

Power Business Operations

Financial Choices Workshop: September 4, 2002

\$ in Millions

	FY 2000	FY 2001	FY 2002			FY 2003		
	Actuals	Actuals	June 2001 Rate Case	Aug 2002 Forecast	Delta	June 2001 Rate Case	Aug 2002 Forecast	Delta
<u>Program Description</u>								
14 Power Business Operations	52.6	49.3	36.9	48.3	11.4	28.5	61.4	32.9
15 NORM - PNRR 1/			4.5	0.0	(4.5)	4.5	0.0	(4.5)

\$ in Millions

	FY 2004			FY 2005		
	June 2001 Rate Case	Aug 2002 Forecast	Delta	June 2001 Rate Case	Aug 2002 Forecast	Delta
<u>Program Description</u>						
14 Power Business Operations	20.9	62.6	41.7	19.6	63.5	43.9
15 NORM - PNRR 1/	4.5	0.0	(4.5)	4.5	0.0	(4.5)

\$ in Millions

	FY 2006			Average	Total Delta
	June 2001 Rate Case	Aug 2002 Forecast	Delta	Delta 2003- 2006	
<u>Program Description</u>					
14 Power Business Operations	17.7	64.8	47.1		165.6
15 NORM - PNRR 1/	4.5	0.0	(4.5)		(18.0)

Major Subcategories - Projects (not equivalent to groups within PBL and excludes Planned Net Revenues for Risk):

1. Operations Scheduling, 5 year total \$47.5M forecast; approx. 86 FTE
2. Operations Planning, 5-year total \$27.4M forecast; approx. 45 FTE
3. Sales and Support, 5 year total \$102.5M forecast; approx. 153 FTE
4. Communication & Liaison, 5-year total \$14.2M forecast; approx. 14 FTE
5. Strategy, Finance & Risk, 5-year total \$47.5M forecast; approx. 49 FTE
6. Human Resource Management, 5-year total \$22.6M forecast; approx. 6 FTE
7. Process Automation & IT, 5-year total \$38.9M forecast; approx. 53 FTE

1. **Operations Scheduling:** The Generation Scheduling function develops and administers programs, systems, and processes related to real-time operations generation scheduling, interchange scheduling, scheduling planning, short-term contracts and marketing coordination.
 - a. Duty Scheduling: Duty Scheduling provides 24-hour coverage of the real-time scheduling and hydraulic operation of Bonneville's system.
 - b. Schedule Planning: Schedule Planning coordinates and prepares the most efficient plan of operation for the FCRPS (Federal Columbia River Power System) for the next 10 days, assesses the marketplaces and markets available energy, coordinates Non-Treaty Storage Agreement Operations, and develops scheduling procedures for transmission system limitations.
 - c. Scheduling Coordination: Scheduling Coordination is responsible for establishing, implementing and accounting for preschedule and after the fact procedures with utilities, other customers, and transmission providers.

2. **Operations Planning:** The Power and Operations Planning function identifies and tracks expected and potential Federal Columbia River Power System energy inventory in the near term through the long term. This function maintains regional and treaty relationships and satisfies contractual and treaty obligations. The Power and Operations Planning function provides inventory and assists the generation interface (Federal Hydro Projects and Contract Generating Resources) function in providing cost-of-production data. It also conducts operating scenario analysis as part of the market/production strategy process. This function is responsible for inventory data, regional coordination and treaty compliance.
3. **Sales and Support:**
 - a. **Requirements Marketing:** The Requirements Marketing function develops products and services, establishes prices and contracts, and recommends rates. This function creates and maintains the business interface with the customers. It is responsible for meeting or exceeding established targets for sales and revenue, customer satisfaction, and cost targets. The Requirements Marketing Vice President provides executive leadership and strategic guidance for the marketing, selling, and servicing accounts processes including process improvements. The Vice President provides resources to support the Requirements Marketing servicing functions.
 - b. **Bulk Marketing & Transmission Services:** The Bulk Marketing and Transmission Services organization has two major functions: bulk power marketing and transmission acquisition and reserve services marketing. (1) The Bulk Marketing function is responsible for all non-requirements marketing, sales and account servicing in the emerging bulk power markets. This work unit's areas of market responsibility includes: PNW DSIs, all PNW investor owned utilities, PNW wholesale marketers and all active wholesale markets in the WSCC outside of the PNW including Canadian and California markets. This function includes product pricing and analysis, trading floor activities and spot market sales. (2) The Transmission and Reserve Services function manages the purchase (or sale) of transmission and reserve services. This includes product development, pricing, and inventory control and reporting. This function is responsible for defining PBL transmission policy, managing PBL's interests in the development of a Northwest Regional Transmission Organization (RTO) and other deregulation initiatives, and acting as PBL's interface with the Transmission Business Line, the California ISO and PX, and other WSCC transmission counter parties.
4. **Communication & Liaison:** The Communication and Liaison function provides information, technical assistance, consultation, and coordination among elements of, and on behalf of, the business line with its various internal and external customers, clients, and service providers.
5. **Strategy, Finance and Risk Management:** The Business Strategy, Finance and Risk Management function provides clear strategic and tactical direction and timely reports on

