

Agency Services Update

Integrated Program Review (IPR)
June 21, 2010



Today's Objectives

- Review the critical role of Agency Services as a business partner that:
 - provides the day-to-day infrastructure support for Transmission and Power to achieve their missions, and
 - maintains the long-term governance and compliance structure necessary to protect and enhance those missions
- Outline the drivers of Agency Services proposed spending and how operational efficiencies are reflected
- Continue an in-depth discussion of IBS program levels to understand the contributions of these programs to Power and, more predominately, to Transmission's ability to achieve their goals
- Review the proposal to obtain property insurance



Program Development Process

- BPA set objectives with customer and stakeholders consistent with the Agency's mission.
- Power, Transmission, EF&W, and Energy Efficiency set proposed program levels consistent with the Agency's mission and objectives.
- Power and Transmission executives and managers provided Agency Services with their proposed program levels and Agency Services managers and executives reviewed the impact on corporate spending and the corresponding level of products and services they were expected to provide.
- Agency Services VPs presented their proposed spending levels to Power and Transmission for confirmation.
- Agency Services then presented their proposed spending levels to Front Office Executives for review and approval prior to inclusion in IPR estimates
- Executives and managers prioritized possible areas of reduction and the impact those reductions would have on the business units' ability to meet their responsibilities. Reductions were agreed to and made.
- The proposed Agency Services spending levels for the IPR are the result of coordinated vetting across the agency and reflect trade-offs between mission-critical support and cost control.



BPA Reduced Operating Budgets in FY 2009

- During FY 2009 we recognized that BPA and the region faced difficult financial times
- Simultaneously, runoff was substantially below normal
- As a result, before mid-year BPA suspended monetary awards, implemented tighter controls over training, travel, hiring, and discretionary noncritical expenses
- In addition BPA worked with its partners – Energy Northwest, the Corps of Engineers and Bureau of Reclamation to implement other opportunities for reducing costs
- However, BPA and its partners can not sustain these reductions for the long term and continue to deliver reliable services to the region
- There are risks to people, systems, and assets in continuing to defer or ignore investments in infrastructure, regulatory compliance and other obligations.



Agency Services FY 2009 Comparison

- When compared to FY 2009 SOY, Agency Services end-of-year spending was down by about \$8.0M
- Agency Services' mid-year cost reduction initiatives resulted in the following:
 - Reduced Federal Personnel Costs (\$3.2M)
 - Cancelled awards (\$3.5M)
 - Restricted training and Travel (\$1.1M)
- Other reductions included:
 - Reduced contract costs, Columbia Grid and others (\$2.8M)
 - Insurance dividend (\$0.7M)
 - Reduced workers' compensation (\$0.7M)
- These reductions were partially offset by a necessary increase in IT
 - Information Technology expense costs related to EPIP capital projects for Transmission and Regional Dialogue projects for Power - \$4.0M



Agency Services FY 2011 Comparison

FY 2011 Agency Services IPR proposed spending is \$12.8M higher than Rate Case levels due to several business line drivers:

- Increased lease costs from GSA - \$4.5M
- Transmission Initiatives - \$2.6M
 - NERC/WECC compliance (Security, General Counsel)
 - Open Access Transmission Tariff (Governance and Compliance)
 - Transmission Infrastructure additions (Supply Chain, General Counsel, Safety)
 - Wind Integration (General Counsel)
- Power Initiatives - \$1.5M
 - Tiered Rates (General Counsel)
 - NEIL Insurance (Risk)
- Regulatory and Compliance Requirements - \$1.3M
 - Governance and Compliance, Audit, General Counsel
- Talent Management - \$1.6M
 - Organizational Alignment/Talent Management Strategy, Talent Acquisition/Hiring Efficiencies, Succession Planning, and Enterprise Training (Human Capital Management)
- Information Technology - \$1.3M
 - 24/7 support of critical business systems
 - Increased support for capital projects (i.e. completion of TPIP, Transmission Commercial Systems Reinforcement, Dynamic Transfer, Wind Integration, and Regional Dialogue)



Main Cost Drivers for Agency Services in Support of Power and Transmission

In the FY 2012-13 IPR, Power and Transmission programs and projects continue to be significant drivers of Agency Services costs. Program growth in the business units is driving the FY 2010-11 Agency Services costs and has multi-year impacts that continue into FY 2012-2013. There also are new program drivers that impact FY 2012 and 2013 costs.

