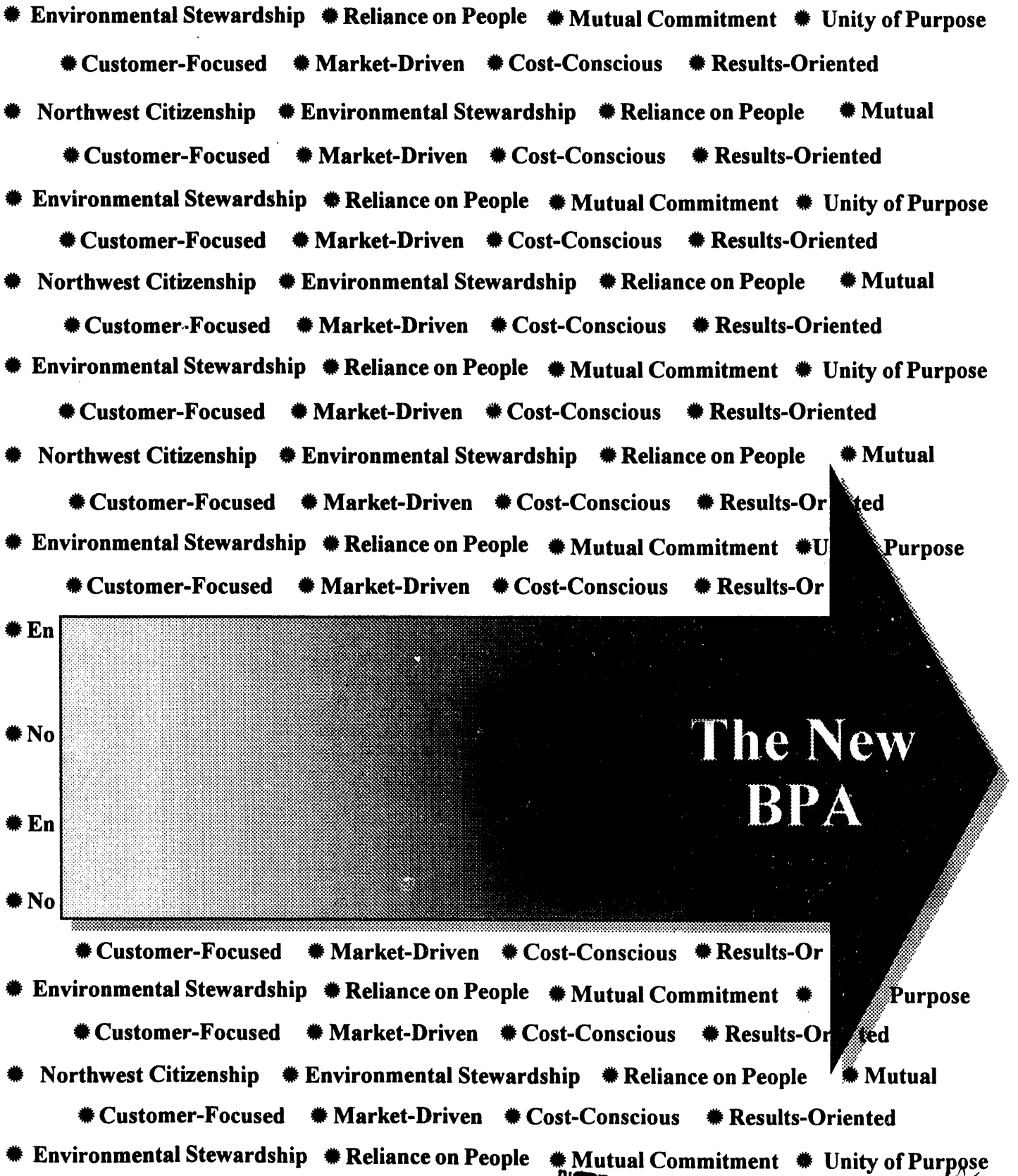
Bonneville Power Administration
Final Draft Strategic Marketing Plan
February 1994



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PREFACE

Bonneville Power Administration's (BPA's) Competitiveness Project was born of the need to ensure long-term "agency viability" and the fulfillment of BPA's charter in a changing energy marketplace.

There can be no such thing as "business as usual", or a non-competitive approach to business, for BPA. Broad market forces, National legislation (e.g., the Energy Policy Act of 1992) and regulatory policies are driving the utility industry toward a more competitive environment. BPA's rates have risen due to increasing internal costs, past resource investments, transmission system upgrades, the need for conservation and other new resources, and costs of fish and wildlife protection, mitigation, and enhancement. Other factors that affect rates are beyond BPA's control, including drought, world market prices for aluminum, and region-wide economic conditions. Add to this the increasing menu of supplier options available to our customer base, and it is clear that BPA faces a new and challenging business environment.

The Competitiveness Project must respond to these external market and competitive realities. The Competitiveness Project assumes that BPA would be well served by being more market-driven, with a much more effective customer service function. The product of the Competitiveness Project will be the Business Plan, which is being developed based on the Function-by-Function Review, several programmatic Strategic Action Plans, and the Marketing Plan, among other initiatives.

This effort at production of a BPA Strategic Marketing Plan contains many new concepts and approaches. A skeptical or distrustful reading of it could cause some readers to balk at such a radical change in perspective for BPA--one that envisions BPA quickly moving from a bureaucratic, indifferent marketer to a ***customer-focused***, ***market-driven***, ***cost-conscious***, and ***results-oriented*** business determined to succeed for itself and its customers in a competitive environment.

The Marketing Plan does not attempt to reorient readers to the new BPA or to introduce them to the new approaches we are learning and trying. Rather than using more familiar language and explaining every term, this draft intentionally uses some marketing jargon.

The reader is encouraged to begin to learn the need for this dramatic change to a market orientation by reading about the changing environment of the electric utility industry in the United States. The Marketing Plan begins and ends with the assumption that the change to a market orientation is essential to BPA's continued existence as the premier power marketer in the Northwest.

It also emphasizes the areas needing change and assumes that the reader begins with a familiarity of those things that will not change. BPA will remain a public entity with public responsibilities. We will remain accountable to public needs. BPA will continue to comply with statutory guidance, including that regarding public and Northwest preference;

priority of conservation as a resource; commitment to protecting, mitigating, and enhancing the fish and wildlife of the Columbia River basin; and consistency with the regional plans of the Northwest Power Planning Council.

This plan focuses on what's new, and deliberately so. The need for change is imminent and imperative.

INTRODUCTION

The Bonneville Power Administration (BPA) has played a central role in the electric energy, environmental and economic development of the Pacific Northwest. This broad role is the result of our multiple statutory purposes that include ensuring an adequate and economical power supply, encouraging conservation and renewable resources, and the protection and enhancement of the fish and wildlife of the Columbia River.

BPA traditionally has met its power purposes and broader social purposes through two different strategies. We generally have met our power responsibilities by maximizing the energy capability of the Federal Columbia River Power System and selling electricity at rates that recover the agency's total costs. We have met our conservation, fish and wildlife and other "social" responsibilities largely by funding programs paid for through power rates.

This bifurcated strategy now threatens to put BPA's "power" and "social" responsibilities on a collision course. Our commitment to conservation has significantly increased BPA's total costs and intentionally reduced our sales. Our commitment to fish and wildlife has resulted in major program costs and stream-flow obligations that have reduced our power revenues. While BPA remains committed to achieving its conservation and fish and wildlife responsibilities, we must find a way to make our power and social responsibilities complementary - not in conflict.

The fundamental need to reinvent the way BPA does business is made even more urgent by changes in the electric power business environment. The increase in BPA's costs and the reduction in natural gas prices threatens BPA's historic position as the low-cost, preferred power provider. The emergence of independent conservation and resource developers, open-access transmission, deregulation of the electric utility industry, and increased end-user choices clearly end both the ability, and desirability, of BPA maintaining business relationships through restrictive contracts, market dominance, or any other means short of being best value. BPA no longer can assume customer support; we must earn customer satisfaction by being the best among many choices in a very competitive marketplace.

BPA intends to meet this competitive challenge to our multi-purpose responsibilities by reinventing the way we do business. Part of that reinvention is to be more efficient and productive at all the things we do. But the heart of BPA's reinvention is to change what we do by making all of BPA's statutory purposes an integral part of our marketing plan rather than just add-on programs funded out of power rates.

This Strategic Marketing Plan attempts to achieve this synthesis in three fundamental ways. First, the Marketing Plan meets the goal of the Regional Power Act and Council

Plan to develop all cost-effective conservation by adopting Tiered Rates that would charge customers' marginal load for the incremental cost of new resources. This price signal requires customers to pay the real cost growing loads impose upon BPA and encourages them to develop conservation and renewable resources without the burden of regulatory controls and program subsidies.

Second, the Marketing Plan coordinates BPA's power sales with its fish and wildlife responsibilities. BPA's existing loads are much higher in winter than in spring or summer. This forces us to use reservoir capacity beginning in the autumn to store energy for winter peaks potentially conflicting with needs to provide water later in the year and for higher flows for fish passage. By providing proper price signals -- higher charges in the winter and lower rates in the spring, for example -- we can reduce winter peaks and encourage greater sales, resource displacement, and power exchanges when additional water needs to be provided for fish.

Third, the Marketing Plan tries to address the new reality of customers' competitive choices in a positive and consistent manner. BPA's existing contracts and rates send mixed signals. On one hand, they provide an inappropriate incentive for independent resource development by giving customers load following, reserves and other services below the real cost that these services impose upon the system and in a way that makes independent resources look artificially attractive. On the other hand, they make rational resource development difficult and expensive by virtue of the view that necessary transmission and integration services are not readily available. The new Marketing Plan, in contrast, will facilitate customer choice by providing transmission and other necessary services at the real cost of integrating independent resources into customers' load and BPA's system. Rather than trying to maximize the energy generation of the Federal Columbia River Power System, BPA will maximize the value added to customers by our power products and services.

