



# Fact Sheet

June 2016

## BPA proposes spending levels for rates, seeks public engagement

**The Bonneville Power Administration is seeking feedback on its proposed spending levels for fiscal years 2018 and 2019.**

June 16 marks the beginning of the Integrated Program Review and Capital Investment Review process, in which BPA will set the cost levels that drive power and transmission rates for the next rate period. This process gives the Northwest region a chance to engage with BPA and provide input on proposed long-term capital forecasts and near-term expense levels.

### **The Integrated Program Review — looking at expenses**

The IPR was created in 2008 to give interested parties a chance to examine and comment on proposed program spending levels. The review is “integrated” because it combines programs for both Transmission and Power, which were once reviewed separately. The program costs are used to develop the initial rate proposal for the formal rate case, which we expect to start in November.

### **The Capital Investment Review — in-depth look at spending**

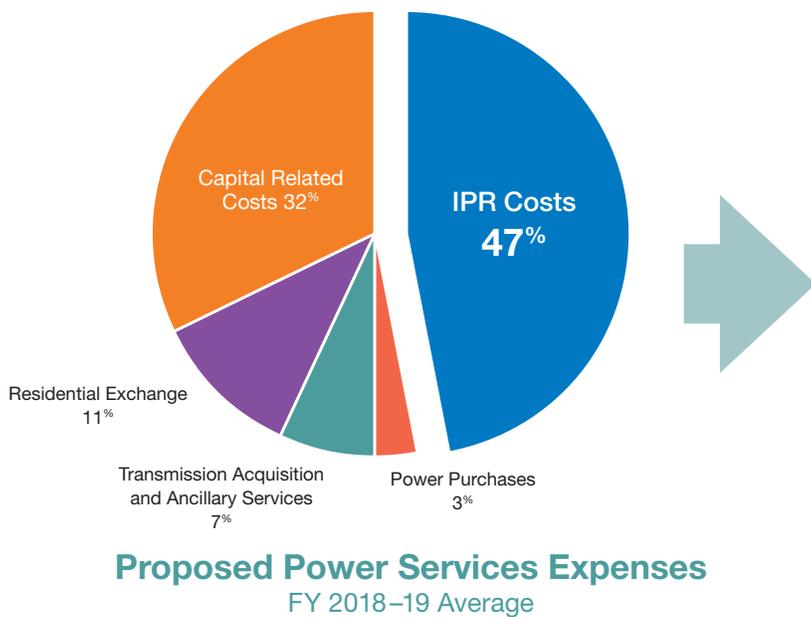
The Capital Investment Review provides a similar opportunity to weigh in on BPA’s capital spending plans. In the CIR, comments are centered on BPA’s draft asset strategies and 10-year capital spending forecasts. The asset strategies cover a longer planning horizon and place a priority and focus on replacing and maintaining aging transmission, power generation, facilities and information technology assets.

In the 2016 CIR, BPA established capital levels by evaluating several capital investment scenarios that were developed for the long-term rates model in 2015. The CIR covers spending in transmission, federal hydro, facilities, information technology, fish and wildlife, security and fleet.

### **Putting it all together**

People are concerned about program expenses because they immediately affect rates, but they are not the only rate drivers. The illustrations below highlight the IPR expenses and non-IPR costs (costs that are outside the scope of the IPR and will be addressed in the upcoming rate case) and the capital costs that are covered in the CIR. In the overall IPR/CIR process, we will discuss all of these elements, as well as various ways BPA can manage debt and gain access to capital to cover needed investments.





1%	NW Power & Conservation Council
3%	Renewables
6%	Power Internal Support
7%	Non-Generation Operations
9%	Energy Efficiency
12%	Bureau of Reclamation
18%	Corps of Engineers
22%	Environment, Fish & Wildlife
22%	Columbia Generating Station

**IN POWER SERVICES**, IPR expenses make up about 47 percent of all cost components. Non-IPR components, which include rate case matters such as power purchases and Residential Exchange Program benefits (which lower retail rates to residential and small-farm customers of some regional utilities), make up about 20 percent. CIR costs make up about 32 percent.

Power Services has identified an optimal level of capital investment to improve both reliability and the long-term rate trajectory, while minimizing near-term rate impacts. To get to the optimal investment of \$300 million a year (compared to the \$200 million 2014 CIR level) BPA is proposing to ramp up fed hydro capital investments, starting with \$14.2 million on average per year in fiscal years 2018-2019. These funds help to support needed infrastructure investments at the 31 dams of the Federal Columbia River Power System, the nation's largest carbon-free power source.