2011 IPR Drivers:

- FY 2010-11 Business Units program objectives (e.g. Transmission capital, F&W, EE etc.) were not fully incorporated into Agency Services in the 2010-11 rate case. FY 2011 IPR proposed spending levels are driven by coordinated assumptions of program objectives.

2012-1013 New Drivers:

- A 22% increase in Transmission capital and expense program spend to continue integration of new resources, preserve system reliability and maintain and operate transmission electric and non-electric assets.
 - ✓ Cost-Effective, innovative, and reliable ways to integrate intermittent resources on the transmission grid.
 - ✓ Addressing aging infrastructure and catch up on delayed maintenance of our transmission system and facilities.
- Implementation of new 20-year power sales agreements.
- 12% increase in Fish & Wildlife program.
- Doubling of our Energy Efficiency investments
- Significant NERC/CIP compliance responsibilities
- Implementation of ARRA funding and finding additional sources of capital (even with \$3.25 billion of new borrowing authority).



Main Cost Drivers for Agency Services in Support of Power and Transmission

- Providing services (office space, desk tops, badging etc.) for the additional staff (over \$50M in supplemental labor) beyond the assumptions in FY 2010-11 to enable BPA to meet its programmatic objectives
 - ✓ Transmission Construction
 - ✓ Fish and Wildlife
 - ✓ Asset Management programs
 - ✓ Energy Efficiency; Council Plan

Drivers of Workforce Increases

- Transmission's capital infrastructure construction and maintenance programs are relying on more than \$80M in supplemental labor. This is nearly double the level that was assumed in the FY 2010-2011 rate case.
- The Energy Efficiency program is projecting over \$2.5M in supplemental labor – or about double the level in the FY 2010-2011 rate case.
- IT systems development and maintenance support for Transmission, Power, Energy Efficiency, Fish and Wildlife and Corporate infrastructure programs will require nearly \$37M in supplemental labor - about 50% greater than what was assumed in the FY 2010-2011 rate case.
- The Agency's total supplemental labor spend is currently forecast to be over \$130M – nearly 70% greater than the FY 2010-2011 rate case. The significant number of contractors reflected in this level of spending require a variety of agency support services, such as badging, space, office set-up, and desk top support.

The following slides detail the impacts of these drivers on the various Agency Services organizations



Agency Services Expenses – FY 2010-2011 Rate Case to FY 2012-2013 IPR

\$ in Thousands

Department	10-11 RC Average	12-13 IPR Average	10-11 RC to 12-13 Change		Drivers	12-13 Impact	
			Total			Power Exp	Trans Exp/Cap
1 RISK	\$6,874	\$22,037	\$15,163		A two-year comprehensive analysis concluded that purchasing property insurance would be an efficient and cost-effective method of mitigating potential large financial risk exposure from damage to BPA's major generation and transmission assets. The IPR includes a proposal to budget \$15M for property insurance (\$10M for Power, \$5M for Transmission and \$0.1M for administration).	\$14,027 64%	\$8,010 36%
2 WORKPLACE SERVICES	\$45,985	\$53,206	\$7,221	\$4.5M \$2.7M	A \$4.5M annual lease cost increase has been levied by GSA as a result of a new market appraisal. The new lease amount will remain in effect for 5 years, when GSA conducts a new market appraisal. Deferrals of maintenance and repair over the past 12 years have resulted in higher-cost emergency repairs and a backlog of deficiencies in BPA's non-electric facilities, such as control houses, meter houses, relay houses, and maintenance facilities. Examples of deficiencies include; deteriorated roofs, unreliable HVACs, failing water distribution systems, aged building electrical systems, non-functioning drain systems, damaged walls-floors-ceilings, failing pavements, and inoperable vault sump-pumps. Estimate \$2.7M to address these deficiencies.	\$11,875 22%	\$41,331 78%
3 CORPORATE STRATEGY	\$21,109	\$28,003	\$6,894	\$2.0M \$4.6M \$0.3M	Actively engage with regional utilities, balancing authorities, and grid organizations to explore potential enhancements to regional market design that may prove useful in improving reliability, integrating variable generation, and reducing pressure on the balancing resources of the FCRPS. Complete the planned programmatic growth in the BPA R&D program. The R&D portfolio supports new energy efficiency technologies to enable the region to meet the 504 aMW energy efficiency target outlined in the Council's 6th Power Plan; tests new technologies that will support the reliable integration of large amounts of wind; funds research for new technologies to improve Operational Transfer Capability through real-time grid operations. Increase the level of support provided for asset strategy and business case development, capital project approval and progress reporting. Focus on critical replacements and maintenance of the existing transmission system and upgrades and capacity additions to integrate generation, relieve congestion, improve system operations, and ensure reliability. Focus also on federal hydro to replace critically aging equipment and to upgrade the system to enable additional output and operating flexibility.	\$14,085 50%	\$13,918 50%
4 INFORMATION TECHNOLOGY	\$67,741	\$71,063	\$3,323	\$1.3M \$2.0M	Since 2007, we have annually reprioritized funding away from refreshing desktops and printers, which has resulted in increased emergency replacement and resultant productivity loss by users. The average desktop is greater than 4 years old - 1 year beyond the industry standard. To mitigate higher cost break/fix replacement, we need to invest \$1.3M to replace aging desktops, laptops, and printers. As a result of significant process improvements and restructuring in Transmission's Plan-Design-Procure-Build strategy, and their maintenance and asset management programs, Transmission Services invested nearly \$20m in IT systems. Additionally, to effectively and efficiently implement the new 20-year power sales agreements, Power Services invested \$30m in IT systems. Both major programs (Transmission and Power) require on-going maintenance and support. The net annual increase in O&M expenses from these deployments is \$2.0M. The above desktop and O&M increases will be offset by \$1m of net savings from efficiencies gained through data center modernization and IT process improvements	\$26,672 38%	\$44,392 62%



