	73,600	99,900	70,000	91,130	51,500	50,000	32,000
CRFM	88,000	96,000	101,454	100,066	75,264	190,643	66,224
Lapse Factor	(36,150)	(38,550)	(33,600)	(37,200)	(39,900)	(41,700)	(42,000)
Total	416,650	462,550	431,854	461,996	390,864	514,943	374,224

*15% Lapse factor is applied to the Corps and Reclamation and Conservation Investment. It does not apply to CGS, Fish and Wildlife or CRFM. The lapse factor is an assumption that a percentage of planned capital investment will be delayed into the subsequent rate period.

Table 3
Changes in FY 2010-2011 Transmission Costs from IPR1

	IPR1		Final Decisions		Change	
$ in thousands	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011
Transmission						
Operations						
System Operations	56,573	57,497	56,544	57,468	(29)	(29)
Scheduling	9,423	9,868	9,423	9,868	-	-
Marketing	19,500	20,225	54,188	55,132	(2,900)	(2,937)
Business Support	37,588	37,844	included in Marketing			
Maintenance						
System Maintenance	122,099	126,877	121,810	126,577	(289)	(300)
Environmental Operations	3,797	3,996	3,797	3,996	-	-
Transmission Engineering	26,500	28,011	25,240	25,448	(1,260)	(2,563)
Agency Services	58,779	58,940	48,937	49,110	(9,842)	(9,830)
Post-Retirement Contribution	15,598	16,071	15,447	15,579	(151)	(492)
Other Income, Expenses and Adjustments	(2,000)	(2,000)	(2,000)	(2,000)	-	-
Total 1/	347,857	357,329	333,386	341,178	(14,471)	(16,151)

1/ The reduction from IPR1 to the Final Decisions shown here is greater than the amounts included in the Draft Final Report. The reductions in the Draft Report reflected estimates of changes due to Agency Services costs reductions (including the allocation of those reductions) and internal operations reductions. The reduction amounts here have been updated to reflect the correct savings and allocation amounts.

FY 2010-2011 Transmission Capital Forecasts

No comments were received nor were any changes made to the proposed Transmission Capital program levels proposed for FY 2010-2014 in the initial IPR2 estimates.

PROGRAM $ in thousands	IPR1		Final IPR2 Decisions				
	FY 2010	FY 2011	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Transmission Capital							
Main Grid Projects	150,587	209,346	178,167	189,939	315,384	217,709	174,058
Area & Customer Service Projects	31,714	6,256	31,714	6,256	6,322	7,516	16,814
Upgrades & Additions	95,710	112,585	95,710	112,585	69,009	55,807	57,954
System Replacement Projects	134,494	138,423	134,494	138,423	109,335	114,660	96,445
Environmental Projects	5,530	5,752	5,530	5,752	5,869	5,984	6,101
Customer Financed Credits	90,164	102,286	90,164	102,286	83,904	72,742	74,070
Total Indirect Capital	87,443	96,243	96,273	105,098	110,402	108,052	108,484
Lapse Factor	(100,249)	(103,773)	(105,117)	(109,902)	(104,009)	(86,620)	(79,339)
Total	495,393	567,118	526,935	550,437	596,216	495,850	454,587

Table 4
Agency Services Internal Operations Changes (reflected in the Power and Transmission tables)