information and data required from the line organizations to support the business planning, risk mitigation, and financial management processes and systems. The function assesses business performance in the context of the business line's strategic vision, and sales, revenues, and cost targets, and provides analyses and managerial reports which explain differences between actual and target performance. This function is responsible for developing and updating the business, financial management and risk strategies as needed and supporting the Senior Vice President and other Business Line executives in making timely decisions on those strategies (interpretations, changes, decisions). Specifically, the Business Strategy, Finance and Risk Management function: (a) coordinates, manages, and produces the business strategy, including research and analysis of the business environment and preparation of agency and PBL strategic plans; (b) manages the annual process for establishing PBL business goals and targets and developing organizational plans to meet objectives; (c) coordinates and oversees financial policy, margin management, and financial system development and implementation; capital and expense budgeting; and managerial reporting, including financial target preparation and performance measurement; and (d) establishes and monitors risk management objectives, including working with affected organizations to identify, quantify, and mitigate risks.

- 6. Human Resource Management:** The Staff Management function provides guidance and support to the Power Business managers and employees relative to the management of staff. Staff Management ensures that corporate services are provided to the business line in a manner that best supports the achievement of business line goals and targets. The Staff Management function is also responsible for the tracking of critical success indicators for the Power Business Line and has key responsibility for the achievement of targets that support agency strategic business objective 7. Administrative functions include personnel support, staffing allocation and tracking, implementation of the recognition program, coordination of reorganizations, space management, and conduct of management studies.
- 7. Process Automation and Information Technology:** The Information Technology management function provides guidance and support to IT managers and staff and is responsible for client satisfaction relating to PBL Information Systems Services and Development activities. This function provides strategic planning, budget management, contract management, contractor task oversight, and serves as the PBL IT liaison to groups internal and external to BPA. Staff acquisition, allocation, training, problem resolution, and team building are also provided.

Drivers of Difference from Rate Case:

The main driver of costs being higher are the additional staff and associated expenses required to carry out all major business functions within the Power Business Line, except Conservation, Corps and Bureau and Energy Northwest. Significant changes were in the area of 24/7 scheduling and trading floor activities. In addition, current forecasts reflect an increase in staffing beginning in 2003 for operating and participating in the RTO environment.

The cost estimates in the rate case were based on the Cost Review Recommendation #1 which envisioned a very simple market and operating environment with about half the FTE currently needed to operate the Power business line. The implication of the Cost Review was the fundamental relationship between BPA and its long-term power customers would significantly change, and BPA's traditional customer support services would no longer be provided. In addition, the Cost Review estimates were predicated on a greatly simplified billing, scheduling and inventory system (from circa 1998) when in fact just the opposite has occurred requiring significant personnel and information technology investments just to keep pace with the current market and scheduling environment. Further, the Cost Review numbers assumed Northwest customers would not exercise their statutory right to obligate BPA to provide new resources and expanded services. In sum, almost every single assumption about how BPA would operate in the Power Marketing and Scheduling arena in the Cost Review, the basis for the cost estimates in the rate case was 180 degrees from the current reality.

Consequences of cost cuts/tradeoffs:

Reductions to rate case levels in Power Business Operations would require a reduction of approximately 50% in this area's BFTE and associated expenses. This would directly impact virtually every PBL program area except Conservation, PBL Corps and Bureau, and PBL Energy Northwest staffing. Nevertheless, these areas would be indirectly impacted from reductions in support services.

Calculation of Revenue Offsets/Efficiency Gains (if any):

N/A

Current Mechanisms for enforcing spending levels:

- Annual spending level targets are being put in place for FY2003-2006.
- PBL Check-off Procedures require management review of expenditures over \$500.
- All expenditures over \$5,000 are reviewed by a PBL VP.
- Monthly expenditure reports are prepared for all programs to monitor progress toward agreed upon budgets and to identify additional cost reduction opportunities.