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\$ in Thousands

5	Department	10-11 RC Average	12-13 IPR Average	10-11 RC to 12-13 Change		Drivers	12-13 Impact	
				Total			Power Exp	Trans Exp/Cap
	HUMAN CAPITAL MANAGEMENT	\$16,695	\$19,453	\$2,758	\$0.8M	\$0.8M of the increase reflects a transfer of recognition funding from the Administrators Office to Human Capital Management.	\$4,190	\$15,822
					\$0.6M	IT investments in Transmission and Power were prioritized higher than several IT projects which would have reduced staffing levels in HCM and meet the budget levels assumed in the FY10 and 11 rate case. This resulted in the need to offset those assumed efficiencies with intermediate staffing increases amounting to approximately \$0.6M. To illustrate the magnitude of the work: manual processing and filing of over 8,300 hard-copy employment applications for 520 vacancies in FY09 alone, filing between 15,000 and 20,000 hard copy documents in official personnel files, processing and filing over 3,000 hard copy employee performance appraisals, and processing and filing over 600 workers compensation and reasonable accommodation cases among areas intended to be automated.	21%	79%
					\$0.1M	Expect to renegotiate labor contract during the 2012-2013 timeframe, which will include wage studies and additional consulting costs.		
					\$0.5M	One time costs to upgrade PeopleSoft/Oracle 9.2. BPA's integrated enterprise system for finance and workforce automated business functions (Time and Labor, Payroll, Employee Relations Case Management, Health and Safety, Performance Management, On-Line Application and Candidate Self Assessment).		
					\$0.1M	As BPA's workforce continues to age we need to increase our attention on accident prevention and overall health and wellness to reduce injuries and accidents, keep the workers on the job, and return them to work in a timely manner to reduce the costs associated with injuries and absenteeism. Wellness Program \$0.1M.		
					\$0.6M	Technical software systems training is needed to maximize efficiencies gained through the significant IT investments in Transmission and Power, and maximize the use of BPA's integrated financial, HR and supply chain enterprise system. Renewed \$0.6M investment in employee training on systems - software systems technical training was de-funded and disbanded in 2005).		
6	GENERAL COUNSEL	\$9,651	\$12,222	\$2,572	\$0.5M	Within OGC, attorneys are managed to adapt and respond to changing agency priorities and needs. If and to the extent additional workload is forecasted to exceed current capabilities, additional FTE and contractor resources are budgeted for. The transmission capital program (including smart grid), fish and wildlife commitments, and aging infrastructure drivers have resulted in a substantial increase in NEPA, contract management, finance, lands, procurement, and BPA/Corp/Bureau authority legal issues, necessitating approx. 1.5 FTE. and an additional \$0.1M for outside bond/tax counsel.	\$7,047	\$5,175
					\$0.5M	BPA's new power sales agreements and Tiered Rates Methodology commit the agency to provide additional hearing officer services, and allow for arbitration, resulting in an anticipated increase of hearing officer, rate case, and arbitration service contract costs of approx. \$0.5M on average.	58%	42%
					\$1.0M	Transmission services broadly (including transfer agreements), and all the transmission and power work associated with wind integration (e.g., dynamic scheduling, self-supply, LGIAs, DSO 216 implementation, rates issues, third-party supply), have substantially increased contracting, rates, and FERC legal work, necessitating approx. 3 additional FTE, and additional contracting costs, including 1 contractor, of \$0.3M. NERC/WECC compliance services and related FERC work has necessitated an additional approx. .5 FTE.		
					\$0.6M	In order to meet regulatory requirements for ethics and financial disclosure, DOE has recommended that BPA GC increase staffing by 2 FTE; we have also budgeted an additional \$80,000 for ethics training.		
7	FINANCE	\$14,689	\$16,744	\$2,055		Additional funds for consultants to improve capability and increase efficiencies in budget, accounting, and treasury enterprise systems to better support agency initiatives for infrastructure development and new financing capabilities - \$0.8M. An additional increase is needed to fund existing personnel, correcting a budgeting error made in the Rate Case - \$0.9M. The remaining amount covers COLAs and other inflation.	\$8,211	\$8,498
							49%	51%



