

June 11, 2010

Steve Wright, Administrator  
Bonneville Power Administration  
PO Box 3621  
Portland, OR 97208

Submitted electronically at: [comments@bpa.gov](mailto:comments@bpa.gov)

Dear Mr. Wright,

We are submitting the following comments regarding the Integrated Program Review, or IPR process, on behalf of Northwest Requirements Utilities. NRU staff has been actively engaged in the IPR process and a good number of the Managers of NRU member utilities attended the June 8<sup>th</sup> public meeting regarding this topic. As you heard in the meeting NRU members are concerned about a combination of compounding factors that will materially impact their wholesale power costs from BPA beginning October 1, 2011. These include:

- A potential forecast rate increase due solely to increasing costs in the 12% - 20% range.
- Significant further rate increase pressure due to the cost of risk mitigation tied to maintaining adequate financial reserves.
- A likely inherent increase in wholesale power rates and uncertainty for many members associated with the implementation of the Tiered Rates Methodology.
- An obligation to purchase Tier 2 power or non-federal power supply to cover above High Water Mark loads, where such power may be twice or more as expensive as BPA Tier 1 power.

In addition to the changing costs of wholesale power supply, our members are faced with cost increases in running distribution systems, for example WECC compliance, RPS requirements, etc., which when combined with wholesale power costs is very sobering.

We recognize and anticipate that the potential size of the rate increase may be substantially mitigated by favorable treatment on such issues as debt structure, nuclear fuel costs, and the treatment of conservation costs. Yet even if these issues are successfully addressed the rate increase will still be significant and will require diligent attention to the budgets of other Federal Agencies such as the Corps and Bureau and Energy Northwest, but also the internal costs of BPA.

To that end it will be very useful to have the draft Close-Out letter a few days before the Manager's meeting scheduled for July 13, 2010, so that the participants meeting can have BPA's views on how it is planning to respond to the comments you are receiving.

After our initial review of the IPR information our preliminary findings (subject to further exploration of the issues with BPA staff) are as follows. Admittedly these comments are not comprehensive, but they do address the areas requiring the most attention. These comments represent the views of NRU staff, and we believe they will be amplified by the NRU membership. However, given the fact that BPA is currently working to prepare a draft Close-Out letter, to be issued prior to the July 13<sup>th</sup> meeting, we wanted to provide comments to BPA in a timely manner to be considered in drafting the Close-Out letter. Therefore, we are providing them to you without the formal review of our Board. Individual members are encouraged to submit comments on their own as they deem necessary.

### **Non-Federal Debt Service**

BPA and the customers should perform an in depth analysis of the structure of Energy Northwest debt for WNP-1, -3 and the Columbia Generating Station (CGS). Currently this debt is to be nearly paid off in 2019. Between 2012 and 2018 amortization of Federal debt falls off steeply (it is actually forecast to go to zero in 2015 through 2017). Over the same period amortization of non-federal debt (most Energy Northwest debt) grows to \$722 million in 2017 and then drops to \$68 million in 2019. The authors of this debt structure were concerned that these debts not be shoved off to future rate payers. However, CGS is licensed to 2024. The question is, does the current debt repayment structure unfairly burden current rate payers? We request that options for Energy Northwest debt structure be explored so that the rate effects (both near and long term) of different debt structures can be displayed. Only when this is done can the policymakers then make a fully informed decision. We ask that ENW, BPA and the customers work together in this analysis to ensure that we are achieving the most efficient overall debt service profile for ENW, other non-federal debt, and federal bonds and appropriations. Initial indications are that \$104 million per year 2012/13 on average can be saved if the CGS debt repayment structure is smoothed out over the 2012 to 2024 time period. We do not advocate moving the WNP-1 or -3 debt service beyond 2018.

### **Columbia Generation Station Fuel Costs**

When 2010/2011 CGS costs are compared to 2012/2013 costs, we see an increase that is almost totally made up of two factors: the increase in fuel costs and the reduction in fuel revenues. When these two are added together, 97% of the \$55 million average annual cost increase is explained. This increase is due to the ending of the relatively low-cost fuel purchases under the DOE pilot program, and its replacement with market fuel purchases. One way that the rate impact of these high fuel costs can be ameliorated is to spread their recovery over the fuel burn. Utilities around the nation that we have contacted amortize nuclear fuel purchases over the fuel burn, rather than expense them in the year the fuel is purchased. Absent compelling information to the contrary, we see no reason why this approach should not be used to reduce the rate impact. Amortizing fuel costs over the fuel burn would decrease the initial rate impact of the \$47 million increase in fuel cost by about two thirds.