PROGRAM	Changes from FY 2009 SOY	FY 2009	Changes From IPR1	FY 2010	Changes from IPR1	FY 2011
Agency Services						
Executive Office	(221)	4,425	(511)	4,423	(11)	3,005
Chief Risk Officer	(145)	5,722	(358)	6,893	(358)	6,854
Technology Innovation	(72)	2,566	(8)	2,064	(8)	2,066
Agency Compliance & Governance	(128)	3,590	(276)	3,604	(276)	3,772
Chief Public Affairs Office	(365)	17,075	(630)	17,476	(615)	18,070
Internal Audit	(87)	2,297	(19)	2,335	(19)	2,337
Finance	(559)	14,411	(1,049)	14,580	(1,049)	15,058
Corporate Strategy	(2,833)	5,987	(2,527)	7,742	(2,527)	8,286
General Counsel	(132)	9,373	(154)	9,489	(156)	9,812
Customer Support Services	(401)	10,539	(900)	10,878	(723)	11,289
Internal Business Services Administration, Security and Safety	(297)	10,045	(451)	10,590	(1,807)	11,098
Human Capital Management	(448)	15,780	305	17,149	1,102	17,344
Supply Chain Services	(607)	17,712	(162)	20,958	(166)	20,720
Workplace Services	(599)	29,610	(48)	44,758	(48)	47,213
Information Technology	(1,299)	56,876	(311)	67,935	(311)	67,547
Undistributed Reduction 1/	2,967	0	(1,200)	(1,200)	(1,500)	(1,500)
Estimated Impact of COLA Assumption Reduction 2/	0	0	(1,285)	(1,285)	(1,099)	(1,099)
Agency Services Internal Operations Total	(5,226)	206,008	(9,584)	238,389	(9,571)	241,872
Agency Services Allocated to Power	(1,958)		(3,987)		(4,210)	
Agency Services groups included in Power						
Energy Efficiency & Conservation	(357)	10,772	(580)	9,442	(580)	10,076
Technology Innovation	0	0	0	4,963	(1,300)	4,734
Environment, Fish & Wildlife	(1,411)	11,753	(629)	11,994	(629)	12,946
Total	(3,726)		(5,196)		(6,719)	

1/ A portion of FY 2009 reductions were used to eliminate an undistributed reduction included in the Start-of-Year (SOY) budget.

2/ The COLA reduction for FY 2010 and FY 2011 is an estimated savings at the agency level and is not included in Agency Services organizational budgets.

FY 2010-2014 Agency Services Capital Forecasts

No comments were received nor were any changes made to the proposed Agency Services Capital program levels proposed for FY 2010-2014 in the initial IPR2 estimates.

PROGRAM	IPR1		Final IPR2 Decisions				
$ in thousands	FY 2010	FY 2011	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Agency Capital							
Finance	847	874	847	874	897	924	953
Security & Emergency Mgmt	5,102	5,814	5,102	5,814	5,948	6,005	6,386
General Counsel	148	155	148	155	160	166	172
Workplace Services	60,904	23,741	60,904	23,741	23,858	23,977	24,099
Information Technology	21,375	21,375	21,375	21,375	21,375	21,375	21,374
Total	88,376	51,959	88,376	51,959	52,238	52,447	52,983

SECTION 2: INTERNAL COSTS

Agency Services includes direct program support costs as well as general and administrative costs. These activities are integral to and in support of the work described in the Power and Transmission sections. The costs are distributed to and embedded in the Power and Transmission costs.

Proposed Changes:
The total reductions for internal costs impacting Power rates, including reductions in both Power internal operating costs and Agency Services costs allocated to Power, are $2.3 million for FY 2009, $9.6 million for FY 2010, and $12.0 million for FY 2011. This represents a 7 percent reduction in internal costs that affect power rates.[1]

- $9.6 million includes the $8.4 million Internal Operation reductions in FY 2010 and an additional $1.25 million internal cost reduction displayed in Fish & Wildlife and Conservation Programs.
- $12.0 million includes the $9.5 million Internal Operation reductions in FY 2011, an additional $1.3 million reduction reflected in Renewable Resources, and $1.25 million shown in Fish & Wildlife and Conservation.

Agency Services
BPA reduced Agency Services costs by roughly 2 percent or $5.2 million for FY 2009. Reductions for FY 2010-2011 are roughly 7 percent or $9.6 million per year for FY 2010-2011. This reduces costs in Power rates by roughly $4.0 million per year (See Table 4). In addition, given the current economic pressures in the region, it was decided to reduce the Technology

[1] The reduction amounts shown here appear to be smaller than reported in the April 24th Draft Report, due to displaying the reductions more accurately, in the appropriate programs they impact. In other words, not all internal cost reductions appear on the "Internal Operations" line on the Power income statement. For example, reductions to internal costs for the Conservation program are now represented in that program. Also note that since IPR1 estimates were developed, the operating costs of the residential exchange were moved from the residential exchange program to internal operations.

Innovation program for FY 2011 to the FY 2010 level, a $2.6 million reduction, $1.3 million of which goes to Power.