In summary, this Strategic Marketing Plan tries to integrate BPA's statutory responsibilities into a comprehensive and complementary strategy. Our objective is to move the best of BPA's traditional mission into the new competitive reality of the twenty-first century.

This Marketing Plan sets the stage for BPA's Business Plan. ***The Business Plan will be the vehicle for making the basic strategic policy decisions and resource level decisions in all of BPA's functional areas.*** BPA's response to changes in power markets will determine the agency's success and must drive the rest of BPA's activity.

The conclusions and recommendations in the Marketing Plan will be tested and refined in the Business Plan. Agency decisions on some of those conclusions and recommendations, such as spending levels for BPA's various functions, will be made in the Business Plan. Other decisions will be made through implementation processes, such as rate cases and the power sales contract renegotiation process.

The Marketing Plan is BPA's proposal for meeting our customers' needs, while satisfying our statutory obligations and maximizing the efficiency of system operation and expansion, as well as responding to fundamental changes in the utility business. BPA will evaluate other alternatives that also may require fundamental change. To this end, BPA has identified some alternatives for the Business Plan Environmental Impact Statement (EIS) that may be alternatives to the Marketing Plan. They include: the status quo; a minimal BPA role in the regional electric energy market; a role for BPA in which it uses its market position to require others to comply with the goals of the Northwest Power Act; and an alternative in which BPA focuses its activities on maximizing financial returns. The other alternative, the required "no action" alternative, would be a situation in which BPA initiates no new long-term contracts and no new transmission or generation resource development. As BPA prepares the Business Plan, we will analyze these alternatives along with the Marketing Plan in the Business Plan EIS. The EIS will be included in the Business Plan to ensure that BPA decisions fully incorporate and reflect any environmental effects along with the financial, marketing, and other effects associated with the Business and Marketing plans.

MARKETING CONTEXT

THE MARKETING PLAN

This Marketing Plan seeks to define how BPA can be viable and competitive in the future, a result important to BPA's customers and constituents. This is particularly critical given the magnitude and speed of change currently occurring in the electric utility industry. To fail to act would jeopardize BPA's continued ability to contribute to the Northwest's economy as it has in the past. It also would put at risk other important regional objectives, including BPA's environmental responsibilities.

The Marketing Plan represents the preferred customer outcomes, marketplace achievements, and competitive advantage we believe to be required to achieve the *Vision* and the *Strategic Business Objectives* of the agency, which have been developed by BPA's executive managers as precursors to the Business Plan. The Marketing Plan will contribute to successful implementation of BPA's Strategic Business Objectives (SBOs) by providing common guidance to organizations and activities throughout the agency responsible for (1) planning, constructing, operating, and maintaining the Federal Columbia River Power System; (2) conducting business with BPA's customers; and (3) providing required internal support services. Success of the marketing function is defined by how effectively customer interests are represented and met in accomplishing those business objectives within the context of BPA's overall *Business Concept.*

It is important to emphasize that the SBOs and the Marketing Plan change the ***means*** but not ***ends*** that BPA is trying to achieve. Those ends are defined in the Northwest Power Act, the Transmission Act, and other applicable statutes, and remain the goals that determine overall BPA policies.

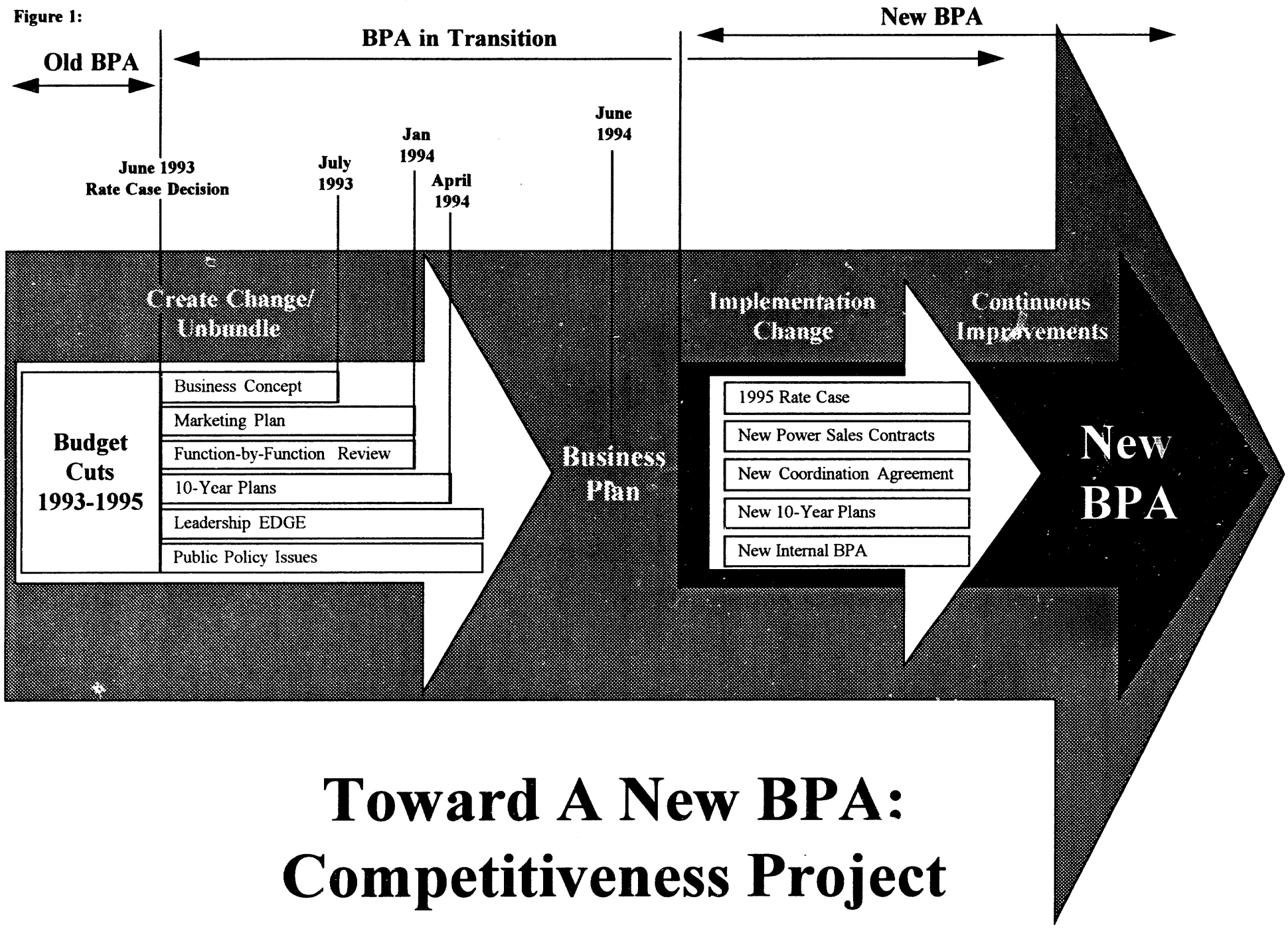
The Marketing Plan should not be evaluated as a "stand alone" document, but rather as a part of the entire Competitiveness Project shown in **Figure 1**, *Toward A New BPA*. This schematic illustrates the progressive stages through which the Marketing Plan will be developed and coordinated with other key initiatives. This current version of the Marketing Plan is not "final": this is an *initial* look at the key concepts. BPA is following an iterative process to develop, test, and refine the concepts that drive this Plan. It is expected that the Marketing Plan will continue to be revisited, refined, and re-developed as BPA, and the electric utility industry as a whole, changes to become increasingly competitive.

As described in the *Preface*, the Marketing Plan necessarily focuses on how BPA intends to meet the competitive challenges in a rapidly changing electric utility industry. It is not designed to address BPA's public service responsibilities to Northwest consumers and

other institutions beyond Bonneville customers. BPA intends to fully meet its public service responsibilities, but we can do so effectively only by remaining competitive in the face of massive market change. We want our business approach to appropriately signal the costs of new resources, transmission system additions, and limited system flexibility so we can maximize the efficiency of system operation and expansion, thus enhancing the benefits BPA provides the region.

