

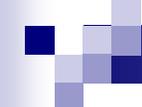
Update on BPA's Enterprise Process Improvement Program (EPIP)

February 2006



What is BPA's Enterprise Process Improvement Program (EPIP)?

- EPIP is a major BPA initiative to achieve one of the Agency's key strategic objectives:
 - Effective cost management through its systems and processes (I1)
- The Program's goal is to help BPA become more efficient and effective by reducing costs and increasing productivity. This will help to lessen rate increases and will deliver higher value to the region and employees
- EPIP was requested by BPA customers



Administrator's Commitment to Customer Collaborative

(9/11/03 Letter from Wright to Adams/ Benedetti)

- Aggressively pursue and implement a Process Improvement Program
- Use outside expertise to define opportunities
- Work with customers in determining scope, contractor selection process and process improvement work plan
- Provide regular updates to customers

Key Drivers for Change

- It is BPA's public service responsibility to deliver services at the lowest rates consistent with sound business principles
- Significant opportunities to lower internal costs and increase productivity exist throughout the Agency.
- To manage upcoming changes in BPA's workforce (e.g., high expected retirement rate in next few years)
- Pro-active change will be easier, less painful and more effective than change imposed by (external) crisis
- To keep pace with an increasingly competitive world
- To meet the President's Management Agenda to reduce government costs and to comply with increased internal controls and accountability
- To increase Agency's credibility by demonstrating that BPA can make difficult internal changes to become more efficient and effective

KEMA identified 23 Areas for Efficiencies

Category 1: Organizational Impacts

- 1 Performance and Process Management
- 2 Organizational Design and Governance
- 3 Strategic Planning
- 4 Capital Allocation & Asset Management
- 5 Agency Offerings Portfolio

Category 2: Tactical

- 6 Information Technology
- 7 Communications & Regional Relations
- 8 Transmission: Plan, Design, Build
- 9 Transmission Field Operations
- 10 Business Planning & Budgeting
- 11 Shared Service Model
- 12 Rates Strategy
- 13 Risk Management

Category 3: More Difficult or of Lower Value

- 14 Energy Efficiency Program Management
- 15 Fish & Wildlife Program Management
- 16 Marketing & Sales
- 17 Audit
- 18 Human Resources
- 19 Supply Chain
- 20 Other Support Services
- 21 Hydro & Nuclear Operations
- 22 Finance & Accounting
- 23 Scheduling, Contracts & Billing/Settlement

EPIP Phase One

- Of the 23 areas identified for efficiency opportunities, 6 key areas were selected for Phase One*:
 - **Information Technology**
 - **Public Affairs and Communications**
 - **Transmission Plan, Design, Build**
 - **Human Resources and Staff Management**
 - **Energy Efficiency**
 - **Marketing and Sales**

- In total, Phase One is targeting \$65 - \$80 million in annual savings that we expect to realize through process efficiencies over the next 3 – 5 years

* Originally Fish and Wildlife made a 7th initiative but has been put on hold pending completion of its Pisces Contract management project.

Cost Saving Challenges

Enterprise Process Improvement Project – Phase One				
	Baseline Costs (FY 2004 \$million) <i>estimate</i>	Baseline Staff BFTE & CFTE (FY 2004) <i>estimate</i>	Cost Reduction Challenges	Targeted Savings (\$millions)
Transmission Plan, Design, Build	291	500	15% or more	30 to 45+
Information Technology	95	500	25% by end of FY2006	24
Marketing and Sales	22	202	15% or more	3+
Human Resources	13	125	40% or more	5+
Public Affairs	8	73	30%	2
Energy Efficiency Contract Management	7	64	15% or more	1+
Totals - Phase One	436	1464		65 to 80+ (18%+ overall average)

Phase One Achievements to Date

■ Information Technology (IT)

- Consolidation and reorganization completed
- Important initiatives are in “project status” and moving out into operations:
 - FY 2006 expense budget is \$5 million (10%) lower than FY 2005; FY 2006 capital budget is \$15 million (30%) lower than FY 2005
 - BPA FTE reduced by 28; Contractor FTE reduced by 55. This represents a 16% reduction in the IT workforce
 - Re-competed IT service contracts, consolidating from 23 to 8 providers
 - Agency Prioritization Steering Committee is fully functioning, developing an Agency-wide, business-centric IT project portfolio
- Achieving cost reduction targets will be complicated by the increased demand for IT support and automation outlined in other EPIP study recommendations

■ Public Affairs

- This function was reorganized at the start of FY 2006, consolidating communications, public affairs, and tribal relations staff from across BPA into the Chief Public Affairs Office
 - Staff level reduced by 16% (12 FTE)
 - BPA Today has been rolled out, consolidating numerous other publications

Phase One Achievements to Date - Continued

■ **Transmission Plan, Design, Build**

- Project structure and approach developed – 3 staged approach will be used
- Phase One Implementation teams have been staffed and launched
- Eleven teams including
 - Risk Management and Planning (estimated benefits of \$15 million/year)
 - Standards Group (estimated benefits of \$8.5 million/year)
 - Improved Planning Group (estimated benefits of \$2.3 million/year)
 - 8 Others (estimated benefits of \$15.1 million/year)
- Savings in this area would have no impact on power rates

■ **Human Resources**

- Consolidation and reorganization are now in place
- Staff level reduced by 5% (7 FTE)
- Detailed implementation planning is in progress

■ **Energy Efficiency**

- Reorganization has been completed
- A new, automated contract management system is fully implemented

■ **Marketing and Sales**

- Functional review and proposed future state to be completed February 2006

EPIP Phase Two

- Three new Functional reviews are currently underway
 - **Transmission O&M**
 - **Asset Management**
 - **Supply Chain**

- Functional reviews of each area began August 2005 and future state recommendations are expected to be completed January – March 2006

- These are expected to be large cost opportunity areas for BPA

Power Rate Impacts of EPIP Savings – PFR II Update:

- In PFR I, BPA committed to include in the Initial Rate Proposal a forecast of savings from process improvement efforts of \$8 million per year (2007-2009). At that time the sources of the savings were not identified.
- Subsequent work on EPIP Phase I studies and early process improvement efforts in the studies functions have confirmed this early estimate, giving us greater confidence that EPIP improvements will yield the \$8 million in savings assumed in PFR 1.
- The preliminary nature of Phase II studies, and their predominately transmission focus, do not warrant a change to this original estimate of power rate savings.

EPIP Project Approach

- Process Improvement Methodology supported by strong Change Management and Project Management structure

- Outside Help
 - KEMA
 - Benchmarking and Industry Expertise
 - Process Improvement and Change Management Expertise
 - Customer Perspective
 - Ken Canon, ICNU
 - Steve Marshall, Snohomish PUD
 - Pat Reiten, PNGC

- Phased Approach

Program Costs to Date

- BPA contracted with KEMA, an international energy consulting firm with specialized industry expertise in benchmarking and process improvement for assistance this project
- Contract cost to date (Nov. 2004 – Dec 2005):
\$4.5 million

EPIP Stages