Organizations in Agency Services plan to achieve these reductions by:

- Re-prioritizing work.
- Cutting non-time-critical projects.
- Reducing both replacing Bonneville staff and adding contract staff.
- Reducing training and travel.
- Eliminating awards for the remainder of FY 2009 and planned spending for Team Share and Success Share awards in FY 2010 and 2011.
- Reducing the forecast of annual pay increases for FY 2010-2011 from 3.5 percent to 2 percent in FY 2010 and 2.25 percent in FY 2011 due to lower inflation rates (actual increases will be determined at the national level).

Given the difficult economic conditions regionally and nationally, BPA believes it is reasonable to take the above planned actions at this time to reduce its internal cost levels for FY 2010-2011. Note that decreases to Agency Services costs are passed on to Power and Transmission rates through allocations, based on the nature of the agency services activities. In many areas the larger proportion goes to Transmission.

Power Services Internal Costs

Power Services internal costs were reduced by $0.7 million or 2 percent for FY 2009. Power Services costs are also reduced by approximately 7 percent in FY 2010-2011, $4.4 million for FY 2010 and $5.3 million for FY 2011. The reductions for FY 2010 and FY 2011 include a shift of the operating costs of the Residential Exchange program to internal operations totaling $3.9 million.

Some of the actions planned to achieve these reductions are:

- Reduced planned staffing for Regional Dialogue implementation through power scheduling process efficiencies and expectations of reduced BPA and customer resource acquisition.
- Reduced contract support for Residential Exchange Program and other programs
- Reduced travel.
- Agency-level decisions to reduce planned awards and to use lower forecast of increases to pay rates, due to lower inflation rates.
- Change in Post-Retirement Contribution forecast of expenses updated to reflect changes in the forecasted staff levels, slower employee retirements and a slower rate of growth of health care costs than previously forecasted.

Changes to FY 2009

The planned reduction to Agency Services FY 2009 costs is $5.2 million or 2.3 percent from the start-of-year budget. Power Services forecasted reduction for 2009 is $0.7 million or 2.0 percent.

Comments Received:

- PNGC Power noted BPA deserves credit for actions to reduce or eliminate costs. They encourage BPA to seek additional program costs reductions in its Internal Operations. The recommended 7% reduction to Internal Operations in FY 2010-11 is very conservative; PNGC believes a 12% reduction should be implemented while maintaining the currently acceptable level of program activity. At the very least, BPA should look at deferring costs out of the current rate period.
- Benton Rural Electric Association suggested Agency reductions should be at least 8%, double the savings of EN.
- The PPC believes BPA has not justified the need to assume an increase in program activity for the upcoming rate period, therefore the PPC recommends that BPA limit the increase in power services internal operations costs to no more than an assumed 2.5% annual rate of inflation– requiring an additional $2 million reduction for the FY 2010-2011 rate period.

Decision: BPA believes its internal costs established in the IPR1 process were the appropriate levels to accomplish the Agency's mission. However the Agency has identified significant reductions in the FY 2009 and FY 2010-2011 forecasts of internal costs in order to minimize an increase in power rates. The acceptable levels of reductions were determined by looking at each program rather than setting an across-the-board percentage reduction level. BPA does not believe it would be prudent to set arbitrary targets for reductions without consideration of the impact on BPA's ability to meet its key strategic objectives and responsibilities. No additional reductions will be taken because planned reductions beyond the levels proposed here would seriously jeopardize the organization's ability to support key Agency initiatives.

SECTION 3: POWER SERVICES COSTS, OTHER THAN INTERNAL

A. ENERGY NORTHWEST – COLUMBIA GENERATING STATION

BPA pays the costs of EN's Columbia Generating Station (CGS) nuclear power plant. EN has continued to focus on mitigating equipment obsolescence, maintaining reliability and improving plant performance. EN management believes continued additional investments are necessary to maintain or improve safety, reliability and performance. The plant's performance indicators have been low when measured against industry benchmark criteria.