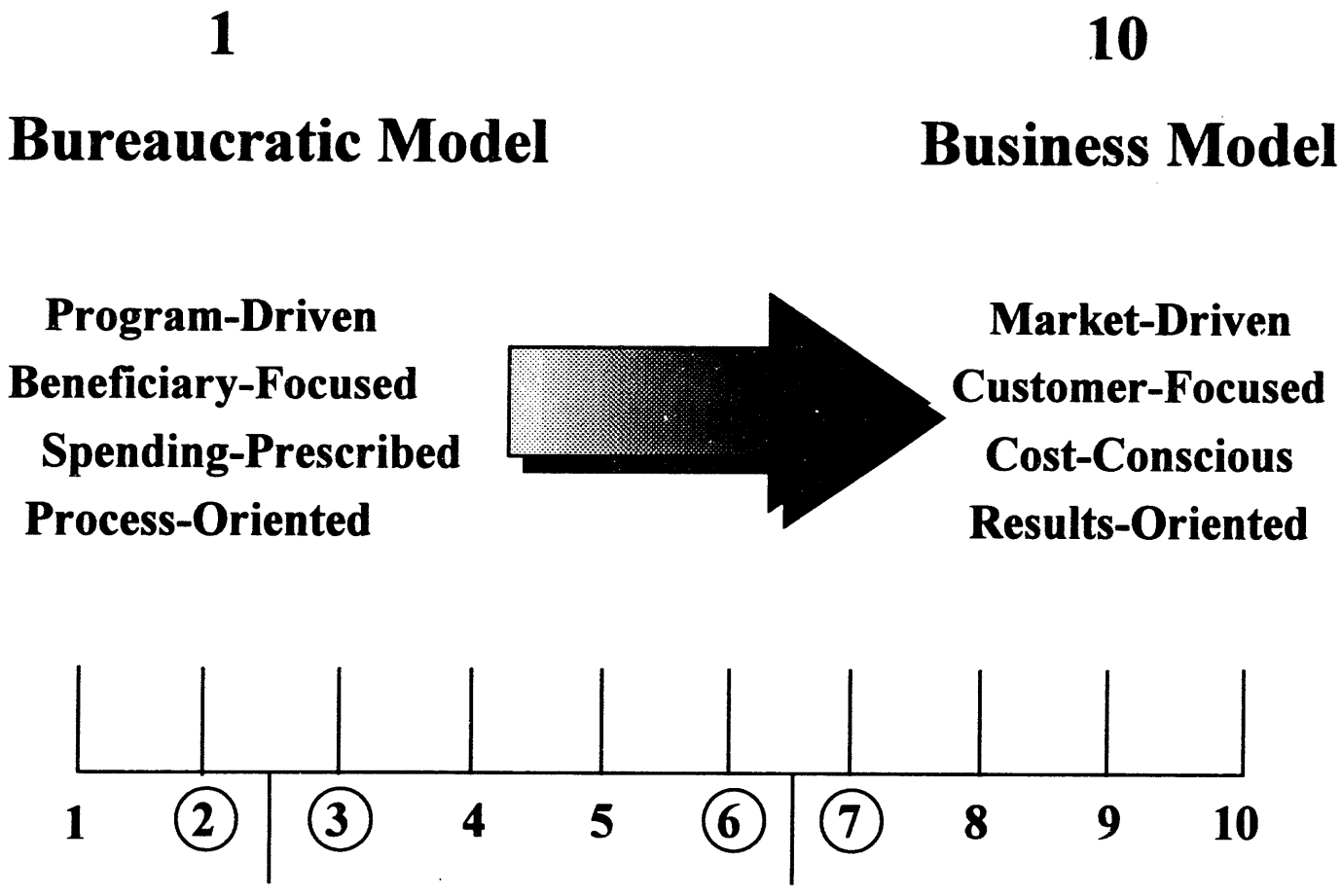
At present BPA is more bureaucratic than business-like, and we know we need to change. The changes proposed in this Marketing Plan represent what we think is necessary to reach a reasonable level of business-like behavior. Our objective is to move from a 2/3 to a 6/7 position on the bureaucratic-to-business continuum of behavior (as illustrated in **Figure 2**). Because of BPA's public service responsibilities, it would not be appropriate for BPA to become a pure business type of organization (10 on the continuum).

Figure 1:



Toward A New BPA: Competitiveness Project

Figure 2:


1
10
Bureaucratic Model
Business Model
Program-Driven
Beneficiary-Focused
Spending-Prescribed
Process-Oriented
Market-Driven
Customer-Focused
Cost-Conscious
Results-Oriented
1
2
3
4
5
6
7
8
9
10

BPA VISION & STRATEGIC BUSINESS OBJECTIVES

The following statements of *Purpose*, *Values* and *Management Philosophy*, together with the *Business Concept*, described later, define BPA's *Vision* of itself that it is trying to realize through the Competitiveness Project:

BPA Purpose

Our purpose is to provide electric power, transmission, and related services to customers in increasingly competitive and differentiated markets. We succeed in this core purpose by satisfying our customers, expanding the benefits we provide the Northwest, and maintaining our position as least-cost producer in both the short run and the long run.

We have important responsibilities in addition to this core purpose. These responsibilities, which we carry out with excellence, include protecting the environment and enhancing fish and wildlife, promoting a healthy regional economy, and promoting energy efficiency. We recognize that we will succeed in these vital additional responsibilities only if we succeed in our core purpose.

We take pride in our reputation as an open and accessible Federal agency that values diversity, entrepreneurial spirit, personal responsibility, and community service among its employees.

We pursue our Vision by living the following values:

BPA Values

Customer-Focused

We are responsive, flexible, and timely. We meet customer needs and achieve high customer satisfaction through innovative product marketing and excellent service. We keep the lights on.

Market-Driven

We offer high value products and services based on market signals, and expand the benefits of the power system.

BPA Values

Cost-Conscious

We are the low-cost producer, ensuring full cost recovery from the products and services we produce in both the short and long term. Cost-consciousness is a way of life. Our work groups are lean and efficient.

Results-Oriented

We are each accountable for accomplishing objectives that achieve agency business results.

Northwest Citizenship

We earn the high regard of the citizens of the Northwest by being open, honest, and fair-minded. We faithfully discharge our responsibilities as a Federal agency.

Environmental Stewardship

We are committed to the integrity of the region's environment and natural resources because they are essential to the quality of life. Our environmental effectiveness supports our business advantage.

Reliance On People

People are key to our success. We serve BPA business results by emphasizing safety, developing technical and managerial excellence, valuing diversity, empowering people to act, and treating people right.

Mutual Commitment

We trust and respect each other and dynamically share ideas and information throughout the organization.

Unity Of Purpose

We are committed to working together to achieve overall BPA business results above organizational agendas.

Management Philosophy

Our management philosophy emphasizes personal accountability, professional achievement, team accomplishment, and business results. Our reward system is strongly incentive based. We place a premium on leadership and managerial excellence at all levels in the organization. As employees, we anticipate change and strive to be a learning enterprise in which continuous improvement of our systems, products, and services is a way of life.

Strategic Business Objectives

The following *Strategic Business Objectives* define the most important things for BPA to accomplish. All of BPA's strategies, goals, policies, and action plans must be aimed directly at achieving these Strategic Business Objectives.

1. Core Objective: Achieve high and continually improving customer satisfaction.

What this objective means:

Any successful enterprise must focus on meeting customer needs if it is to be prosper in the competitive marketplace.

Customer satisfaction has been a BPA objective for a long time, but changing conditions require a renewed emphasis on achieving high customer satisfaction. In today's electric industry, BPA's customers have choices. BPA must compete. No longer can BPA rely on an inherent price advantage.

These realities have made customer satisfaction one of BPA's three core objectives. This objective is more specific than previous BPA expressions about customer satisfaction, in several ways:

1. Instead of a broad concern with how customers feel about us, we will focus specifically on their satisfaction with the products and services we provide, and the processes we use to provide them.
2. We will measure customer satisfaction quantitatively, through frequent surveys, and will set specific satisfaction targets.
3. We will use this information in a strategic manner, to make adjustments to meet our customers' needs and remain competitive.
4. The quantitative customer satisfaction results will be a factor in performance appraisal.

BPA efficiency products and services must allow customers to manage their own power bills by providing cost-competitive alternatives to enhance their competitiveness with end-use consumers.

Achievement of customer satisfaction must come through quality and competitive pricing of products and services and through responsiveness of customer processes. This approach to customer satisfaction should replace the "beneficiary-focused" distribution of benefits which can frustrate the accomplishment of financial and other SBOs.

2. Core Objective: Expand the benefits BPA provides the region.

What this objective means:

We will "expand benefits" by:

- continually seeking to optimize the usage of our system's assets,
- continually seeking ways to deploy our assets to meet higher-value customer needs,
- reducing costs, and
- increasing the number of products and services we sell, and the amount of them we sell.

Untapped end-use energy efficiency provides the opportunity for new products and services that directly benefit utilities and consumers, and take advantage of beneficial electrification.

By expanding the benefits we provide, we can encourage the various interests to work with us to "expand the pie" of benefits, instead of focusing primarily on how the pie is divided. This focus on expanding the pie should help speed up decision-making processes which previously have been slowed down by intricate balancing of interests.

This objective means BPA will continue to play a vital, growing role in the region.

We also must ensure that the expanded benefits BPA creates flow to:

- BPA's Northwest customers through rates and through higher-value service;
- BPA's primary creditor, the U.S. taxpayers, through increased certainty of Treasury payments, and reduced net Federal borrowing; and
- non-power goals such as fish and wildlife, by accelerating the pace of achievement of results as BPA achieves competitive success.

3. Core Objective: Be the lowest-cost producer of power and transmission services.

What this objective means:

First, BPA must be the lowest cost at the margin (i.e., for new increments of power and transmission) and on the average (i.e., the average cost of our products).

Second, BPA must be the lowest cost in both the short run and the long run.

Third, "lowest cost" does not necessarily mean "lowest price" for every product and service. We may not be the lowest price on a particular product because we have a limited supply of it, because we offer a higher quality product, or for other reasons.

But we have to continue to be lowest-cost producer overall to succeed in the long run, because being lowest cost has been the basis for our success in the past, and it is our primary strategic advantage in the future. The realities of an increasingly competitive marketplace also make low-cost production essential to BPA's survival.

Fourth, we now will be measuring and tracking our costs against our competitors'. We will measure and track those cost categories which are most important to our competitive success.

Fifth, we will be holding ourselves accountable for our cost results. Cost results will be a factor in the performance appraisals of BPA managers and staff responsible for key cost categories.

Sixth, there may be a few exceptions to the lowest-cost objective. For example, we may conclude that it is acceptable to be second lowest cost at the margin for a particular product because the first lowest-cost producer has a very limited supply of the product.

Finally, being lowest cost means more than cutting costs. Cost control is important, but being lowest-cost producer also means optimizing the use of our assets and using competition among suppliers to keep costs down.

4. Supporting Objective: Achieve and maintain financial integrity.

What this objective means:

Financial integrity is:

- maintaining adequate economic access to capital;
- assuring full and timely payment to the U.S. Treasury and other creditors;
- recovering aggregate revenues sufficient to cover all costs over time; and
- assuring high quality and timely financial management information is available for use by BPA managers and external interested parties.

5. Supporting Objective: Keep the power system safe and reliable.

What this objective means:

BPA has had an exemplary record of safety and reliability, and this objective recognizes that continuing this record is key to BPA's competitive success.

By adopting this objective, BPA is committing to measuring and tracking specific safety and reliability results and holding managers and staff accountable for those results.

BPA may offer customers a choice about levels of reliability of the service they receive, with corresponding variations in price.

