



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

SECURITY AND CONTINUITY OF OPERATIONS

November 6, 2013

In reply refer to: NN-1

Charles Johnson
Physicians for Social Responsibility
812 SW Washington St, Ste 1050
Portland, OR 97202

FOIA #BPA-2014-00063-F

Dear Mr. Johnson:

This is a final response to your request for records that you made to the Bonneville Power Administration (BPA), under the Freedom of Information Act (FOIA), 5 U.S.C. 552.

You requested the following:

Jeff Shield letter and the BPA's response to it mentioned in the December 15, 1999, report of Energy Northwest Operations and Construction Committee Meeting.

Response:

BPA is releasing the enclosed documents with certain information redacted under Exemption 6 under the FOIA.

BPA asserts this exemption for information which could reasonably be expected to constitute an unwarranted invasion of personal privacy if disclosed. The withheld information consists of the personal contact information (email and cell phone numbers) of individuals. There is no public interest in the disclosure of this information because it does not shed any light on how BPA has performed its statutory duties. Therefore, the individual privacy interest outweighs the public interest in the disclosure of this information.

Pursuant to 10 CFR 1004.8, if you are dissatisfied with this determination, or the adequacy of the search, you may appeal in writing within 30 calendar days of receipt of a final response letter. The appeal should be made to the Director, Office of Hearings and Appeals, HG-1, Department of Energy, 1000 Independence Avenue, SW, Washington, DC 20585-1615. The written appeal, including the envelope, must clearly indicate that a FOIA Appeal is being made.

Please contact Kim Winn, FOIA Specialist, at 503-230-5273 with any questions about this letter.

Sincerely,

/s/Christina J. Munro

Christina J. Munro

Freedom of Information/Privacy Act Officer

Enclosure

From: Ex 6
Sent: Tuesday, November 30, 1999 3:36 PM
To: Ex 6
Subject: FW: WPPSS bonus proposal

-----Original Message-----

From: Ex 6
Sent: Tuesday, November 30, 1999 3:18 PM
To: Ex 6
Subject: FW: WPPSS bonus proposal

-----Original Message-----

From: Ex 6
Sent: Saturday, November 27, 1999 5:01 AM
To: Ex 6
Cc: Ex 6
Subject: FW: WPPSS bonus proposal

-----Original Message-----

From: Ex 6
Sent: Wednesday, November 24, 1999 4:44 PM
To: Ex 6
Subject: WPPSS bonus proposal

Vic: Thought you might be interested in seeing this, though it will probably make its way to you through channels anyway.

From: "Jeff Shields" Ex 6
To: Ex 6
Cc: Ex 6
Subject: WPPSS bonus proposal
Date: Wed, 24 Nov 1999 16:27:07 -0800

I was stunned to learn that you are proposing to reward WPPSS with annual bonuses of \$7 million if they are able to reduce the production costs at WNP-2 from 2.3 cents/kWh down to 1.78 cents/kWh. To reward an agency that has sucked the economic life out of BPA is absurd. I understand the fundamental rationale that might lead one to conclude this is an acceptable proposition; reduced production costs mean lower FBS costs. However, that rationale does not hold water in the face of the facts. Perhaps you will be so kind as to help me understand why my customers should send their money to WPPSS in the form of a "performance bonus"?

Can you please tell me the answer to some questions?

a.) What is the basis for the base case of 2.3 cents/kWh?

b.) What is the basis for the 1.78 cent target?

c.) WPPSS has stated that following this most recent refueling they will achieve significantly higher performance by operating the plant for two year cycles. That is work we have paid for and assume will achieve the goal. Is this new \$7 million for some additional performance?

d.) What is the average production cost for similar plants around the country? I understand that even with the past two years improvements that

WNP-2 continues to operate below national averages. Are you rewarding the achievement of average performance?

e.) What is the production cost you assumed in the rate case for the next five years?

f.) WPPSS has been paying bonuses in the past. Where are these funds from?

Are you simply shifting these to FBS in an accounting shell game? If you pay \$7 million is that money counted against the production costs for the year it is paid?

g.) How many FTE's at BPA would \$7 million pay for?

h.) What is the status of the decommissioning fund for WNP-2? How are decommissioning funds accounted for in your bonus plans? Shouldn't the decommissioning funds be fully paid before rewarding WPPSS?

i.) Is there a relationship between capital costs and the bonus? If capital costs go up but production costs go down is the bonus still paid?

j.) I understand the BPA bonus money will be used by WPPSS to develop "new business ventures." Is this true? Will the proceeds of those ventures go toward reducing the debt from WPPSS nuclear exploits? Are these new ventures intended to compete against existing BPA customer activities and private business?

k.) Can you tell me the economic effect of increasing the hours of production at WNP-2 when many of those hours occur when the market is below even the 1.78 cent target. Will you please provide the model showing the economic impact of WNP-2's planned operating schedule vs the operating schedule for the base year?

l.) Where is the \$7 million in the proposed rate case?