Proposed Changes:

- All changes are described in terms of the impacts in BPA fiscal years rather than EN fiscal years.
- Due to favorable uranium market conditions, EN made uranium purchases in FY 2009, reducing costs in FY 2010-2011. This reduces forecasted O&M costs by $28.2 million over the rate period but increases costs by $18.0 million in FY 2009.
- EN has determined that its current Separative Work Unit (SWU) inventory, which is one component of CGS's nuclear fuel inventory, is in excess of CGS's needs and will be sold in EN FY 2011. The excess is the result of the ARTS/MELLA project which reduced CGS's fuel needs and will produce $12.0 million in revenue that will offset O&M funding needs for CGS.
- Uranium purchases in EN FY 2011 and 2012 will be reduced by $10.8 million to achieve the $11.8 million budget reduction commitment. The purchases have been

deferred to future fiscal years, though EN committed to seek to find O&M reductions in lieu of the fuel purchase delay in 2011.

- An error in the original IPR1 forecasts was corrected which increases the forecast by $4.7 million over the rate period.
- EN and BPA negotiated a reduction to CGS O&M contingency reserves that is different than what was reflected in IPR1 forecasts. This reduces forecasted O&M costs by $3.9 million over the rate period.
- Nuclear Electric Insurance Limited (NEIL) insurance expense is expected to increase by $0.8 million over the rate period due to reduced member distributions from NEIL that in the past were used to reduce the gross insurance premiums. This is a smaller increase than the $1.7 million reflected in the April 24 Draft Report. The member distributions were reduced due to lower investment returns on the NEIL insurance financial reserves and a substantial claim loss in 2008 paid to another plant.
- EN has committed to O&M reductions of $1.0 million over the rate period to achieve the $11.8 million. Reductions will be made in travel, training, employee awards, the regional communications plan, and vehicle purchases.
- Other changes to O&M that both increased and reduced CGS funding needs result in an additional $1.0 million reduction.

Comments Received:

- PNGC Power noted EN deserves credit for actions to reduce or eliminate costs. They also encourage EN to seek additional program costs reductions and commit to operate at reduced cost for each year of the rate period.
- The PPC noted that EN deserves to be commended for their responsiveness to this economic downturn and for identifying an average of $26 million per year in expense reductions. CGS has done a good job living within the FY 2010 budget set as part of the EN Long Range Plan for CGS in the FY 2009 budget process.
- The PPC also noted they are not in a position to question an increase of 30 FTE to fulfill staffing requirements resulting from various NRC fatigue orders, but looks forward to seeing the analysis EN performs to determine whether a headcount reduction in the near future is achievable.
- The PPC is concerned the scheduled outage may not be completed within the time period assumed in the ratemaking process, therefore BPA should be including a risk factor for unplanned outages at CGS in its risk modeling.

Decision: Spending levels will be reduced by $11.3 million for FY 2010 and $40.1 million for FY 2011.

B. CORPS AND RECLAMATION O&M

BPA works with the Corps and the Reclamation to implement funding for both operations and maintenance (O&M) activities at 31 hydro electric facilities throughout the Northwest and to ensure implementation of all regionally cost-effective hydro system equipment refurbishments and enhancements.

	IPR1		Final IPR2 Decisions		Change	
$ in thousands	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011
Power						
Corps of Engineers	193,000	197,911	191,060	192,433	(1,940)	(5,478)
Bureau of Reclamation	87,700	98,550	87,318	96,110	(382)	(2,440)
Corps and Reclamation	280,700	296,461	278,378	288,543	(2,322)	(7,918)

Proposed Changes:

- The Corps and Reclamation have reduced routine or base program funding by limiting travel and training, reducing materials and supplies purchases, and instituting limited hiring freezes. The Corps reduced its base program by $1 million in FY 2009, $2 million in FY 2010, and $2 million in FY 2011. Reclamation reduced its base program in FY 2009 by $245 thousand, and by $940 thousand in FY 2010. In addition to the actions already noted, Reclamation made additional reductions by deferring replacement maintenance at the Roza, Chandler and Green Springs powerplants.
- Funding of performance awards for FY 2009 is included in FY 2010 program levels. This is a change over the costs included in the April 24 Draft Report resulting in a $.5 million increase for both Corps and Reclamation for FY 2010. The Corps and Reclamation had made commitments to employees and unions, so this funding recognizes that commitment. BPA, the Corps, and Reclamation plan to limit awards for FY 2010 performance (to be paid in FY 2011) to safety related awards similar to BPA's, and the agencies are reviewing our ability to place more flexible language in all future annual awards funding agreements to allow such funding to be more responsive to poor fiscal conditions.
- Reductions were made in funding for Willamette BiOp Studies by the Corps. Since the study plan for the Willamette BiOp is still being developed, the Corps has reduced the forecasted expenses associated with it until refined estimates associated with a more detailed development schedule are completed, and decisions on costing of the studies (expense vs. capital) are made. Reductions total $4.5 million for the FY 2009-2011 period.
- Reductions in non-routine extraordinary maintenance funding have been made for both the Corps and Reclamation O&M programs.
- The Corps has incorporated the high priority American Recovery and Reinvestment Act (ARRA) joint non-routine maintenance items (mostly spillway gates) into the budget as noted in the April 9 IPR2 meeting, and reduced or deferred power non-routine maintenance to stay within IPR2 program levels.
- Reclamation's reduced IPR2 final funding level does not include non-routine maintenance funding for repairing significant forced outages, particularly associated with the big units in the third powerhouse.
- Also, as noted in the IPR2 process, the amount of work required to keep Grand Coulee operating at a reliable level while preparing for the rehabilitation of the big generating units in the Third Power Plant has increased significantly over what was required in the past. To address this issue, as well as deal with the additional requirements of preparing for the rehabilitation of the Third Power Plant, Reclamation plans to hire temporary workers and/or contractor(s), and will need an additional $1.5 million per year in FY 2010 and 2011. Some of this funding will be used to return units G19 (derated by 130 MWs) and G9 (derated by 35 MWs) to their full capacity (thereby offsetting these costs with revenue), as well as for other non-routine maintenance activities (such as the

significant leakage in units G19, G20, and G21). Because of this, Reclamations funding levels have been increased by $1.5 million over the levels presented in the April 24th Draft Decisions Report. This additional funding of $1.5 million per year for FY 2010 and 2011 will allow Grand Coulee to catch up on required maintenance while focusing on continued reliable operation of the facility, and to properly prepare for the upcoming rehabilitation of the Third Power Plant.

This overall level of reduced funding may require the Corps and Reclamation to request additional funding in the future, depending on the frequency and severity of additional unit forced outages, or if decisions on costing of either studies for the Willamette BiOp or Leavenworth Hatchery BiOp-related work determines that these activities are expenses and not capital.

Comments Received:

- PNGC noted the Corps and Reclamation deserve credit for actions to reduce or eliminate costs. They encourage the Corps and Reclamation to seek additional program cost reductions and to commit to operate at reduced cost for each year of the rate period.
- The PPC continues to support the programmatic approach developed by the Corps, Reclamation and BPA and would like to see ongoing use and improvement of that program. The Corps and Reclamation are encouraged to accomplish all of the cost reductions they have identified and to consider additional cost reductions or cost deferrals into future periods.
- While the Grand Coulee Project Hydroelectric Authority (GCPHA) agrees the hydro projects need significant investment, the limited reductions proposed in the draft program do not respond to the major decline in the economy of the Pacific Northwest. Additionally, it is unlikely that Reclamation and the Corps will be able to accomplish the expense and capital programs proposed. They recommend that BPA critically review the plans for this rate period and the longer term. The major work planned for Grand Coulee needs more careful analysis and planning to be sure that the Right and Left Power Plants are in condition to assume the role of filling in for an extended outage of a Third Power Plant (TPP) unit and that this outage pattern can be extended for nearly a decade in order for all six units in the TPP to undergo major rehab work.
- The GCPHA also noted there are small amounts of flexibility remaining in the hydro system that the Corps and Reclamation retain based on historical practice rather than actual need. The Administrator needs to ask the Division Commander and Regional Director for assistance in this area to assure that the full capability of the system beyond meeting nonpower constraints is available to BPA in its power marketing program.

Decision: The Corps and Reclamation have carefully reviewed their spending forecasts and believe that further reductions in spending would impair the reliability and efficiency of the system and would not be prudent. Forecasted spending levels for the Corps and Reclamation will be reduced $2.3 million for FY 2010 and $7.9 million for FY 2011.

C. LONG-TERM GENERATING PROGRAM

This program consists of BPA's long-term acquisition contracts for output from generating resources such as Cowlitz Falls, Billing Credits Generation, Wauna Co-generation project, Elwah Dam, Idaho Falls Bulb Turbine, and Clearwater Hatchery Generation. Most of the expenses associated with the long-term generating projects are based on energy production at the generating units and, therefore, are offset by revenues. There is little opportunity for improvement because prices are fixed by contract.