6. *Supporting Objective: Invest in environmental results to sustain our competitiveness.*

What this objective means:

This objective signals a continuation of BPA's commitment to the integrity of the region's environmental and natural resources because they are essential to the quality of life in the Northwest, and because strategic environmental effectiveness helps sustain our competitiveness. We will be accountable for our impact on the environment through measuring whether we can attain environmental results which are both superior and more cost-effective than our competitors.

Beyond simply signaling this continued commitment, this objective also is intended to sharpen our environmental focus, particularly from a business perspective. **Specifically**:

- The objective expresses our intent to ensure that our environmental investments, including investments in fish and wildlife, produce measurable strategic results.
- We comply with all applicable laws and regulations.
- The objective also affirms that it is strategically sound business to make environmental investments beyond those required by applicable laws or regulations when they reduce our long term costs, reduce risk or uncertainty, increase efficiencies, or improve our ability to demonstrate compliance. We will go beyond regulatory requirements when the business advantage exceeds the cost of the investment.

7. Supporting Objective: Transform BPA to a high-performing, business-oriented organization.

What this objective means:

We will focus on three components of change: organization, culture, and processes and systems. These components are interdependent and cannot be addressed separately without impact on each other.

We must create an organization that:

- Consistently produces high-quality, high-value products and services;
- Consistently performs well against known external standards;
- Performs at maximum performance potential;
- Uses significantly fewer resources than would be expected;
- Capitalizes on diversity within its workforce; and
- Exemplifies a harassment- and discrimination-free workplace.

We will manage the change effort through a 10-year plan that incorporates all three components.

Statement Of BPA Business Concept

Together with the statements of *Purpose*, *Values* and *Management Philosophy*, stated earlier, the following *Business Concept* defines BPA's *Vision* of itself that it is trying to achieve through the Competitiveness project:

As the leading provider of electric energy and energy services in the Northwest--and as a major player in energy markets throughout the West--we work in partnership with others to function as an integrated purchaser, transmitter and marketer of a broad range of high value power products. Our customers' needs and public-service values direct our business processes, product offerings, and market development.

We operate as an aggressive, cost-conscious, highly competitive, full-service enterprise. We support market change which best serves customers needs. We strive to achieve customer satisfaction, and we endeavor to be courageous doers and facilitators. We plan, construct, and operate our electric transmission system to ensure high reliability. We use our transmission system to optimize regional and inter-regional market opportunities. With the Corps of Engineers and the Bureau of Reclamation, we share in the management of the hydro system to support our power needs, our fish and wildlife responsibilities, and other river system uses.

We seek out and support environmental initiatives that join natural resource management to sound economic policy. Our stewardship of the environment is strategically and consistently pursued. We recognize that environmental soundness is integral to our business and to our competitiveness. To this end, we pursue a results-based management of fish and wildlife programs. We give more program control to resource agencies and tribes, while holding these entities accountable for the results achieved.

We support a base level of environmental investments, augmented by actions linked to our competitive success. We seek to give non-power interests a stake in BPA's success and thereby facilitate sustained strategic action for fish and wildlife results.

We continually develop and refine our portfolio of power resources--both traditional and new. We emphasize renewable and economically sound conservation resources and environmentally sound hydro sources. We also augment our power portfolio by selective acquisition of efficient thermal resources, on a joint venture or contract basis.

Our customer segments include full and partial requirements regional public utilities, direct service industries, regional investor-owned utilities, extra-regional utilities, non-utility generators, regional Federal agencies, and other government marketing entities. While our principal markets are in the Pacific Northwest, we pursue market opportunities from Canada to Mexico and across the West. We view California as a strategic business segment. We seek to serve all customers according to their needs--segment by segment, with tailored and flexible products. We will tailor marketing programs on a segment-

specific basis and encourage unique business solutions on a customer-by-customer basis. We seek to provide the ultimate in customer choice and flexibility.

Our core business includes: (1) firm electric energy and capacity; (2) transmission services; (3) exchange and backup services; and (4) economy and replacement energy. Overall, the rates for the products offered within these categories are based on our costs in order to ensure the financial integrity of the agency. Our spectrum of products is tailored to meet varied and unique customer requirements and is offered on an unbundled basis. In order to serve our customers' interests better, we have created a new menu of value-added products and services. We promote dynamic electric power markets with sufficient information to make appropriate business decisions. We create processes that allow our customers to do business with BPA in a mutually satisfying business relationship.

Our delivery of products and services to our customers and through them to their end-use consumers fosters independent and prudent energy decisions. Resource decisions and selection of the most efficient end-use fuels are made for the right reasons with the best information available. We provide transmission services so that our customers may independently acquire sources of power.

We support business approaches that facilitate market mechanisms when that is in the best interest of our customers and their end-use consumers. We explore new revenue sources from new products and services that directly relate to our core energy business. These activities are pursued in order to maximize our vital resources--employees, physical assets, core competencies, and infrastructure. We move proactively as market realities change.

Stakeholder Commitments

To *customers* we commit to produce superior products and services at competitive prices, supported by superior customer service. To *employees* we commit to professional challenge and growth; meaningful responsibility; frequent, open and candid communication; and merit-based compensation.

To the *U.S. Congress and taxpayers*, we commit to meet our statutory obligations and to manage our finances responsibly to assure repayment of the debt that financed the Northwest power and transmission systems. To *Fish and Wildlife interests* in the Northwest, we commit to effective and prudent actions which protect and enhance fish and wildlife resources of the Columbia River.

To *Northwest officials and their governments*, we commit to work with the Northwest Power Planning Council to satisfy the needs of their constituents. To *Northwest Native American tribes*, we commit our respect and commitment to government-to-government relations which recognize their sovereign rights. To *public interest groups and stakeholders*, we commit a continuing openness to new ideas, openness to challenges to new approaches and solutions, and attention to criticisms.

To *Northwest ratepayers, citizens, and businesses*, we commit to preserve the economic advantage the Northwest derives from its low-cost hydro power base of resources.

CUSTOMER VALUES & NEEDS

A basic principle of BPA's marketing approach is to know what customers need and want, why they have those needs and wants, and how to satisfy them. Two customer surveys were conducted to assess our customers' values, needs, and degree of satisfaction. The results are summarized briefly below. The results of these surveys, and the constituent survey described in the following paragraph, will be addressed as BPA considers and implements both the Marketing Plan and the Business Plan.

A separate survey of BPA's non-customer constituents was conducted as part of the Business Plan. The survey indicated that our constituents consider themselves to be stakeholders in BPA's mission, but do not believe the agency recognizes that they share common goals with BPA. Constituents want effective two-way communication with the decision-makers at BPA. They want clear lines of authority and responsibility and consistent administrative policies within the organization so issues can be resolved before they become litigious. Our constituents want BPA to be a reliable partner, and they seek win-win solutions and mutual trust.

BPA's ability to compete, which the Marketing Plan addresses, has a direct relationship to our responsibility to meet non-customer needs. Failing to be competitive will adversely affect our other objectives, and failing to produce environmental results will reduce our competitiveness.

Values Survey

A values-based study of customers was conducted for BPA by a consultant. Forty-seven representatives of BPA's major customer groups responded. The survey was designed to help BPA better understand how its customers view it, and the customers were encouraged to define the relationship they would like to have with an "ideal" BPA. For the survey, customers were segmented into five traditional groups (Southwest Utilities, Direct Service Industries, Regional Investor-Owned Utilities, Generating Preference Customers, and Non-Generating Preference Customers).

The technique used in the values-based survey, called qualitative values research, uses one-on-one personal interviews. The research focused on BPA's business relationships and customer interactions. Then values "mapping", a graphical technique, was used to display customers' attitudes toward the agency, including its products, processes, and personnel.

Customers Value BPA's Role

Customers are aware of the critical role BPA has as steward of the Federal hydroelectric and transmission systems in the Pacific Northwest. The consensus is that BPA must succeed for the benefit of the region.

Themes Of Customer Dissatisfaction

The survey indicated a high degree of overall dissatisfaction with BPA across all of its customer groups. BPA's customers say that the agency is not focused on them and their business relationship with BPA. BPA is said to impose its own rules, programs, and policies regardless of customers' unique circumstances. Some customers say BPA, once a focused utility agency providing reliable, low-cost power, has turned into a social service agency fulfilling a wide range of "political" purposes. BPA is perceived as being sensitive to "political" interests such as advocates for environmental and fish and wildlife issues and insensitive to its customers who pay the bills for these programs. Customers do not question the need for environmental goals but do question the efficiency and cost-effectiveness of BPA's programs and want cost accounting and accountability.

BPA's processes and procedures have become more complex, more costly, and more time-consuming. "Process" has become BPA's most important product.

Customers perceive that BPA is more internally oriented than outwardly focused on its customers. BPA has lost its sense of mission; multiple and conflicting sets of priorities make BPA frustrating to deal with and a slow decision-maker. Customers cannot tell what BPA wants, who will make a decision, and when and if decisions will be made. Risk taking by BPA staff is penalized. BPA is viewed as being too analytical and remote from real life. BPA is not perceived as a reliable business partner.

The customers want BPA to act quickly but are skeptical that we will do so.

Views Of The Ideal BPA

The views of the ideal BPA are remarkably consistent among the five segments.

Southwest Utilities characterize the ideal BPA as:

- using assets for maximizing business outcomes, not political agendas;
- employing passionate and proud staff who are savvy and knowledgeable; and
- exhibiting a sensitivity to customers' business needs.

The Direct Service Industries see the ideal BPA as having:

- streamlined decision-making with employees having a clear understanding of their responsibilities;
- focus as a utility company, results-orientation, and not process-orientation, because it is sensitive to its customers' needs and not responsible for every political issue; and
- competitive, unbundled services.

The Regional Investor-Owned Utilities see an ideal BPA as characterized by:

- fair negotiations;
- oriented toward results -- not process;
- competitiveness;
- sensitivity to customers' needs;
- not responsible for every political issue; and
- a high degree of attention to transmission and generation of power.

For the Generating Preference Customers, the ideal BPA would:

- have streamlined decision-making with employees who have clear areas of responsibility;
- be oriented toward results -- not process;
- be sensitive to customers' needs;
- be competitive and offer unbundled services; and
- be a focused utility agency that maintains reliable generation and transmission of power.