### **Corps and Bureau Costs**

A rather disconcerting finding during this process has been the sheer amount of non-routine extraordinary maintenance (NREX) at the Corps and Bureau projects that needs to be addressed. About 15% of O&M program costs are for NREX, the large infrequent activities associated with

returning failed units to service, repairing gates and other large equipment and structures, as well as the work required for overhauling the big 805 and 600 MW units in the Grand Coulee Third power plant. This translates into an average increase in costs of \$47 million per year in expenses for the rate period. These costs are being treated as an expense even though this represents maintenance and repairs on long-lived assets. This is really only the start. These costs will be at a very high level for years as the Grand Coulee Third Powerhouse is refurbished from FY 2011 to FY 2016. Recognizing the size of these looming expenses, BPA has decided to hold a special meeting on this topic. In particular we are asking whether the accounting treatment of these costs is appropriate given the long term value that these refurbished assets will provide. We are also asking that BPA, the Corps and Bureau benchmark this accounting treatment against other PMAs and the TVA.

### **Fish and Wildlife Costs**

The May 10, 2010 IPR “Overview Workshop” shows the costs of the Fish and Wildlife Programs. Actual costs for 2009 were about \$179 M. Now for 2012 and 2013 they go to \$250 M and \$254 M, an increase of over 40%. These cost increases are largely due to the implementation of the Fish Accords with the tribes and state agencies. NRU members did not oppose the Fish Accords, and did not oppose the FCRPS Bi-Op. We are willing to pay a reasonable price for fish and wildlife programs. However, all of this spending occurs in the context of BPA’s rapidly declining reserves for Power Services. The members of NRU were chagrined earlier this year when BPA agreed to voluntary spring spill rather than relying on in-river transportation of migrating smolts in low water conditions. This had a negative effect on BPA’s level of financial reserves, was inconsistent with the science supporting the Bi-Op, and according to NOAA Fisheries, will likely have an adverse impact on the survival of the smolts.

Our understanding is that the IPR assumes on the revenue side that the Bi-Op will be implemented, including cutting off summer spill in August when the level of out migrating smolt falls below 300 fish per day. If the Federal Agencies fail to implement the best science contained in the Bi-Op, and extend summer spill into August when it is not needed by your Bi-Op’s own standards, the BPA customers should not bear that financial consequence to BPA of foregone revenues from lost power generation. The foregone revenue should be replaced by cuts to the additional money going into the Fish and Wildlife Program, particularly for softer areas such as “research and evaluation.”

Given current market conditions, we assume that continuing summer spill beyond August 1<sup>st</sup>, when it is not needed to help fish migration, will cost about \$15 M (plus or minus \$5 M) in foregone revenues, which is equal to about a ¼ mill increase in power rates, or 0.8% on a base of \$28.77 mills/kWh. Rather than increasing rates, BPA should accept all or a portion of the \$13.2 M in reductions contained on page 15 of the IPR Fish and Wildlife costs as needed to offset foregone revenues tied to summer spill beyond the Bi-Op trigger. There is little information in the IPR documents to demonstrate conclusively that this money will be spent.

BPA should set an overall budget cap on the Direct Fish and Wildlife Program expenditures for the duration of the Bi-Op. Such a cap will require BPA and the Council to reduce expenditures in Research, Monitoring and Evaluation (RM&E) in order to fund new project proposals. This will set clear program expectations and send a strong signal to program managers that they must prioritize

RM&E costs. It should make the program more efficient and effective, by hopefully spending ratepayer funds in ways that result in real improvements in fish and wildlife productivity and survival. To help implement the cap, any non-Accord projects that fail science review should not be funded.

We understand that contracts for the MOA projects have the automatic 2.5% increase in funding levels each year. This automatic funding level increase occurs whether or not the funding is actually needed. BPA should work with the agencies and tribes to see if this funding level is needed for each year. If not, the budgets for these projects should be revised to recognize that the actual expenditures lag behind the budgeted amounts and it is necessary to reflect this lag in rates. When projects within the Fish and Wildlife program cannot ramp-up as quickly as expected, or for other reasons, BPA's cost projections for the direct program will be inaccurate and will cause BPA to over-collect in rates for fish and wildlife expenses.