	IPR1		Final IPR2 Decisions		Change	
$ in thousands	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011
Power						
Long Term Generation Program	31,889	32,343	30,455	30,767	(1,434)	(1,576)

Proposed Changes: Revised analysis for the WP-10 rate case have resulted in decreases of $1.4 million in FY 2010 and $1.6 million in FY 2011.

Comments Received: None

Decision: Revised analysis for the Power rate case resulted in slight adjustments to the forecasted costs of three resources, producing a $3.0 million reduction in FY 2010-2011.

D. ENERGY EFFICIENCY & CONSERVATION

BPA's Energy Efficiency and Conservation program is designed to capture the anticipated 35 to 40 percent increase in public power's share of the region's conservation target in the FY 2010-2011 period (i.e., 70 average megawatts per year).

	IPR1		Final IPR2 Decisions		Change	
$ in thousands	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011
Power						
Conservation	87,088	86,722	85,588	86,722	(1,500)	-

Proposed Changes:

- Northwest Energy Efficiency Alliance (NEEA) revised business plan calls for increased funding to support its efforts. BPA currently funds about 50 percent of NEEA's $20 million per year budget which expires September 30, 2009. BPA's share of the total NEEA budget will be reduced to an estimated 37 percent in FY 2010, but overall, NEEA's proposed budget will increase to $40 million per year. Although BPA has not endorsed the revised business plan, the IPR2 proposal assumes an increase of $2.5 million per year. This is a $0.5 million per year decrease from what was included in the April 24 Draft Report.
- Conservation Rate Credit forecast was reduced by $4 million in FY 2010 and $2.5 million in FY 2011. This is a correction to reflect the actual CRC. The CRC is a calculation of 0.5 mill times load for both Conservation and Renewable Resources. Since the Renewable Resources credit was increased by $4 million and $2.5 million in FY 2010 and FY 2011, the conservation credit should have been reduced by the same amount.

Comments Received:

- NW Energy Coalition is concerned the funding level for energy efficiency will not be enough to meet conservation targets set by Power Councils new 6th plan. BPA needs to be prepared to fund expansion of programs and ramp up infrastructure required to meet cost-effective targets.
- NW Energy Coalition recommends BPA fund energy efficiency at a level at least 30% higher than the $86 million 2010 budget and 50% higher for 2011, or about $112 million and $130 million respectively.
- Springfield Utility Board (SUB) recommends that BPA should not dedicate conservation funding toward projects proposed by Direct Service Industries (DSI's).
- SUB suggests BPA prioritize its efforts and funding to address needs within BPA's high voltage system by making the system "smarter" by installing relays and infrastructure to meet load shedding requirements while benefiting from additional data points and flexibility managing the system.
- The PPC believes the level of BPA's EE program proposed in the April 25, 2009 Draft Decisions Report, is sufficient to achieve the public utilities' share of the NWPCC's target.
- The PPC states that the public utilities agree that BPA's proposed conservation budget is more than sufficient to enable BPA to meet its share of the NWPCC's target. BPA is encouraged to continue working with the PPC to develop programs that accommodate the needs of customers and the circumstances that arise in the post-2011 world.

Decision: At this time, there is considerable uncertainty regarding the new conservation targets that will be published in the Council's Sixth Power Plan. BPA's proposed spending anticipated a substantial increase in BPA's conservation targets (from 56 aMW/year to 70 aMW/year). Although preliminary information indicates that the Council's conservation targets will go even higher, BPA will stand by its proposed Energy Efficiency spending levels at this time. The only changes result from corrections to the Conservation amount which modifies the forecasted spending level by reducing the FY 2010 amount by $1.5 million.

E. FISH AND WILDLIFE DIRECT PROGRAM

BPA expends ratepayer revenues in the implementation of measures for avoiding jeopardy to, and supporting the recovery of Columbia River fish listed as threatened or endangered under the Endangered Species Act (ESA) and for the protection, mitigation and enhancement of fish and wildlife affected by the development and operation of the Federal Columbia River Power System under the Northwest Power Act. This responsibility requires a comprehensive approach to implementing the Direct Fish and Wildlife Program (Direct Program) that integrates the ESA requirements of the FCRPS biological opinions from the U.S. Fish and Wildlife Service and National Oceanic and Atmospheric Administration (NOAA) Fisheries with the broad resource protection, mitigation and enhancement objectives of the *Columbia Basin Fish and Wildlife Program* adopted by the Northwest Power and Conservation Council pursuant to the Northwest Power Act.