Power Services is proposing a \$73 million increase in IPR expenses above the 2014 IPR. The main drivers are:

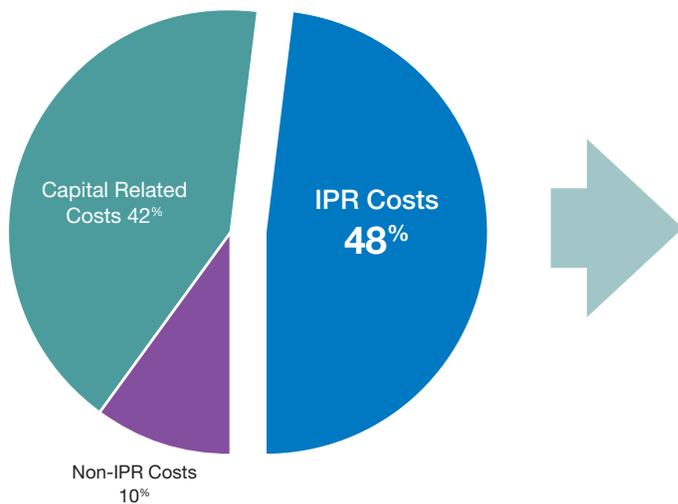
- Expenses to continue operating and maintaining aging hydropower equipment in the FCRPS, which averages more than 55 years old and supplies the majority of the electricity provided by BPA

- Operations and maintenance at Columbia Generating Station, the Northwest's only commercial nuclear plant
- Fish and Wildlife investments, consistent with BPA's commitments in biological opinions and the Fish Accords

Power Services minimized increases in proposed IPR spending levels by:

- Scrutinizing program costs and focusing on areas with the most flexibility, such as non-generation operations
- Funding the highest priorities and deferring or eliminating other programs, projects and contracts
- Taking a hard look at staffing levels and assigning employees to focus on the highest priority work

Based on these proposed spending levels, the power rate increase would be about 4 to 9 percent. There is significant uncertainty in the potential rate primarily due to forecasts for gas and electricity prices.



### Proposed Transmission Services Expenses FY 2018-19 Average

1%	Environment — Pollution Prevention & Abatement
2%	Scheduling
6%	Marketing
6%	Non-Between Business Line Transmission Acquisition & Ancillary Services
8%	Business Support
11%	Engineering
16%	System Operations
18%	Transmission Internal Support
32%	Maintenance

**IN TRANSMISSION SERVICES**, IPR costs contribute the largest portion of the total — 48 percent. Capital related expenses account for 42 percent, while the non-IPR categories make up 10 percent.

By focusing on mission-critical work, Transmission's proposal holds capital spending to 2014 CIR levels. Transmission is proposing an increase in expense costs of \$42 million above the 2014 IPR. The main drivers are:

- Special salary rate for engineers and negotiated wage increase for hourly employees
- Incremental costs to support Key Strategic Initiatives, such as asset management and commercial operations, that will position Transmission for long-term success

To establish priorities and spending levels, Transmission Services applied three main principles: restrain spending to limit rate increases, focus on mission-critical work, and make investments that provide greater savings to ratepayers if completed today. After considering these three principles and determining which projects were most likely to be executed in the BP-18 rate period, Transmission was able to defer approximately \$90 million in expense. These deferred costs include removal of the transmission contingency fund, assuming longer lags in filling vacancies, redeployment of staff to higher priority work, and delay of the fiber inventory project.

Based on these proposed spending levels, the Transmission rate increase would be about 3 to 5 percent.

**IN AGENCY SERVICES**, all costs are ultimately covered by Power and Transmission rates, as these organizations provide benefits to both Power and Transmission.

The majority of Agency Services costs are expense. Even with additional funding in support of Key Strategic Initiatives, Agency Services held close to BP-16 spending levels, in part by reducing other program costs. Agency Services is proposing an increase in expense costs of \$40 million above 2014 IPR. The main drivers are:

- Incremental costs to support BPA's Key Strategic Initiatives
- Information technology — Movement toward more cloud-based services and increases to support BPA's capital program

## What you can do

You can begin by reviewing the information at [www.bpa.gov/goto/ipr](http://www.bpa.gov/goto/ipr), including the Initial Publication, which provides details of the IPR and CIR expenses. All interested parties are invited to attend the workshops on June 16 and June 20–24. More information on scheduled topics and times is available at [www.bpa.gov/goto/calendar](http://www.bpa.gov/goto/calendar). The kick-off presentation summarizes the material in the Initial Publication.

BPA will accept comments on the proposed spending levels from June 16 through Aug. 12. Comments can be submitted via email to [BPAFinance@bpa.gov](mailto:BPAFinance@bpa.gov), online at [www.bpa.gov/applications/publiccomments/OpenCommentListing](http://www.bpa.gov/applications/publiccomments/OpenCommentListing) or by mail to BPA, P.O. Box 14428, Portland, OR 97293-4428.

## IPR/CIR Meeting Schedule

	<b>THURSDAY JUNE 16</b>	<b>MONDAY JUNE 20</b>	<b>TUESDAY JUNE 21</b>	<b>WEDNESDAY JUNE 22</b>	<b>THURSDAY JUNE 23</b>	<b>FRIDAY JUNE 24</b>	<b>FRIDAY AUGUST 12</b>	<b>FALL 2016</b>
<b>MORNING</b>	9 AM Kickoff		9 AM Fed Hydro	9 AM E,F&W	9 AM Transmission	9 AM Debt Management	Close of IPR Public Comment Period	Release IPR Close-Out Letter and Final Report
<b>AFTERNOON</b>	1:30 PM Capital Portfolio Management/ Reference Case	1 PM Chief Administrative Office  2:45 PM Information Technology	1:30 PM Columbia Generating Station	1:30 PM Energy Efficiency	1:30 PM Key Strategic Initiatives			