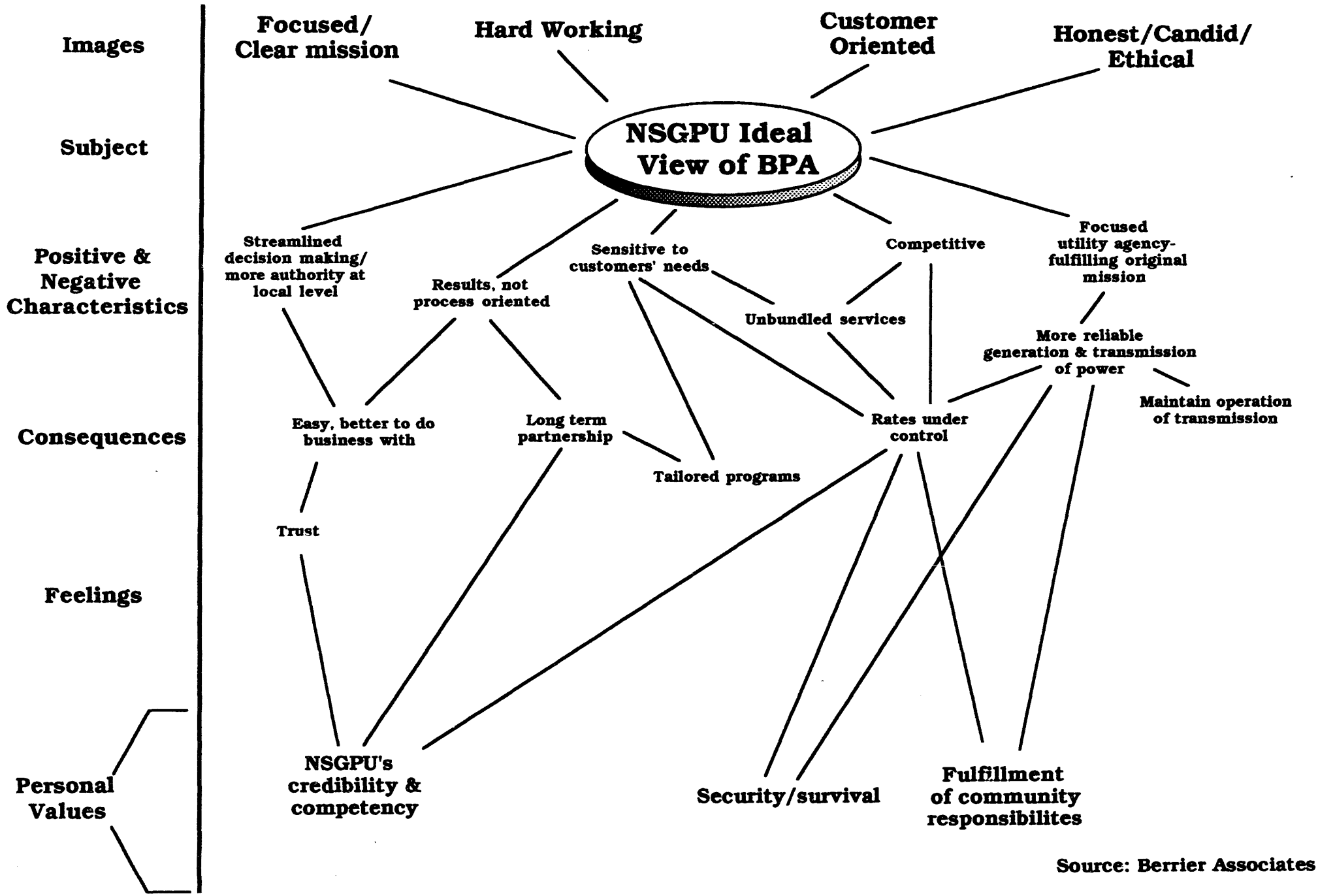
The ideal BPA for the Non-Generating Preference Customers would exhibit:

- streamlined decision-making with more authority at the local level;
- results orientation -- not process orientation;
- sensitivity to customers' needs;
- unbundled services; and
- competitiveness;

The "Values Maps" developed as a result of the survey help BPA understand how the customers feel about their current relationships with BPA and their ideas about potential ideal relationships (see **Figure 3** and **Figure 4** as examples: **Figure 3** shows how one customer group views BPA now, and **Figure 4** shows what the ideal BPA would look like to that customer group). This increased understanding will be used as a major driver in BPA's reinvention of itself.

Figure 4:

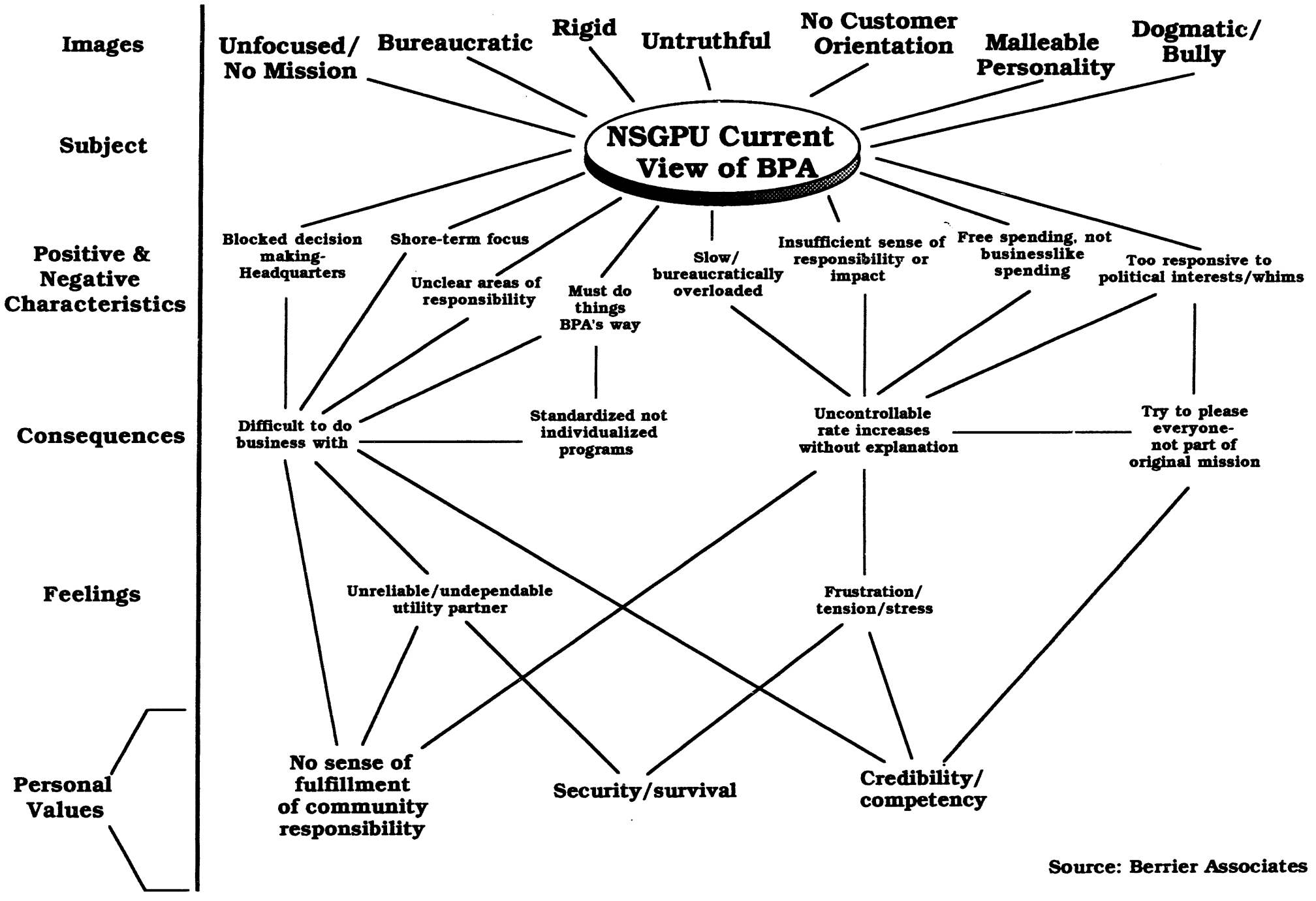
REGIONAL NON & SMALL GENERATING PUBLIC UTILITIES



Source: Berrier Associates

Figure 3:

REGIONAL NON & SMALL GENERATING PUBLIC UTILITIES



Source: Berrier Associates

Follow-Up Survey

A follow-up survey conducted by BPA was designed as a quantitative study of customer satisfaction. The objectives of the survey were to:

1. quantify customer attitudes and perceptions of BPA,
2. benchmark customer satisfaction,
3. examine in depth satisfaction with BPA processes and elicit comments and suggestions, and
4. provide an information base to improve the organization and its relationship with customers.

The survey elicited responses from about 60 percent of BPA's utility and direct service industrial customers. More than one-third of these customers express a general dissatisfaction with BPA. About two-thirds express dissatisfaction with BPA's processes. (See the *Process Enhancements* section.)

The survey results were tabulated according to several service quality dimensions and customer segment types. The tabulations helped in analyzing and interpreting the survey results and identifying where "gaps" exist between the service that customers expect and the service they perceive they actually receive. The service quality dimensions surveyed were:

- **Business Reliability**: Ability to perform the promised service dependably and accurately.

- **Responsiveness**: Willingness to help customers and provide prompt service.

- **Assurance**: Knowledge and courtesy of employees and their ability to convey trust and confidence in customers.

- **Empathy**: Tailored, individualized attention that BPA provides its customers.