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\$ in Thousands

Department	10-11 RC Average	12-13 IPR Average	10-11 RC to 12-13 Change Total	Drivers	12-13 Impact	
					Power Exp	Trans Exp/Cap
8 SUPPLY CHAIN SERVICES	\$20,839	\$22,570	\$1,731	The increases in Transmission capital infrastructure, Energy Efficiency, and Fish and Wildlife programs; in non-electric plant due to the catch-up of delayed maintenance; and in the investments in IT systems, result in nearly a 200% increase in Agency-wide contract spending over the next four years driving an 80% increase in Supply Chain "transactions", e.g., purchase orders, contract actions, warehouse receipts, picks, shipments, etc. Additionally, these programs are increasingly utilizing Supplemental Labor to meet their staffing needs. We expect the Supply Chain Supplemental Labor Management program to increase at least 50% from FY10/11 to FY12/13, however, we anticipate a \$0.5M to \$1M annual savings from this program. Other efficiencies in Supply Chain operations will be driven through the implementation of eCommerce and Lean business practices in materials procurement, contract development and management, warehouse operations and fleet management. <i>Note: the first set of Percentages to the right are for the Agency Services portion of Supply Chain. The second set is for the Transmission Portion.</i>	\$2,623 12%	\$19,733 88%
9 AGENCY COMPLIANCE & GOVERNANCE	\$3,688	\$5,175	\$1,487	Expanding verification and certification of FERC, NERC & WECC reliability and critical infrastructure (CIP) standards and Open Access Transmission tariff requirements and addressing Federal Information Management/e-Discovery requirements.	\$2,251 44%	\$2,924 57%
10 SECURITY & EMERGENCY RESPONSE	\$7,728	\$8,994	\$1,266	Prior to NERC CIP compliance requirements, BPA monitored 165 security risk locations. NERC CIP requires 24/7 monitoring of an additional 320 security risk locations. The additional CIP requirements also increased the number of associated security devices from 2000 previously required to a new total of 3500 security devices presently being monitored. These increases resulted in the need for additional contractor support at a cost of approximately \$0.5M. NERC CIP and Department of Energy requires ongoing maintenance and performance testing for all security devices and systems which has resulted in the need of additional contractor support at a cost of approximately \$0.2Mk. As a result of DOE's Graded Security Policy, BPA has identified the need to protect one of its control centers with 24/7 on site security presence at a cost of approximately \$0.5M. All increases directly support transmission reliability by meeting mandatory NERC CIP and DOE standards. A portion of costs have been offset through personnel redeployments.	\$2,091 23%	\$6,903 77%
11 PUBLIC AFFAIRS	\$17,773	\$19,033	\$1,260	\$0.8M The 6.6% increase in budget mainly consists of standard inflation adjustment plus 1 additional Term FTE to support the renegotiation of the Columbia River Treaty.	\$14,765	\$4,268
12 BUSINESS & PROCESS ANALYSIS	\$551	\$1,455	\$904	\$0.5M Inflation for the Northwest Power Planning Council The Business Process & Analysis group leads BPA's focus on continuous improvement agency-wide (after EPIP) - \$0.3M was re-directed from the Executive line to fund this effort. Additionally, IBS implemented a cross-organizational business process management and workflow system as a result of several EPIP initiatives. The system implements agency self-service for many IBS services, establishes the ability to manage resources and processes efficiently, and gathers data to ensure that established performance measures by process and person are met. The funding reflects the conclusion of the capital funding and movement to operations (expense).	\$341 23%	\$1,115 77%
13 CUSTOMER SUPPORT SERVICES	\$11,084	\$11,382	\$298	Inflation increase only	\$6,095 53%	\$5,288 46%