BPA meets these complementary fish and wildlife objectives in the Direct Program primarily through the negotiation and award of contracts to state, federal, and tribal entities.

	IPR1		Final IPR2 Decisions		Change	
$ in thousands	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011
Power						
Fish & Wildlife	263,583	270,714	248,583	270,714	(15,000)	-

Proposed Changes: In recognition of the fact that some of the new efforts associated with the 2008 Columbia Basin Fish Accords with certain tribes and states are taking longer to ramp up than was anticipated, CRITFC and its member tribes have worked with BPA to establish an updated estimate of the actual spending needs for FY 2009 and FY 2010. This results in an expected reduction of $15 million in each of those years.

Comments Received:

- Benton Rural Electric suggests BPA recognize it has not been able to spend all of budgeted F&W money.
- The PPC requests that BPA include in the final IPR2 report a showing of the exact amount of fish and wildlife costs in the PF rate, including lost revenues and outline a long-term budget cap that gives ratepayers cost certainty during this challenging time.
- The PPC recommends BPA not commit to an automatic 2.5% inflation rate for the overall F&W program.
- The PPC supports the Independent Economic Analysis Board (IEAB) and request the IEAB be adequately funded so that it can perform this vital function.

Decision: Regarding the request that this document show the amount of fish and wildlife costs in the PF rate, the IPR process is not the appropriate forum in which to provide these estimates, particularly since the operations costs are determined outside this process.

Regarding the recommendation to not commit to a 2.5 percent inflation rate across the program, the proposed FY 2010-2011 funding level for the non- Accord portion of the Fish and Wildlife Program has been held steady (relative to FY 2007-2009, and actually going all the way back to FY 2003) except for a commitment to allow the same 2.5 percent inflation rate that is allowed with the Fish Accord projects. BPA believes it would not be equitable to go back on that commitment at this time.

In response to the suggestion that BPA provide a long-term budget cap that gives rate payers cost certainty, BPA believes that the Accords and new FCRPS Biological Opinion provide 10-year certainty for most components of BPA's fish and wildlife costs, including operational costs. However, there is no certainty or clarity from a legal standpoint about whether the FCRPS Biological Opinion will be acceptable to the Courts. So while we understand the interest in having long-term certainty, we cannot provide that certainty at this time given the ongoing legal proceeding.

Columbia River Inter-Tribal Fish Commission (CRITFC) and its member tribes have worked with BPA to establish an updated estimate of the actual spending for implementation of the Fish Accords in FY 2009 and FY 2010. The updated forecast results in expected Fish and Wildlife Program spending being $15 million lower in FY 2009 and FY 2010 as compared to anticipated Program spending levels at the conclusion of the IPR1 process.

F. U.S. FISH AND WILDLIFE SERVICE: LOWER SNAKE RIVER FISH & WILDLIFE COMPENSATION PLAN

This program funds 11 hatcheries and 15 satellite facilities owned and operated by the U.S. Fish and Wildlife Service (FWS); the fisheries agencies of the states of Oregon, Washington, and Idaho; and the Nez Perce, Shoshone-Bannock, and the Confederated Tribes of the Umatilla. This program is legislatively mandated to mitigate for the existence and operation of the four lower Snake River hydroelectric dams constructed in the1970s.

Comments Received: None

Decision: No Change

G. RENEWABLE RESOURCES

BPA's goal for renewable resources is to ensure the development of its share of cost-effective regional renewable resources at the least possible cost to BPA ratepayers. BPA's share will be based on the regional load growth (about 40 percent) of its public utility customers. BPA will cover its share through power acquired by BPA from renewable resources to serve its public customers and/or renewable resources acquired by publics with or without financial assistance by BPA.

	IPR1		Final IPR2 Decisions		Change	
$ in thousands	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011
Power						
Renewables includes Rate Credit	45,588	45,938	45,588	44,638	-	(1,300)

Proposed Changes: Technology Innovation Research and Development will be reduced by $2.6 million in FY 2011. $1.3 million appears as a reduction to Power Renewable Resources.