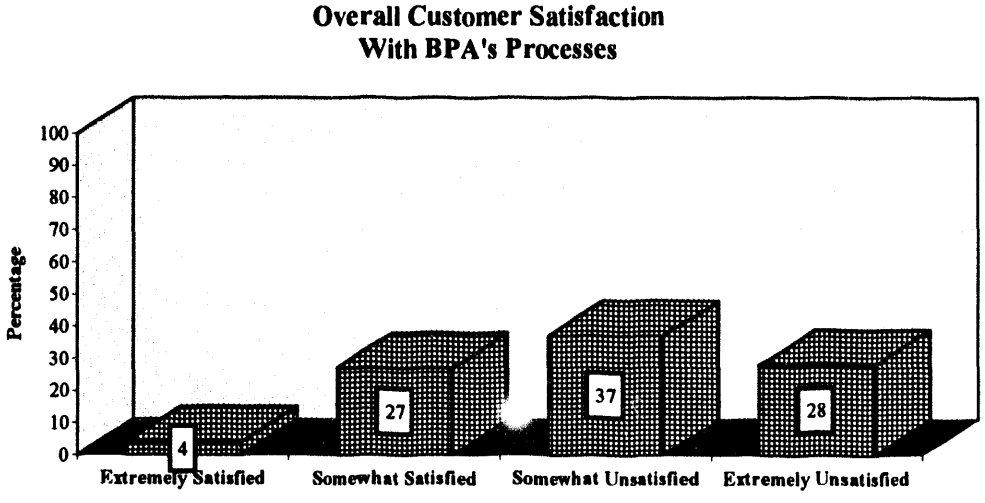
The customer segment responses to the survey questions enabled BPA to identify service quality gaps for the four service quality dimensions listed and defined above. The customer service quality gaps were measured by comparing customers' ***perceptions*** of BPA business processes or transactions to their ***expectations*** of service from an "excellent power supplier". Respondents rated the extent to which they expect an excellent power supplier to possess various service characteristics, and the extent to which they perceive BPA currently exhibits the same characteristics. Customers were asked to rate how well each service attribute describes an excellent power supplier, from "not at all essential" to "absolutely essential". Then customers were asked to rate how well the various attributes describe their transactions with BPA, from "strongly disagree" that BPA exhibits the attribute to "strongly agree" that BPA has that attribute.

Survey Results

Overall Customer Satisfaction - Only six percent of the customer respondents indicated they were "extremely satisfied" with BPA, and 55 percent were "somewhat satisfied". More than one-third (36 percent) of BPA customers voiced dissatisfaction with BPA on an overall basis, either "extremely dissatisfied" (seven percent) or "somewhat dissatisfied" (29 percent).

Figure 5 illustrates that substantially more respondents indicated they were unsatisfied with BPA's business processes (65 percent). Thirty-one percent of the customers were "extremely satisfied" or "somewhat satisfied" with BPA's business processes.

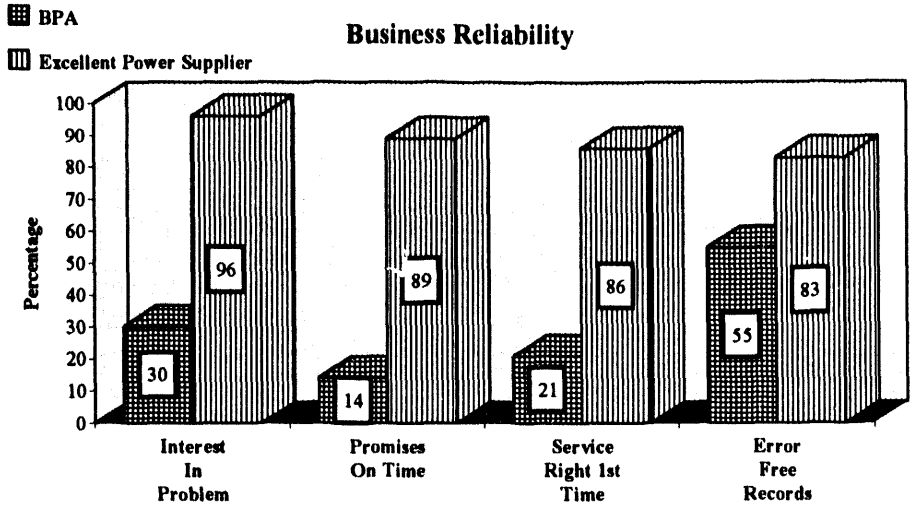
Figure 5:



Service Quality Gap Results - BPA's perceived performance in delivering quality service, as compared to the customers' expectation for an excellent power supplier, was analyzed according to four key service quality dimensions. The individual attribute percentages shown in **Figure 6** through **Figure 9** reflect the percentage of customer respondents that perceive BPA is strongly exhibiting the attribute, and the percentage of customers that perceive an excellent power supplier would strongly exhibit the same attribute.

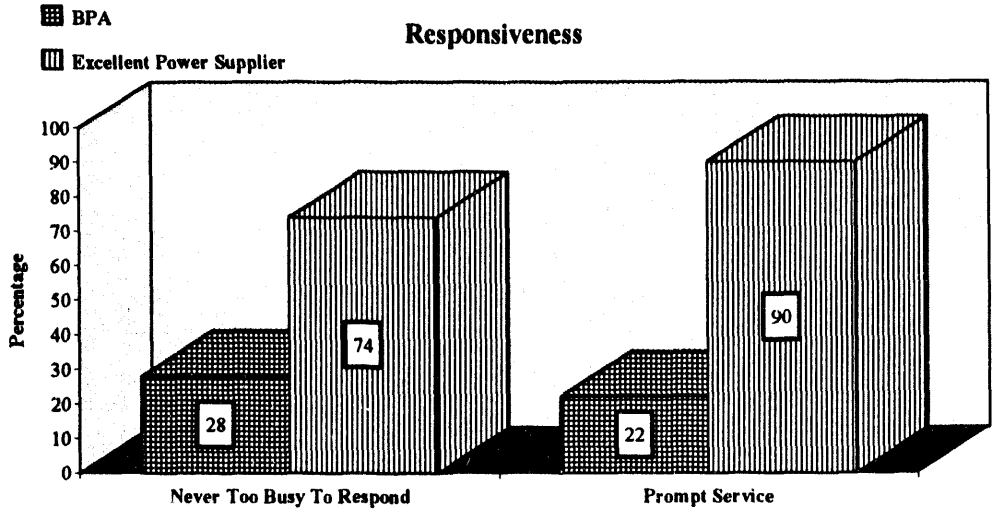
A "gap analysis" was performed for each attribute by subtracting BPA's performance rating from the expectation rating for an excellent power supplier. The average service quality gaps between the excellent power supplier and BPA were significant. As shown in the notations below the figures, the average gaps for the four service dimensions range from 48 to 63 percentage points.

Figure 6:



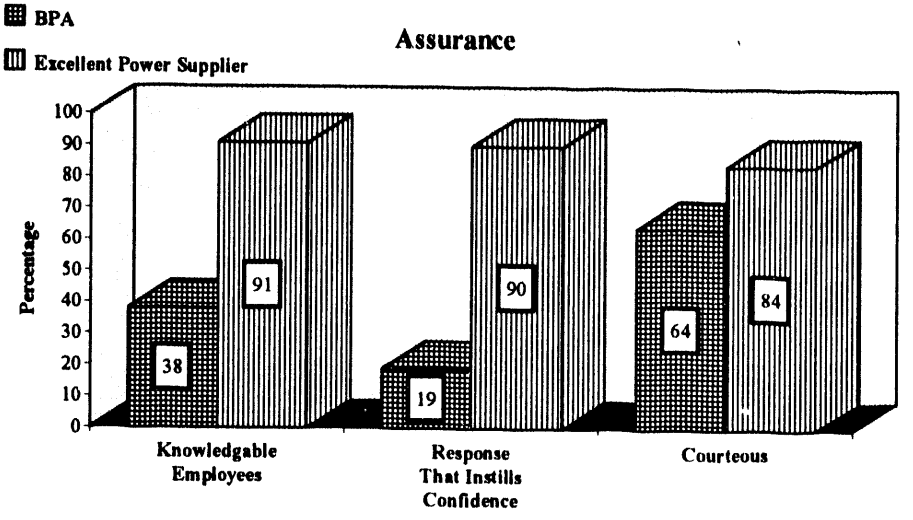
The average percentage gap for reliability is 59.

Figure 7:



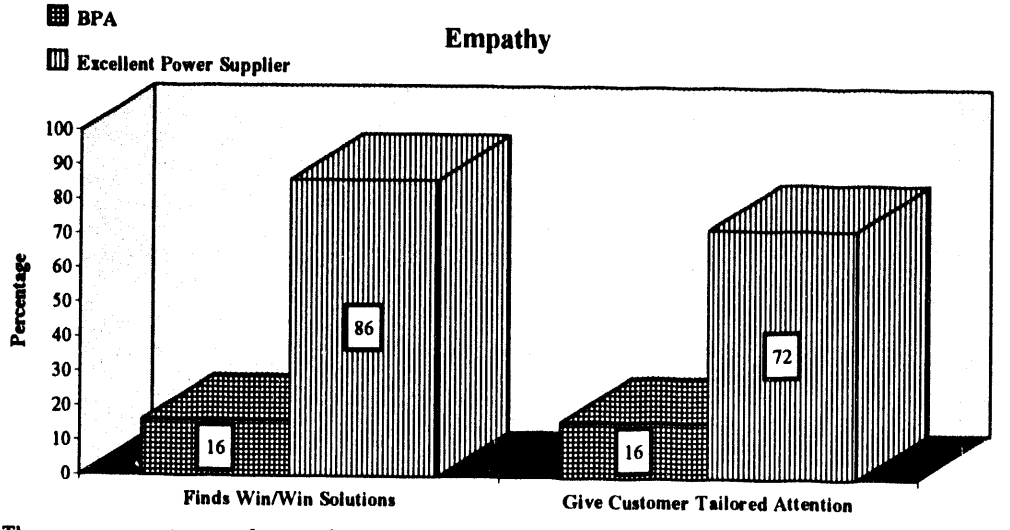
The average percentage gap for responsiveness is 57.

Figure 8:



The average percentage gap for assurance is 48.