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\$ in Thousands

14	Department	10-11 RC Average	12-13 IPR Average	10-11 RC to 12-13 Change Total	Drivers	12-13 Impact	
						Power Exp	Trans Exp/Cap
14	SAFETY	\$2,427	\$2,675	\$248	The significant increase in Transmission's capital infrastructure construction program and changes to other Transmission programs such as vegetation management which will be largely met through outsourced contracts drive the need for an additional resource to ensure safety requirements are met during the execution of the contracts.	\$294 11%	\$2,380 89%
15	INTERNAL BUSINESS SERVICES MGMT	\$689	\$900	\$211	Executive Orders 13514 and 13423 which outline sustainability goals in federal internal operations require a significant step up in implementing actions that reduce electricity use & intensity, water use, fossil fuel use, SF6 emissions etc. It also requires BPA to meet standards relating to facility performance, procurement policies, and employee-impact on the environment, and more reliable and consistent reporting.	\$450 50%	\$450 50%
16	INTERNAL AUDIT	\$2,336	\$2,540	\$204	Audit and internal review services supporting FERC, NERC & WECC reliability compliance, open access transmission tariff compliance, and contract auditing for the expanded transmission capital program are driving staffing and contractor cost increases	\$1,270 50%	\$1,270 50%
17	EXECUTIVE	\$3,714	\$2,173	(\$1,541)	Transfer to Human Capital Management of recognition funds - (\$0.8M), transfer of 1 FTE to the Business and Process Analysis Group - (\$0.3M), and end of the EPIP consultant contract - (\$0.4M)	\$1,087 50%	\$1,087 50%
18	Total	\$253,572	\$299,628	\$46,056		\$117,372	
19	Agency Svc portion of Power Non-Gen Ops	\$24,618	\$28,479	\$3,860		\$1,299	(\$1,299)
20	Power portion of Power Non-Gen Ops (w/F&W and EE)	\$56,716	\$61,051	\$4,335			
21	Total Power Non-Gen Ops	\$81,334	\$89,529	\$8,195			
22	G&A allocated to Power	\$50,002	\$56,424	\$6,422			
23	Total Impact on Power Operations	\$131,336	\$145,953	\$14,617			
24	Agency Svc Portion of F&W	\$3,778	\$4,189	\$411			
25	Property Ins., NEIL, R&D, NWPPC ¹	\$18,162	\$29,298	\$11,135			
26	Total Agency Svc impact on Power	\$96,561	\$118,389	\$21,829			
27	POWER % OF TOTAL	38%	40%	47%			
28	IMPACT ON TRANSMISSION	\$157,011	\$181,239	\$24,227			
29	TRANSMISSION % OF TOTAL	62%	60%	53%			

Note: The Allocation amount to Power Non-Gen Operations shown to the left includes a distribution of the cost of BPA's Fixed wing aircraft which is charged to power and credited to transmission.

¹ The breakout of these items is as follows:
 FY 10-11 averages: NEIL = \$2.2M, R&D = \$6.2M, Power Planning Council = \$9.8M
 FY 12-13 averages: Property Insurance = \$10.0M, NEIL = \$2.0M, R&D = \$6.8M, Power Planning Council = \$10.5M



Ways to Participate

- All forums are open to the public and will be noticed on the Integrated Program Review (IPR) external website at: <http://www.bpa.gov/corporate/Finance/IBR/IPR/>.
- Representatives from the Corps of Engineers, Bureau of Reclamation and Energy Northwest will be participating in the IPR process including presentations.
- All technical and managerial workshops will be held at BPA Headquarters.
- If participating by phone please dial into the bridge at 503-230-5566, then any time during or after the message and the double beep, enter 3981#. Presentation material will be posted on the IPR external website prior to the workshop taking place.
- The IPR process will include a public comment period for proposed program spending levels. The comment period opens May 10, 2010 and will close on July 29, 2010.
- Comments can be submitted at any of the scheduled workshops or submitted in writing to:
 - Bonneville Power Administration, P.O. Box 14428, Portland, OR 97293-4428,
 - Email to comment@bpa.gov,
 - Faxed to (503) 230-3285



BPA's Financial Disclosure Information

- All FY 2011-2017 information has been made publicly available by BPA on June 21, 2010 and does not contain Agency-approved Financial Information.
- All FY 2009 information has been made publicly available by BPA and contains Agency-approved Financial Information.
- All FY 2010-11 Rate Case data has been developed for publication in rates proceeding documents and is being provided by BPA.