BPA should encourage the Council to use the Independent Economic Analysis Board (IEAB) to a greater degree. The Council recently evaluated the value of the IEAB and determined that the IEAB is being underutilized. The IEAB can provide useful insight as to the relative cost-effectiveness of the program and the value of the FCRPS at large. The IEAB may be of particular value with respect to prioritization of RM&E projects. BPA should specifically request that the Council task the IEAB with a "big picture" cost/benefit review of projects in the program.

## **Agency Services**

### **Introduction**

We highly recommend that BPA take another rigorous look at the costs for those programs over which it has direct control. From an NRU perspective, Agency Services should be analyzed based on FY 2011 rate case levels, and with assumed supporting revenues from current power and transmission rates, and then compared to recommended revised spending levels for IPR 2011 and 2013.

NRU is not proposing that BPA balance its overall financial problems associated with low water conditions and related secondary sales, declines in reserves, etc., on the backs of the current Agency workforce. However, in light of the cost increases for FY 2011 and the potential rate increase for FY 2012 - FY 2013, the Agency must be very judicious about increasing its internal costs. Potential cost additions in FY 2011 from IPR 2011 will reduce the level of reserves, available for the next rate period, and therefore have an upward pressure on rates. Cost additions from FY 2011 rolled into the next rate period, as well as new costs for FY 2012 – FY 2013 increase pressure on rates (unless they are tied to other demonstrable productivity savings or offset by increase revenues).

We recognize that Agency Services is funded by both Power Services and Transmission Services revenues, and that there is much more pressure to focus on drivers of Power Services cost increases, given Power's low and declining levels of reserves. However, Agency Services activities proposed in IPR 2011 funded by Transmission need to be justified, in part because they will draw down Transmission's level of reserves, which in turn reduces the overall BPA reserves available to make Treasury Payment.

## **Customer Difficulty Understanding Staffing Levels and Priority Setting**

We appreciate BPA showing for each Department in Agency Services the 2009 actuals, 2010 SOY, 2011 Rate Case, 2011 IPR, 2012 IPR and 2013 IPR proposed expenses. This is very helpful. For each Department BPA should produce a comparable table that shows the number of BFTE and dollar amounts for CFTE.

We applaud BPA for demonstrating 5% reduction scenarios for each Department. Unfortunately these are not actual reduction scenarios. A meaningful reduction scenario would be to take the numbers contained in the 2011 rate case, perhaps adjusting them for an inflationary increase, and then show the impact of a 5% reduction. In other words, Agency Services has a 2011 Rate Case aggregate number of \$256 M, but the reduction scenario of 5% for FY 2013 is based off of \$304 M, a beginning number that is 18.5% higher. Even when setting aside some unique additions, such as \$15 M for catastrophic insurance, the increase is 13%. In summary, when further adjusting for inflation it appears that the 5% reduction scenarios are on a base more than 7% larger than the activity levels associated with current rates.

For each of the reduction scenarios there should be an explanation as to whether it is a reduction from current levels of service or from proposed expanded activities. There should be an explanation as to the impact on the number of FTE and CFTE associated with the activity, increasing, decreasing, or staying the same.

To the extent the reduction scenario has a quantifiable or measurable impact on performance, the impact on performance measures should be clearly stated.

In some of the Departments, such as Information Technology, 11 projects are listed in the reduction scenario in 5 functional areas. However there is no break out of the \$4 – 5 million reduction scenario for individual projects, making it very difficult to match the explanations of projects with spending levels.

Some of the Departments, such as Legal, basically say in the reduction scenarios that if the activity is cut from their budget, it will have to be transferred and picked up by another department. These types of reduction scenarios should be rejected as unresponsive.

A priority ranking of “high” and “medium” for every potential reduction in Agency Services is not particularly helpful. Alternatively, each Department Head should rank order the items listed in the reduction scenario.

## **Areas within Agency Services for Further Review**

The following suggestions are based on a review of the 135 page Agency Services IPR summary materials distributed to customers. Comments are based largely on these materials and do not necessarily encompass a full understanding of each Department’s budget or the specific items in the reduction scenarios presented by BPA. However, based on initial analysis, these areas warrant further scrutiny by BPA.

**Corporate Strategy** The budget goes from \$21.2 M in FY 2011 to \$28.5 M in FY 2013 – a 34% increase. Holding aside Technology Innovation, Strategic Planning and Integration is up 32%. The R+D Portfolio appears to be very broad. A \$1 M reduction in this area is worth reviewing.