Comments Received:

- The PPC supports a reduction to the Renewable Resources program in FY 2010 to $4 million and $2 million in FY 2011. BPA's latest Draft Decisions Report shows $2.5 million in FY 2011. The PPC proposes to remove the extra half million dollars to lower the FY 2011 level back to the $2 million the publics originally proposed. The PPC recommends that BPA work with its customers to better gauge the current level of potential interest in this product to ensure the money collected through rates is reasonably expected to be used.

Decision: BPA believes the decision made in IPR1 for the Renewable Option to the Conservation Rate Credit for $2.5 million in FY 2011 is the appropriate level, making $2 million available to support the Wind Integration Team initiatives and have $0.5 million available for other opportunities. As described in the Internal Costs section, additional reductions were made to Technology Innovation Research and Development costs, reducing the FY 2011 levels to the FY 2010 levels, in response to the region's economic conditions. This results in a reduction in this program of $1.3 million in FY 2011.

H. DEBT MANAGEMENT

Debt management issues are not decided in the IPR. BPA's development of assumptions and decisions on debt management are rate case issues and will be discussed in that forum. However, levels of new capital investment are an important driver of the capital recovery costs in the rate case, and new capital spending is within the scope of the IPR, as discussed above, BPA believes it is important to show the impact of past and future debt management decisions in the IPR since they impact power rates. This draft decisions report is intended to portray BPA's current thinking on these issues; it does not make any decisions associated with debt management issues other than new capital spending levels.

The capital-related costs in the March 18 IPR2 material is the most current forecast. The final rate proposal will include repayment studies updated for 2nd Quarter forecasts of 2009 capital investment and actual 2009 investment to date.

SECTION 4: TRANSMISSION

A. TRANSMISSION AGENCY SERVICES RE-ALLOCATION AND POST-RETIREMENT CONTRIBUTION

	IPR		Final IPR2 Decisions		Change	
$ in thousands	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011
Transmission						
Agency Services Re-Allocation (3/18/09)	58,900	58,900	50,338	50,295	(8,562)	(8,605)
Post-Retirement Contribution	15,598	16,071	15,447	15,579	(151)	(492)
Total	74,498	74,971	65,785	65,874	(8,713)	(9,097)

Proposed Changes:
- Due to a review of Agency Services allocations, $8.6 million of forecasted spending has been allocated to capital instead of expense in FY 2010 and FY 2011.
- Change in Post-Retirement Contribution forecast of expenses updated to reflect changes in forecasted BFTE levels, slower CSRS employee retirements and a slower rate of growth of health care costs than previously forecasted.

Comments Received: None

Decision: Forecasted spending levels for Agency Services and Post-Retirement Contribution will be reduced by $8.9 million for FY 2010 and $9.4 million for FY 2011.

B. TRANSMISSION INTERNAL OPERATION REDUCTIONS TO AGENCY SERVICES & TRANSMISSION

	IPR1		Final IPR2 Decisions		Change	
$ in thousands	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011
Transmission						
Internal Operation Reductions (Agency Services & Transmission)	-	-	(5,758)	(7,054)	(5,758)	(7,054)

Proposed Changes:

- An additional reduction to Agency Services and Transmission reflects the impact of IPR2 revised estimates, award reductions and reduced COLA assumptions. The reduction from IPR1 to the Final Decisions shown here is greater than the amounts included in the Draft Final Report. The reductions in the Draft Report reflected *estimates* of changes due to Agency Services costs reductions (including the allocation of those reductions), changes due to removing Success Share and Team Share from both Agency Services and Transmission, and the impact of changes to the split of allocations between transmission expense and capital. The reduction amounts here have been updated to reflect the correct savings and allocation amounts. In addition, Technology Innovation Research and Development was reduced by $2.6 million, $1.3 million of which is reflected in Transmission Services.
- As described in Section 3, the final rate proposal will include updated 2009 actuals and forecast.

Comments Received: None

Decision: Forecasted spending levels for Internal Operation Reductions (Agency Services and Transmission) will be reduced by $5.1 million for FY 2010 and $6.4 million for FY 2011.

C. All Other Transmission Costs

Comments Received: None

Decision: No Change