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July 14, 2010

Mr. Andrew J. Rapacz  
Manager, Contract Generating Resources  
Bonneville Power Administration  
Richland Office  
P.O. Box 968, MD 1399  
Richland, WA 99352-0968

Dear Mr. Rapacz:

Subject: **BPA FY 2012-2013 INTEGRATED PROGRAM REVIEW**

Energy Northwest continues to meet its commitment to stay within the approved budget presented in its 10-year long-range plan developed in 2008. Our current input to BPA's FY 2012-2013 Integrated Program Review is consistent with what was provided at that time. In order to meet those commitments Energy Northwest has already taken several risks to absorb known cost increases such as the following:

- Assumption of an average of 35 open positions over the rate case period
- Reductions in the contingency fund
- Public Employee Retirement System increases
- Other reductions to pay for added equipment reliability projects
- Reduction of 55 positions.

The total value of the risks already being absorbed is \$21 million.

Attached is a detailed look at our current assumptions and what additional reduction scenarios would look like with related risk ranking (presentation "BPA FY 12/13 Rate Case Reduction Scenarios"). As always, we are willing to talk in more detail regarding the submitted information.

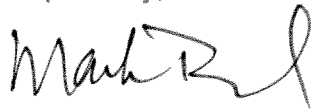
Energy Northwest will continue to look for opportunities for cost reductions and will review all options with BPA as they arise.

Mr. Rapacz  
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**BPA FY 2012-2013 INTEGRATED PROGRAM REVIEW**

Energy Northwest does not believe it is prudent to implement further reductions at this time given the risk already built into the approved long-range plan.

Respectfully,

A handwritten signature in black ink, appearing to read "M. E. Reed". The signature is fluid and cursive, with a large loop at the end.

M. E. Reed  
Acting, Asset Manager/Controller

MER-1/jmd

Attached (As stated)



**ENERGY  
NORTHWEST**

# **BPA FY 12/13 Rate Case Reduction Scenarios**

Brent Ridge  
Asset Manager and Controller  
July 13, 2010

# Summary

- ✦ Columbia Long-Range Plan assumes \$16 million in risk already
- ✦ Long-range Plan also assumes reduction of 55 positions over 2012 and 2014, \$4.9 million
- ✦ Above reductions and risks = 3.1%
- ✦ Opportunities exist to reduce cost in the rate case. Energy Northwest and BPA continue to review these options

# Summary

- ✦ Projects have been ranked and appropriate funding levels exist
- ✦ Energy Northwest does not believe it is prudent to implement further reductions at this time given the risk built into the approved Long-Range Plan
- ✦ Energy Northwest recommends continued review of financing related opportunities
- ✦ Detailed analysis can be reviewed on the following slides

# Proposed Reduction Scenarios – Fuel Financing

- ✦ BPA and EN have agreed to finance the early purchase of \$60m of fuel in EN FY11
- ✦ Revision to the 2011 fuel plan will reduce fuel procurement by \$42.7 million in the next rate case period (BPA FY12-13)
- ✦ Estimated interest payments of \$5m would result in a net \$37.7m reduction in the rate case period

# Proposed Reduction Scenarios – Debt Restructuring

- ✦ BPA and EN are currently assessing options
- ✦ Path Forward: EN and BPA staff assessments and presentation to Executive Board, Board of Directors and Participants Review Board – Complete by August 27<sup>th</sup>

# Proposed Reduction Scenarios – Risks Already Taken

- ✦ Assumptions and background
  - Living within the Long-Range Plan constraints established in 2008
  - Projected budgets in several areas already lowered to meet the constraint
  - FY12, FY13 and FY14 budgets are involved



# Proposed Reduction Scenarios – Risks Already Taken

- ✦ Review basis for rate case cost
- ✦ In order to meet the LRP commitment EN has already taken several risks to absorb increased costs related to equipment reliability projects. Risks include:
  - Assume an average of 35 open positions each month: \$3 million per year
  - Contingency reduced to pay for added equipment reliability projects: \$1 million per year
  - PERS increases of \$2 million per year
  - Undefined reduction to pay for added equipment reliability projects: \$2 million per year
  - Total value of risks being absorbed in Columbia's budget constraints over the rate period = \$16 million (2.4%)

# FY12, FY13, FY14 Annual Projected Budget Levels

- ✦ O&M project \$30 million
- ✦ Baseline cost \$119 million
  - Labor \$65 million
  - Baseline non-labor \$54 million
- ✦ General & Administrative \$70 million

# Reduction Risk Rating

- ✦ Ranking is based on risk and probability of making reduction for the next rate case
- ✦ Ranking is 1 to 10
- ✦ Ranking 1 the least risk options
- ✦ Ranking of 5 would have no immediate risk but would have a long-term Impact to Columbia
- ✦ Ranking of 10 is high risk to Columbia's reliable operation, regulatory requirement, industry standard

# Additional Reduction Scenarios - Baseline Labor

- ✦ Labor: Assumed \$3 million per year in open headcount
- ✦ Eliminating 30 Positions in 2012
- ✦ Eliminating 25 Positions in 2014

# Additional Reduction Scenarios - Baseline Non-Labor

## ✦ Major Components

- Regulatory \$11 Million
  - Nuclear Regulatory Commission \$7.5 million (10)
  - Energy Facility Site Evaluation Council \$2.4 million (10)
  - Federal Emergency Management Administration \$550K (10)
  