**Risk** The big driver of the cost increase here is the new addition of \$15 M for property insurance covering major assets, such as hydroelectric facilities. There are a number of policy and technical issues surrounding BPA procuring catastrophic insurance. Given current economic circumstances, NRU would not support this expense. There are too many higher priority items BPA identifies as new expenses, and the cumulative impact on rates, combined with the increase due to TRM rate design creates too much upward rate pressure to support catastrophic insurance.

In addition, the impact of potentially reducing two positions for a savings of \$330,000 needs further explanation.

**Finance** The budget goes from \$16.1 M in FY 2011 to \$18.8 M in 2013, about a 17% increase. This is exclusive of the Columbia Generating Station Decommissioning Fund. The 5% reduction scenarios include \$600,000 per year to the Decommissioning Fund, but the Decommissioning Fund budget of \$13.7 M does not appear to be part of the \$18.8 M Department base figure. The \$800,000 staffing related reduction needs further explanation, particularly the “intern” program needs further explanation. What is the overall change in the number of positions in the Department?

**Legal** The budget for 2013 is up 28% from the FY 2011 rate case number, going from \$9.9 M to \$12.5 M. Most of the reductions are premised on other Departments or business lines picking up the direct costs of Hearing Officers, NERC reliability, hydro projects, etc. Some of the contingencies for Hearing Officers, etc., represent new bodies of work that may need to be funded. However, with a 28% increase, the Legal Department should be urged to look for other possible reductions.

**Internal Business Services** While this is a relatively small department, the budget from FY 2011 to FY 2013 increases by over 15%. The reduction strategy of \$63,000 did not seem that onerous. It also raises the question of the extent to which IBS overlaps with Corporate Strategy.

**Business and Process Analysis** We cannot recommend scaling back on initiatives associated with the EPIP projects. However, to the extent the focus is to help the Agency achieve spending “less than inflation” and other efficiencies, that goal is not being demonstrated in many of the Agency Services Department budgets.

**Human Capital Management** This Department goes from \$17.3 M in 2011 to \$19.3 M in 2013, about a 12% increase. The \$1.2 M reductions representing 5% may admittedly detract from the quality of employee support functions, but to what degree. To the extent the reductions only make reference to industry standards, they need to be described in more detail. Are new positions being added in this Department and if so for what activities?

**Information Technology** The growth in this department from 2011 to 2013 is smaller than others, only 6%, but the increase is \$4.5 M. The reduction scenarios include 11 projects but there is no break

out of costs between individual projects. For example, what is the impact of accepting the reduction in “customer interaction” and “Corporate Improvements”? Maybe some of the projects can be eliminated.

### **Concluding Comments Regarding Agency Services**

BPA should use the current rate case funding amounts for FY 2011 as a starting point for determining expenses for IPR 2011, IPR 2012 and IPR 2013. In aggregate these Department expenses appear to be growing much faster than the rate of inflation. Having information regarding the number of CFTE and BFTE would be very valuable so customers can better understand BPA’s needs. Identifying possible areas of reduction is useful, but the reductions are from an inflated base that show no evidence of prioritization in the written materials. Clearly only the staff of BPA is in a position to evaluate the need for new expenses. However, BPA needs to appreciate the impacts of changes in wholesale power rates on Load Following utilities.

We request that BPA set an internal target for Agency Services adjustments in IPR budgets for FY 2011 – FY 2013 as follows:

- Use as the starting point expenses of \$256,289,975 for 2011 based on current rates.
- Increase this number by 5% to accommodate two years of inflation, for an expense target of \$269,104,474 for 2013.
- Reduce the \$303,710,329 FY 2013 IPR Agency proposal by \$15,000,000 assuming catastrophic insurance will not be purchased, yielding \$288,710,329.
- Subtract \$269,104,474 from \$288,710,329 resulting in a \$19,605,855 difference, or a 7.3% increase in the Agency Services budget for FY 2013 compared to 2011 with current rates after accommodating for inflation.
- Develop a list of prioritized reductions for each Department that is equivalent to a \$20 M reduction from FY 2013 IPR levels (not including the reduction for eliminating catastrophic insurance.)
- Identify what the impacts of the reductions would be in quantitative terms where possible and whether the activities are funded by Power Services, Transmission Services, or shared.
- Make reductions where possible, based on sound business principles.
- Be prepared to explain to the Customers in the Close-Out letter and at the July 13<sup>th</sup> meeting how BPA balanced the expense levels for Agency Services taking into consideration both the tasks the Agency is facing and the anticipated impacts on customer rates.