Judi, I am disappointed that it took several meetings and lots of arm twisting to get an agreement for BPA to invest \$30 million for the conservation and renewables discount, then without so much as a single notice, this \$7 million bonus plan comes about?

I will be in Washington D.C. in mid-December and plan to discuss this with DOE, OMB and members of the delegation. I would appreciate your answers at your earliest convenience.

From: Ex 6
Sent: Friday, December 03, 1999 1:25 PM
To: 'Shields, Jeff'
Cc: Ex 6 Ex 6 Ex 6
 Ex 6 Ex 6 Ex 6
 Ex 6 Ex 6 Ex 6
Subject: Memorandum of Agreement with Energy Northwest

Jeff,

Since we've traded phone calls a few times regarding your questions concerning the Memorandum of Agreement (MOA) that BPA and Energy Northwest (EN) recently signed, I thought I'd try to answer you via e-mail. I'm hopeful these responses to your questions will both alleviate your concerns and result in your support of this program.

a.) What is the basis for the base case of 2.3 cents/kWh?

2.3 cents/kWh is slightly below the median cost of power of 2.37 cents/kWh for similar nuclear reactors according to industry benchmark data. (See answer to b)

b.) What is the basis for the 1.78 cent target?

1.78 cents/kWh is the cost of power associated with 10th percentile performance, according to benchmark data, and is typically associated with those nuclear plants which have had no outages (refueling or forced) during the year. The performance targets were established using nuclear industry benchmark data. Specifically, 20 U.S. plants similar to WNP-2 were chosen as the benchmark plants. Costs for each of these plants for two years (thus 40 data points) were compiled and a determination made of the cost of power representing the fourth quartile, median, first quartile, and top 10% for the 20 plants.

This resulted in the following values, and associated performance payouts:

top 10%	- 17.8 mills or less	\$7 million
top quartile	- 21.8 mills or less	\$1 million
top 50%	- 23.7 mills or less	\$750,000
top 3 quartiles	- 29.9 mills or less	0

These values form the basis for the Incentive fee schedule for the first three years of the Agreement. Future benchmarking will be used to set targets for future years. The actual Performance Fee Schedule is attached to this e-mail as **PIF Sched.doc**.

c.) WPPSS has stated that following this most recent refueling they will achieve significantly higher performance by operating the plant for two year cycles. That is work we have paid for and assume will achieve the goal. Is this new \$7 million for some additional performance?

Yes, if EN receives \$7 million in incentive fees anytime in the next three fiscal years, it will be for performance that is a major improvement relative to current projections and past performance. The shift to a 24 month refueling cycle is indeed intended to help meet this performance target. Costs incurred will be included in the cost of power calculations.

The Incentive Fee Schedule has been set for FY- 00, 01 and 02. In each of the first two fiscal years, WNP-2 will still have a refueling outage (18 months apart). Achieving a performance in the top quartile for these years will be a challenge for EN because of the outages. We believe a significant challenge also exists for the coming fiscal years as EN is in general facing increasing costs for O&M and the need to undertake some significant capital projects. And WNP-2 will have to perform well on a 24 month cycle, avoiding shutdowns that would result in lost production.

d.) What is the average production cost for similar plants around the country? I understand that even with the past two years improvements that WNP-2 continues to operate below national averages. Are you rewarding the achievement of average performance?

The median production cost of the 20 benchmark plants is 23.7 mills/kWh. If WNP-2 achieves this goal, EN would receive a fee of \$750,000. For FY98, WNP-2's cost of power was 23.19 mills/kWh and for FY99 the cost of power was 23.8 mills/kWh. Our rationale for rewarding average performance is twofold: the above Performance Incentive Fee (PIF) schedule provides much higher incentives for significantly lower than average cost of power, and the \$750,000 payout for average performance is a surrogate for a management fee for safe, reliable performance.

e.) What is the production cost you assumed in the rate case for the next five years?

The rate case does not assume a "production cost" in terms of mills/kWh however it does use projected budget costs (in nominal dollars) for WNP-2 operation, and Bonneville assumes a level of generation per the PNCA plan. Using this data, calculated production costs would be:

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>5 yr average</u>
18.7 mills	22.7 mills	20.6 mills	24.0 mills	21.7 mills	21.5 mills

f.) WPPSS has been paying bonuses in the past. Where are these funds from? Are you simply shifting these to FBS in an accounting shell game? If you pay \$7 million is that money counted against the production costs for the year it is paid?