Figure 9:



The average percentage gap for empathy is 63.

Specific BPA Business Processes - Customers were questioned about various BPA business processes, including four primary categories: (1) power sales and transmission contract negotiations; (2) power sales and transmission contract administration; (3) transmission system facility processes; and (4) general processes. Customers considered power sales contract negotiations as most important to their organizations (81 percent), followed by power sales and transmission contract administration (71 percent). A large number of BPA customers indicated dissatisfaction with how well BPA conducts various types of specific transactions or processes. The key results are summarized in **Table 1**.

Table 1:

Specific BPA Processes: Survey Results

	Importance	*High Satisfaction*
Power Sales Contract Negotiations	81%	34%
Power & Transmission Contract Administration	71%	24%
Transmission System Facility Processes	68%	33%
General Processes	64%	15%

The surveys summarized in **Table 1** provide clear signals as to how customers feel about BPA as a business partner and how they would like to be treated. Most successful businesses, including other electric utilities, have customer satisfaction ratings at or near the ideal case portrayed in the BPA survey. The consultant who advised BPA on the survey has observed that BPA's ratings, consistently 30 to 50 percentage points below those desired by customers, are ***the worst*** he has seen among hundreds of companies for whom he has conducted surveys either personally or through his associates. Given this level of dissatisfaction, BPA customers are very likely to seek other power suppliers if they have that choice. The Competitiveness Project is addressing these issues and will transform BPA into a customer-focused agency that will be better able to compete.

COMPETITIVENESS

The electric industry in the United States is undergoing fundamental changes, resulting in changes in how utilities are approaching their business activities. New customers and suppliers are emerging, traditional regulatory structures are changing, and a more decentralized, competitive market is developing. The electric utility industry is evolving from vertically integrated geographic monopolies, in which companies own and operate every element of the business, to three distinct businesses: power generation, power transmission, and distribution and retail customer service. In addition, the Energy Policy Act of 1992 (EPA 92) continued the trend toward increasing competition in the industry. Add to this increasing environmental concerns and mandates, and one sees a future unlike anything conceivable 10 years ago.

Comparison To Other Industries

Through the past two decades, many utility or utility-like industries have undergone various degrees of deregulation. The airline, cable television, natural gas, and telecommunications industries have faced dramatic changes in the marketplace due to the removal of government barriers to entry and pricing. The experiences of these industries are instructive to BPA and its customers in the situation in which they now find themselves.

The telecommunications industry, like the electric industry, enjoyed stability and prosperity during the middle decades of this century. In both industries, prices declined as economies of scale and technical change reduced costs. In the telecommunications industry, stability was gradually undermined by technological change and a series of court decisions; eventually the entire industry was restructured in 17 months.

Beginning in 1968, industry giant AT&T received its first hint that the future was coming. The Federal Communications Commission (FCC) took the first step toward deregulating the telecommunications business by opening up the terminal equipment market to competing companies. Another hint was dropped the next year, when AT&T allowed the fledgling MCI to enter the lucrative private line business between two major cities. In 1972, when MCI announced its plan to extend its service to 165 cities from coast to coast, AT&T finally recognized MCI as a competitive threat. AT&T's response was to lower prices wherever it was in direct competition with MCI. However, the response was delayed long enough for MCI to gain market strength.

AT&T had operated as a utility for 90 years. Faced with the threat of competition, AT&T began to change its strategy from being technologically driven to being financially and customer driven. Further, AT&T began replacing the concept of a uniform telephone service by a drive to identify and appeal to discrete groups of customers. In the 1980s, after the divestiture of its local service business, AT&T had to transform from a

government-regulated monopoly into a competitive company whose decisions are dictated by the marketplace.

The natural gas industry provides even more striking parallels to the electric industry. There are three major segments of the natural gas industry: the producers, the pipelines, and the local distribution companies (LDCs). These three are analogous to the electric industry's generation, transmission, and distribution segments.

As recently as the early eighties, the natural gas industry was highly regulated. The industry was dominated by a number of large, vertically integrated companies. Pricing and access to pipelines was controlled by regulation. Some production was from small companies willing to take on the risks of drilling for gas, but the markets for their gas were controlled by the pipeline companies. LDCs were usually limited to dealing with one or two pipelines. On the other hand, the LDCs were allowed to capture the entire market in their service territories. That local market ranged from residential consumers to large industrial users, including utility electric generation. The gas industry looked very much like the electric utility industry has for years. In fact, common legislation often governed both industries, such as the Public Utilities Holding Companies Act.

The 1980s brought massive and rapid change to the gas industry. Large industrial users pushed for the right to secure their own gas supplies at prices less than the LDCs offered. Small producers fought to secure access to these customers without restrictive access and pricing through the pipelines. The Reagan Administration, Congress, and Federal Energy Regulatory Commission (FERC) were willing to extend the deregulation trends from other industries to natural gas. The pipeline companies were left with high fixed costs to recover without the guaranteed markets of the past. Not only did the industrial users win the right to deal directly with the gas producers, but the LDCs also gained that same choice. Most pipelines were left in the position of a contract carrier, generally required to furnish access to those who requested, as long as transmission capacity existed. However, the pricing structures of the pipelines remained regulated by FERC, which sought to achieve market pricing efficiencies within the framework of cost-based transmission rates. This resulted in many pipelines being stranded with long-term supply contracts at higher than market prices and the problem of recovering those costs.

The electric industry may be heading down the same path as the gas industry. The open access effect of EPA 92 on electric transmission grids will be similar to open access to gas pipelines. New electric generation is being provided primarily by independent producers, much as the gas industry has seen.

As transmission is opened up and power markets become more competitive and less subject to control by individual utilities, major change is likely to occur rapidly. The speed with which open access spread through the natural gas transmission industry is instructive for the electrical utility industry. In 1984, 92 percent of the gas transported by pipelines was "their own" gas, and only 8 percent of the pipeline throughput represented the transportation of gas owned by others. By early 1992, the percentages were effectively

reversed, with 79 percent of the delivered gas being transported to fulfill transactions between other parties.

Changes in the electric industry may or may not occur to the same extent or at the same speed as changes in the telecommunications and natural gas industries. However, BPA can learn from their experiences. Those businesses were not ready to respond to the changes that were forced upon them. They were forced to react, sometimes too late to maintain their profits or even to survive. BPA can avoid being changed from without by changing itself from within and positioning itself to be proactive in the face of industry restructuring.

Changing Dynamics In The Electric Utility Industry: The Wall Street View

Several recent analyses by bond rating agencies and other financial institutions have reached similar conclusions about changes coming to the electric utility industry. The message is that a utility's ability to survive in the new industry dynamics will be based on favorably maintaining or achieving a competitive advantage in certain risk areas. Specific measures or variables have been developed by investment analysts to provide a weighted risk rating or ranking of an electric utility's ability to compete and remain financially solvent. What follows is a list of the three most common rating factors:

1. **Relative Cost of Power** - the *actual* current cost of power for delivery and the *perception* among customers that the longer-term contract cost will remain stable or competitive with alternative sources. Contributing to these factors is a utility's mix of fuels, age of plant and associated assets, and the cost of prospective resources for future generation. All reports cite maintaining low actual and perceived future costs as paramount in maintaining a utility's competitive position. Many cite the need for more sophisticated approaches to cost control such as hedging of fuels as a means of reducing risks.

2. **Cost Structure and Financial Flexibility** - the nature of total utility costs (i.e., fixed versus variable), particularly for power, and the flexibility of the organization to respond quickly to competitive pressures without sacrificing financial performance and reliability. This also includes the ability to reduce or eliminate cross subsidies without negative consequences to the utility or utility customers having subsidies reduced. It also would include any amounts of real or potential exposure in areas such as nuclear, environmental, or other items which could reduce or threaten financial flexibility.

3. **Customer Alternatives** - the relative susceptibility of utility loads to customers going off system. The risk here generally is recognized as coming from the sensitivity of large industrial loads, but also may include any sizable commercial class as well. Of particular concern would be price sensitivity and the relationship of commercial and industrial rates to the cost of alternatives such as cogeneration.

A sampling of the specific comments contributing to these opinions is as follows:

Fitch Investor's Service -- July 12, 1993

- Competitive risks from wholesale and potential retail wheeling could lead to reduced access to favorable credit markets, with resulting higher premiums.
- Wholesale wheeling already is in place with retail wheeling highly probable.
- Wholesale producers are especially vulnerable.

Standard & Poor's (S&P) -- October 28, 1993

- The industry faces slow growth in terms of demand, and growing cost pressures.
- Major challenges exist to maintain earnings and operating levels.
- There are only a handful of companies with a positive outlook.
- The expected transition from moderate to intense competition may not materialize, implying further accelerated transition between heavy regulation and deregulation.

Moody's -- November 2, 1993

- Utilities with an ability to transmit outside a particular region are best positioned to compete.
- "Retail" pressures will cause electricity to be priced as a commodity.
- At risk will be utilities with uneconomical plant investments, major industrial customers susceptible to competition, useless assets, and poor transmission access.

Prudential Securities -- September 24, 1993

- Prudential Securities predicts the emergence of new players, including non-utility brokers and marketers.
- The report cites credit negatives of large industrial loads, levels of subsidization, fixed-to-variable cost ratios, potential for stranded investments due to lost load, and cogeneration versus industrial rates.
- The report focuses particularly on the size and characteristics of large industrial loads. Although not specifically evaluated, BPA would be rated "at risk" in 5 of 6 factors considered.

