



Integrated Program Review (IPR)

Follow Up on Tacoma Question #2:

Enterprise Process Improvement Program (EPIP) Savings
Allocated to Power

July 21, 2008



Tacoma Question 2

Question: Please provide an estimate of the amount of EPIP savings included in the IPR FY 2009, FY 2010, and FY 2011 budget numbers, by year, by power program, and by initiative (or category).

Summary

Table 2 (slide 6) shows that IPR budgets for FY 2009 – 2011 are an average of \$62 million/year lower than they would have been without EPIP. This translates to savings on average for power of approximately \$18 million/year.

Power's Share of EPIP Savings by Project

Energy Efficiency	100%
Public Affairs	50%
Transmission O&M	0%
Plan, Design, Build - Capital	0%
Information Technology - Capital	42%
Information Technology - Expense	42%
Supply Chain	42%
Human Capital Management	23%
Marketing & Sales	54%



Cost Savings

EPIP cost savings are calculated using a methodology developed by the Chief Financial Officer (CFO) and approved by the Business Operations Board (BOB). The methodology is summarized in Appendix A.

The cost savings methodology focuses only on hard savings, the term most often applied to dollars saved that are identifiable and realized as budget reductions.

Soft savings are savings that are reasoned to exist but are not readily shown as definable or attributable budget reductions and are not included in these calculations. These soft savings include improved output at the same cost, improved quality at the same cost or reductions in risk or errors.



Explanation of Tables

Table 1 displays the estimated EPIP savings challenges and ‘Glide Slopes’ for each initiative. Targeted EPIP savings are determined as the difference between the estimated cost stream without EPIP (with 2004 as the base year plus inflation factors) and the projected glide slope budgets with EPIP, assuming no significant programmatic changes.

Table 2 shows the difference between the estimated cost stream without EPIP and the actual costs and program levels (for FY 2006 – 2008) and budgets reflected in IPR budgets (FY 2009 – 2011).

Following the two tables is a summary explanation of differences between EPIP Glide Slopes and IPR budgets.



Estimated Savings Challenges and “Glide Slopes”

Table 1

EPIP Project Name	Original COO Challenge ²		EPIP Annual “Glide Slope” Targeted Savings in \$ Millions by FY					
	Percent	\$M	2006	2007	2008	2009	2010	2011 ³
Energy Efficiency	15%	1+	0.2	0.4	0.7	0.8	1.4	1.4
Public Affairs	30%	2	0.2	0.5	1	1.5	2	2
Transmission O&M	Optimized spending and asset performance							
Transmission Plan Design Build ¹	15%	30 - 45	8.2	18.3	19.9	22.8	22.8	22.8
Asset Management	Optimized spending and asset performance							
Information Technology ¹	25%	24	18.4	30.7	35	39.2	43.7	43.7
Supply Chain	15%	1.6	-1	-0.4	0.1	1.5	1.6	1.6
Human Capital Management	40%	5+	0.2	1.6	3.8	5.7	4.4	4.4
Marketing and Sales	15%	3		0.6	1.7	2.5	3	3
Totals	66.6 - 81.6		26.2	51.7	62.2	74	78.9	78.9

1. Transmission PDB savings are capital only. IT savings are capital and expense. Other savings are expense.
2. COO Challenges include hard and soft savings. PDB “Glide Slope” and actual results are for hard savings only.
3. EPIP targets were developed through FY 2010. FY 2011 is assumed to be the same as FY 2010.



Actual Savings and Savings Reflected in IPR Budgets

Table 2

EPIP Project Name	Actual savings for FY 06 and 07 and savings reflected in IPR budgets in \$ Millions ¹					
	2006	2007	2008	2009	2010	2011
	Actuals		On Track	IPR Budgets		
Energy Efficiency	0.3	1	0.7	0.3	-0.2	-0.4
Public Affairs	2.2	3	2.8	2.9	2.8	3.1
Transmission O&M	Optimized spending and asset performance					
Transmission Plan Design Build ²	11.2	15	32	15	16	17
Asset Management	Optimized spending and asset performance					
Information Technology	31.8	37.0	38.5	42.7	34.7	39.9
Supply Chain	1.2	1	0.2	0.2	-1.8	-0.8
Human Capital Management	2.7	3	3.9	4.6	4.6	6.0
Marketing and Sales		3	0.7	0.1	-0.2	0.4
Totals	49.4	63.0	78.8	65.8	55.9	65.2

1. Transmission PDB savings are capital only. IT savings are capital and expense. Other savings are expense.
2. Transmission savings depend on the final size of capital program. The capital program is subject to large changes annually. PDB actual results are for hard savings only.



Summary Explanation of Differences in EPIP Glide Slope and IPR Budgets

Energy Efficiency, IPR is higher than EPIP glide slope due to higher program levels of aMW conservation savings and development of new programs in demand management.

Public Affairs, IPR is lower than glide slope due to additional cost reductions.

Transmission Plan Design Build, IPR is higher due to a significant increase in the transmission program for system infrastructure expansion, corrective and preventative maintenance, replacement and refurbishment, implementation of NERC/WECC mandatory reliability standards and Network Open Season expansion.

Information Technology, IPR is higher than glide slope as a result of new and replacement automation, some of which enables on-going EPIP savings.



Summary Explanation of Differences in EPIP Glide Slope and IPR Budgets - continued

Supply Chain, IPR is higher due to significantly increased workload in support of increased purchasing and contracting activity, inventory handling, and warehousing. The increased demands on Supply Chain are primarily driven by significant increases in Transmission infrastructure projects, Fish & Wildlife contracts, Energy Efficiency contracts, and R&D contracts that were not envisioned in 2004 when EPIP savings targets were set.

Human Capital Management, some efficiencies being realized later than originally planned, however expense reductions are embedded in the 09-11 budget.

Marketing and Sales, IPR budgets are higher due to new demands of implementing the Regional Dialogue contracts, including increased data and forecasting requirements for loads, resources and the Residential Exchange Program, increased complexity of administering contracts and requirements for operating new billing and contract management systems.



Summary of EPIP Cost Tracking Methodology

Appendix A



EPIP Financial Measurement Guidelines

There were any number of ways to track cost savings. BPA established a method which best addressed the guidelines stated below:

- Define and capture baseline costs for agreed upon EPIP scopes.
- Develop “apples to apples” comparisons to track baselines against EPIP targets, budgets, and actuals in future years.
- Ensure no double-counting of baseline costs or EPIP cost reductions.
- Align responsibility and accountability for EPIP areas.
- Ensure no cost shifts between organizations.
- Recognize the dynamic nature of costs over time — new workload, new external requirements, etc.
- Integrate EPIP tracking process with BPA budgets, forecasts and actuals.



EPIP Cost Savings Methodology

EPIP teams reviewed “as is” business processes and researched best practices.

Based on each team’s analysis and benchmarking information, aggressive cost saving challenges were established (Table 1, Slide 5).

Managers determined multi-year budgets to achieve the EPIP cost challenge targets over time. These multi-year budgets are referred to as the “glide slope.” In many instances the budgets developed were below EPIP targets to better ensure targets are met.