### **Energy Efficiency**

Due to a significantly increased conservation target and increasing conservation costs, BPA is proposing to increase its conservation acquisition costs from \$76.5 million in FY 2011 to \$124 million in FY 2012 and \$132 in FY 2013. BPA is proposing to capitalize these costs instead of expensing them. Historically, BPA has partially expensed and partially capitalized conservation acquisition costs. NRU supports BPA providing additional information on what the ramifications are of capitalizing these costs, including impacts on future rates. Specifically, we would like to see how fully capitalizing the conservation acquisitions would add to the existing (and forecast) federal debt structure and how the amortization would impact future rates. Further, we support BPA looking at

amortizing conservation over the expected life of the conservation measures, which may be more than the 5 years BPA is currently using. Capitalizing these costs may make sense because conservation is a long-term resource that will serve load over a period of years. In addition, fully expensing these costs could lead to a rate increase of 5%, with all else equal.

## **Renewable Resources**

Public power continues to demonstrate its commitment towards developing renewable energy and is on track to meet its renewable portfolio standards through 2020. We appreciate that BPA recognizes that public power itself is actively committed to developing renewables and therefore BPA is not proposing an increase in the renewable resources budget to fund BPA facilitation of renewable energy.

With regards to the renewables budget proposed by BPA, we have two comments.

Our first comment is on the Green Energy Premium (GEP) revenues. As a result of BPA collecting more revenues from the GEP than forecasted in FY 2007-2011, BPA is projecting to have approximately \$6.3M of unspent revenues going into FY 2012-13. BPA is proposing to spend these revenues on a number of projects, with nearly 50% (average of 2012/13) being used to fund the Wind Integration Team (WIT). We expect that these costs will then be allocated to and collected from the wind integration charge. Otherwise, we propose that the unspent GEP revenues be used to pay part of the Renewables Purchase Costs line item. It is appropriate that the customers that contributed towards the greater-than-anticipated collection of GEP revenues (i.e., preference customers) benefit by having these revenues pay for part of the costs of the wind resources that are included in the Tier 1 rate (i.e., preference customers).

Our second comment is on the \$4M/year Resource Development line item. When asked to explain what will be included in this line item, BPA has responded that “this budget allows Power Services to react quickly to changes in capacity needs occurring during the rate period. These capacity needs could be required for Tier 1 load, generation inputs or to support Resource Support Services.” This is a wide range of possible causes and we are uncomfortable with the lack of specificity as to what this \$4M/year may or may not fund. It appears to be a placeholder to allow BPA to collect \$4M/year *just in case* they end up needing it. Both the Tier 1 rate and the Resource Support Services rates will collect capacity costs based on market prices. We do not understand why BPA needs to collect more money for the same purpose. Alternatively, if BPA needs this money to acquire capacity to integrate wind into BPA’s balancing authority area, then these costs need to be allocated to the wind integration rate and we need to see offsetting revenues.

## **Transmission Expenses**

It is important that BPA Transmission ensures there is sufficient staffing to efficiently perform in key areas, such as policy and rates, reliability compliance and operations. There needs to be continuity in staffing and preservation of expertise in order to enable Transmission (and the customers) to move forward on pressing issues rather than spend time re-training staff.

We stress that there needs to be continuity in staff working on NT policy development. It is vitally important that Transmission develops policies that enable it to meet its Tariff obligation to provide load growth service for NT customers and to implement the goals of enabling non-federal resource development per the regional dialogue policy.

In addition, there needs to be sufficient staff to work on NERC standard compliance, both related to BPA and to the customers.

We appreciate the good work that is being done by Transmission staff, but fear human resources are being spread too thin.

### **Conclusion**

Thanks for the opportunity to comment. We look forward to seeing the results of BPA's response to public comments at the July 13<sup>th</sup>, public meeting. If you or your staff would like to discuss any aspect of these comments in advance, please let us know.

Best Regards,

A handwritten signature in black ink that reads "John D. Saven". The signature is written in a cursive style with a large, sweeping "S" for the last name.

John Saven  
Chief Executive Officer

CC: Mark Gendron, Vice President Requirements Marketing  
Brian Silverstein, Senior Vice President Transmission Services  
Claudia Andrews, Supervisor Finance  
Mary Hawken, Manager Analysis & Requirements  
Scott Corwin, Public Power Council  
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