Energy Northwest has for the past 3 or 4 years paid employees incentive fees based upon specific and measurable goals being met. These fees have always been included as part of the WNP-2 O&M budget. While these incentives were being implemented, EN has made other changes in personnel labor compensation policies (such as overtime rate reduction, elimination of overtime for exempt personnel, and reductions in benefits costs), that have lowered the WNP-2 operating cost. The Performance Incentive Fee (PIF) negotiated as part of the MOA is separate from the employee incentive fee program. If a PIF is earned by EN, it will not be included in the production costs for the purpose of fee determination for the year it is paid. However it will be included as a WNP-2 cost in Bonneville's budget.

g.) How many FTE's at BPA would \$7 million pay for?

Assuming a total cost (including benefits) of \$79,000 per PBL employee per year, \$7M would cover 85 to 90 Bonneville employees.

h.) What is the status of the decommissioning fund for WNP-2? How are decommissioning funds accounted for in your bonus plans? Shouldn't the decommissioning funds be fully paid before rewarding WPPSS?

The Performance Incentive Fee and the decommissioning funding requirement are totally separate funding requirements. An incentive to reduce costs is appropriate now, not 25 years from now. The intended use of the funds is not a "reward", but to invest in new business units.

The decommissioning fund is currently at about \$62M and a contribution is made each year to this fund per an NRC approved plan. The FY2000 contribution will be about \$4M. The decommissioning fund contribution must be made each year regardless of whether WNP-2 operates or not.

i.) Is there a relationship between capital costs and the bonus? If capital costs go up but production costs go down is the bonus still paid?

No. Capital costs are included as part of O&M (and are thus expensed and not financed) when the actual cost of power calculation is done at the end of the year. Since the PIF is paid based on a mills/kWh target, EN will be focusing on reducing total WNP-2 costs and increasing generation.

j.) I understand the BPA bonus money will be used by WPPSS to develop "new business ventures." Is this true? Will the proceeds of those ventures go toward reducing the debt from WPPSS nuclear exploits? Are these new ventures intended to compete against existing BPA customer activities and private business?

EN plans to use PIF funds to develop new business ventures. The proceeds of these ventures will not be used to reduce the nuclear debt but will reduce WNP-2 costs by spreading overheads over non-WNP-2 business units.

EN has been focusing to a large extent on providing energy related services to its members and public power entities. However, competition with others will be an issue to be dealt with depending on the business venture.

k.) Can you tell me the economic effect of increasing the hours of production at WNP-2 when many of those hours occur when the market is below even the 1.78 cent target. Will you please provide the model showing the economic impact of WNP-2's planned operating schedule vs. the operating schedule for the base year?

WNP-2 is part of the FCRPS system and as such its output is sold to service our base load. To the extent that WNP-2 can increase generation beyond that assumed in our rate case, it will decrease Bonneville's need for augmentation purchases in the next rate period. This provides an economic benefit because augmentation purchases are likely to be made at a price that exceeds even the most conservative assumptions for WNP-2's cost of power. Furthermore, if the increased production comes during periods when the FCRPS is awash in surplus power, recent changes in the wholesale market have resulted in high energy values even under surplus conditions. For example, the average price received in May 1999 for surplus FCRPS power sold was 17.2 mills, which is above the 5 to 5.5 mills incremental cost of WNP-2 operation.

l.) Where is the \$7 million in the proposed rate case?

Any PIF would be funded from the WNP-2 O&M item in the rate case. To be paid, costs would have to be less, or generation would have to exceed rate case projections. For top level performance (17.8 mills/kWh), EN earns a \$7 million fee and the region saves \$30+ million from current rate case projections. Thus, in effect, Bonneville would retain approximately 75% of the savings that EN generates by top level performance relative to rate case assumptions, while EN would receive in 25% of the savings.

Jeff, we believe the Incentive Program is warranted and justified. If we are fortunate enough to pay EN a \$7 million fee, they would have generated savings more than enough to pay for the \$30 million required for the C&RD you mentioned. Rather than viewing the incentive fee as a "WPPSS reward"

our focus has been on the benefits to the region gained from lower WNP-2 costs and the spin-off benefits to be realized by public utilities and others from the reinvestment of the "reward" into new business ventures.

Rest assured this Agreement also took lots of meetings, arm twisting, and soul searching. The potential savings and benefits to the regions rate payers are enormous. We are hopeful and confident that this potential will turn to reality during the next rate period. Your customers will be the beneficiaries of the lower WNP-2 operating costs

If you would like to chat about our responses, or ask further questions, you can contact me at Ex 6 or Ex 6

Thanks for your interest,
- Andy



WIP: Schmalzer

W NP-2 Cost of Power Incentive Fee Schedule
EN FY 00 - 02