- Membership Dues \$3.3 Million
  - Electric Power Research Institute \$1.5 million (10)
  - Institute of Nuclear Power Operations \$1.2 million (10)
  - Nuclear Energy Institute \$425K (10)
  - Utility Service Alliance membership dues \$153K (10)

# Additional Reduction Scenarios - Baseline Non-Labor

- ✦ Materials and Supplies \$10.5 Million
  - Corrective maintenance materials \$2.1 million (9)
  - Resin/Liners \$1.0 million (9)
  - Chemicals/Gases \$2.7 million (9)
  - Security ammunition/weapons/optics \$400K (9)
  
- ✦ Outside Contractor Support \$17.4 Million
  - Radwaste disposal \$3.8 million (9)
  - Calibration lab services \$832K (9)
  - Environmental lab services \$639K (9)
  - Software maintenance fees \$1.2 million (7)
  - Maintenance support \$500 thousand (7)
  - BWR owners group support \$665K (7)
  - Project controls/estimator support \$250K (5)
  - Site support contractor core staffing \$2.4 million (5)
  - Backfill for project support \$452K (5)

# Additional Reduction Scenarios - Baseline Non-Labor

- ✦ Equipment \$1.6 Million
  - Public tone alert radios \$55K (8)
  - Trailer lease \$97K (6)
  - Xerox lease \$654K (3)
  - Office furniture \$40K (1)

# Additional Reduction Scenarios - Corporate Allocations

- ✦ Columbia portion of corporate allocations \$70 million
  - Employee Benefits/Personal Time \$45.2 Million
    - FICA, PERS and unemployment/disability \$16.3 million (7)
      - Can only be reduced by EN through position elimination
    - Medical benefits, 401(k) match and personal Time \$28.3 million (5)
      - Can be reduced by EN if policies are revised
      - Can be reduced by EN through position elimination
    - Benefits contingency \$0.6 million (5)
  - Organizational Overhead \$6.5 Million
    - At-Risk compensation/retention \$3.8 million
      - Retention are contractual obligations (10)
      - At-Risk compensation is already budgeted at 50% (5)
    - Relocations \$1.2 million
    - Tuition \$0.6 million (5)
    - Awards \$0.2 million (3)
    - Indirect Labor \$0.7 million (1)



# Additional Reduction Scenarios - Corporate Allocations (cont'd)

- ✦ Columbia portion of corporate allocations \$70 million
  - ▣ Corporate Programs \$17.9 Million
    - Regulatory and insurance \$0.8 million (10)
    - Board travel and expenses \$0.4 million (10)
    - Regular labor + burdens \$10.2 million
      - Can be reduced through position elimination (7)
    - Overtime, temp labor and special pays \$0.1 million (7)
    - Contingency \$0.2 million (7)
    - Outside contractors \$2.0 million (7)
    - Equipment and leases \$0.3 million (6)
    - Membership dues \$0.2 million (6)
    - IT software maintenance \$2.0 million (6)
    - Materials and supplies \$0.5 million (1)

# Proposed Reduction Scenarios – Risks of Future Expense Project Reductions

- ✦ Eddy Current Testing of Heat Exchangers – Industry Compliance, Degradation Discovery
- ✦ Cooling Tower and Tower Prevent Maintenance – Protect New Condenser
- ✦ Balance of Plant Valve Inspection and Repair -Scheduled Preventative Maintenance
- ✦ Air Operated Valves Program - Scheduled Preventative Maintenance
- ✦ Emergency Core Cooling System Strainers – NRC Issue
- ✦ Disassemble and Inspect Main Steam Isolation Valves - Scheduled Preventative Maintenance
- ✦ Low Pressure Core Spray Valve 3, Repair Valve Leak by Seat – Equipment Reliability
- ✦ Buried Piping Integrity Program - Equipment Reliability and NRC issue

# Proposed Reduction Scenarios – Risks of Future Expense Project Reductions

- ✦ Decontaminate Scaffolding – Dose Reduction
- ✦ Wireless Remote Monitor System – Dose Reduction
- ✦ Residual Heat Removal - Heat Exchanger Testing Improvements – Efficiency
- ✦ Service Building HVAC Configuration Control
- ✦ Test Panels for Reactor Protection System
- ✦ Main Generator, Remove and Clean H2 Cooler Heat Exchanger – Scheduled Preventative Maintenance
- ✦ Overhaul Main Transformers 1, 2, 3, 4 – One Transformer Currently Failed
- ✦ Protective Coatings – Asset Protection
- ✦ Dry Well Fans 4A/4B Fuses and Overloads – Operational Risk, Outage Risk

# Proposed Reduction Scenarios

- ✦ Projects currently below approved funding
  - Alternate decay heat removal system – directly impact future outage durations
  - Diesel generator relays
  - Install main generator air test referenced chamber

# Proposed Reduction Scenarios – Risks of Future Expense Reductions

- ✦ If we were to defer 100% of the listed projects the reduction to the rate case would be approximately \$12 million with impact to plant reliability.

# Summary

- ✦ Columbia Long-Range Plan assumes \$16 million in risk already
- ✦ Headcount reductions included in LRP, \$4.9 million
- ✦ Above reductions and risks = 3.1%
- ✦ Projects are ranked and appropriate funding levels exist
- ✦ Energy Northwest does not believe it is prudent to implement further reductions at this time given the risk built into the approved LRP
- ✦ Energy Northwest recommends continued review of financing related opportunities