Implications For BPA & The Region

In reviewing all of these reports it appears that, among all IOUs, Northwest utilities probably are in the best overall position to compete with the rest of the industry. Utilities such as Pacificorp, Idaho Power Co.(IPC), Washington Water Power Co. (WWP), and Puget Sound Power & Light Co. (PSP&L) were reported as either stable or improving in their investment outlook relative to the rest of the industry. Most of these organizations have fixed cost ratios of between 50 and 60 percent; average generation costs below the Western States Coordinating Council (WSCC) average; and generally low industrial load exposure (Pacificorp highest at 30 percent). In comparison, BPA's fixed cost ratio is 80 to 85 percent

In a "worst case" competition scenario, BPA could become caught in a generation cost-price vise. Such a scenario could result from generally falling electricity prices from outside competitors. Such alternatives, in the face of higher BPA fixed costs and resulting higher BPA prices, would tend to reduce BPA's ability to further raise rates and recover its costs. Such a situation would be further aggravated by any real reductions to existing BPA loads, especially if the power from these lost loads could not be resold at similar or higher prices.

It is worth noting that a similar, though not identical, competitive "squeeze" occurred recently in Great Britain. Several years ago, the government there set out to privatize its national electric grid. The result of this restructuring saw a dramatic decrease in electricity prices, some falling as much as 30 percent. A similar price decrease could be damaging for BPA because of our high proportion of fixed costs. As an example, one need only look at the result of a comparison of two competing producers:

> *Producer A has an average price of 30 mills/kWh; Producer B, an average price of 40 mills/kWh. Producer A's costs are 90% fixed and 10% variable, while B's are 55% fixed and 45% variable. If B experiences a 5% reduction in loads its price may not necessarily rise by 5% because its variable costs will decrease and offset the increase. In fact, depending on the nature of those variable costs, B may be able to even lower its prices. Producer A, on the other hand, has little if any room to maneuver if it loses a similar amount of sales. This is because 27 mills/kWh of each sale must go to covering A's fixed costs, such as debt service. In the end, such dynamics could lead to customers of Producers A and B concluding that any long-term commitment with A could be more risky, and thus more expensive, than Producer B because of A's cost structure and financial inflexibility. In fact, B's cost structure might even afford it an ability to offer power (assuming its availability) to A's customers at a slightly higher but more stable long-term price than A.*

While the above example deals with a hypothetical situation, it is not unlike the situation in which BPA may find itself, particularly when BPA costs are contrasted with potential competitors such as IOUs in the WSCC . This element alone (high BPA fixed costs) poses a significant amount of financial exposure to BPA with increased competition. While none of the reports list above referred to BPA in name, all pointed to characteristics that, in some instances, could well describe our current operations and condition.

BPA may be at risk in a number of areas. These risks spring from BPA's high proportion of fixed costs; a significant exposure to price-sensitive customers whose primary product is tied to a volatile and competitively priced commodity; potentially significant environmental cost exposure; potential delays or burdensome timelines in receiving regulatory action; and certain small customers potentially vulnerable to collective merger or takeover by BPA competitors due to higher BPA costs. The implication of these real or potential risks is that BPA's entry into wider credit markets could be impeded or more

heavily penalized than currently expected. This would be due to perceptions that BPA would not be able effectively to recover higher debt service costs in an increasingly competitive marketplace.

The most recently published report by rating agency S&P on BPA occurred last August. At that time, S&P noted three factors that it viewed as critical to BPA's financial flexibility. These were: (1) rate-raising capability; (2) reserves; and (3) cost control. S&P concluded that given the new realities of the industry (i.e., accelerated change), the prospect of further BPA rate increases should be increasingly discounted from consideration as a viable alternative. This would leave the maintenance of adequate reserves and cost control as the two elements over which BPA can exercise influence. Given the above-mentioned risks, BPA may need to be even more vigilant and strategic in its budgeting for the immediate future.

Competition In BPA's Markets

As indicated above, the electric power industry is undergoing dramatic reorganization. Following trends in telecommunications, air transport, and natural gas, the electric utility industry is headed toward a competitive market structure. Various factors are fostering market competition: electricity consumers' demand for more choices of service; low natural gas prices and technological developments that provide more generation and control alternatives; and new regulation, which gives consumers the right to choose among service alternatives. Growing numbers of independent power producers, emerging plans for trading electricity contracts as commodities, opening access to wholesale wheeling as a result of the Energy Policy Act of 1992, and proposals from industrial interests for retail wheeling all mark the trend toward significantly increased competition.

Today, BPA's customers must decide whether to continue their reliance on BPA as their sole or partial wholesale supplier or diversify their supply portfolios in anticipation of dramatic changes in the West Coast electric power market. As shown by the survey results discussed earlier, customers say that BPA has not lived up to their expectations of service quality and business partnership and is not meeting their needs. Customers' choices today are influenced by their assessment of the chances that BPA will be competitive tomorrow.

The Marketing Plan is a key part of BPA's effort to assure customers that it will remain competitive even while the electric utility industry undergoes the transition to a competitive market. The Plan identifies specific areas of concern for BPA competitiveness and actions intended to meet those concerns. If BPA acts now to address these concerns, the agency will continue to provide benefits to the region and will remain a reliable business partner. Alternatively, if BPA is unable or unwilling to take action, and our assumptions about the need to position BPA competitively come true, the consequences to the region will be negative. Most importantly, BPA might be unable to fulfill its environmental responsibilities and to meet customer needs. Even if we take action and the

predictions turn out to be incorrect or only partially correct, then we are still better off than if we had continued using bureaucratic business practices. Conversely, if BPA takes no action to become more competitive, even if the identified threats do not materialize, the concerns BPA's customers expressed in the surveys, as described in the *Customer Values & Needs* section, would not be addressed. Furthermore, we will have lost an opportunity to become more efficient and productive.

Historically, BPA has held the position of low-cost power provider as well as managing over 80 percent of the bulk transmission capacity in the Pacific Northwest. The benefits of relying on the Federal Columbia River Power System are great and will continue to exist for many years if the system is managed effectively. Other factors, however, require BPA to market its products and services more aggressively and manage its costs better to retain its competitive advantage:

1. A changing marketplace, in which utilities can or soon will be able to buy products and services from any seller in the West.

2. New market entrants including independent power producers (IPPs), commodity traders, and others, resulting in increased competition among an increased number of buyers and sellers.

3. "Bypass" beginning to occur where retail consumers of utilities can develop resources at lower costs than they can buy utility power.

4. New resources appearing to some customers for the first time to be competitive alternatives to purchases from BPA, assuming high BPA rate projections and no increase in gas prices beyond inflation.

5. Customer uncertainty about future BPA costs, efficiency, and attractiveness as a business partner, which threaten BPA's ability to continue to maintain its low-cost supplier position.

BPA's actions may reduce or delay customer resource development but will not prevent it altogether. Recognizing that customer resource development will occur, BPA must position itself to (1) influence the timing and amount of resource development, (2) develop products and markets for the power that will become available, and (3) consider assuming aggressive partnership or joint venture roles with existing customers as they seek other power options.

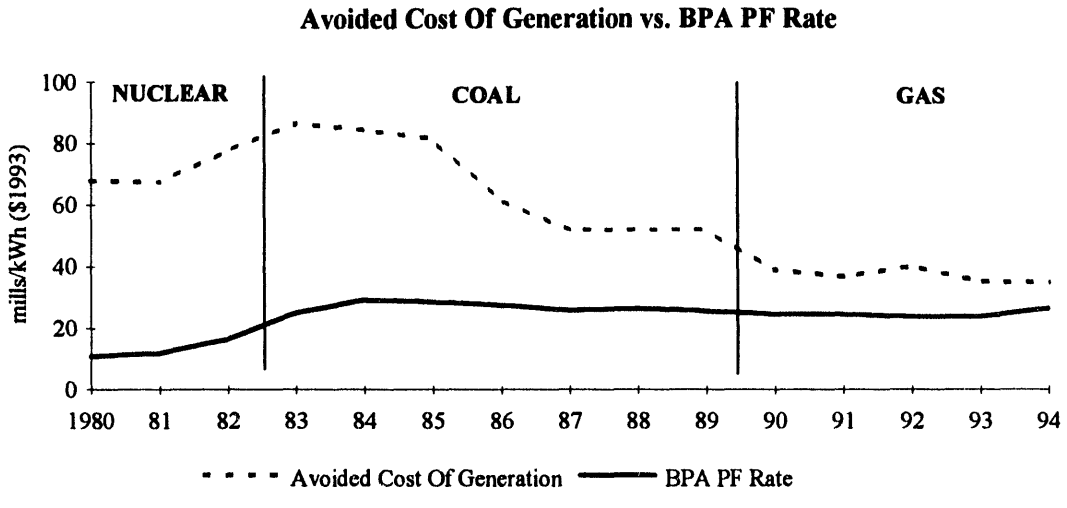
Wholesale Markets

BPA already faces competition for wholesale market share. Currently, 1,400 MW of new generation is either in service, under construction, committed to, or being negotiated in the Northwest. Furthermore, 3,000 to 4,000 MW of additional generating capacity is

being studied by developers. This represents significant competition to the 19,300 MW of existing Federal resources.

Figure 10 illustrates a comparison of the historical trends in forecasts of thermal generation costs compared to BPA's Priority Firm rate. The costs of thermal generation forecasted each year come from real levelized cost estimates reported in BPA publications, such as, marginal cost studies, supply curve reports and least cost plans since 1980. The costs and the PF rate are reported in constant dollar terms using 1993 as the base year. The thermal generation costs show how the avoided cost of generation has declined since the late 70s while BPA's PF rate has increased. Also shown is the type of thermal generation that the cost each year is based upon. BPA's primary generation alternatives have shifted from nuclear during the 70s and early 80s to coal in the 80s and then to gas in the 90s.

Figure 10:



Although BPA's PF rate today still is competitive with other equivalent power products and services, BPA's price advantage has eroded significantly and customers must consider the particular financial risks of relying on BPA when deciding whether to continue to buy BPA power or develop their own generating resources. BPA faces multiple large financial risks in the face of a very high fixed cost structure. Endangered Species Act (ESA) - related replacement power cost and mitigation costs; nuclear plant decommissioning cost escalation; repayment reform; resource under-performance; and low world aluminum prices all could put significant upward pressure on BPA rates.

The following views comparing projections of BPA's price of Priority Firm service and the cost of gas-fired generation provides the basis for understanding how customers are likely to consider the tradeoffs of relying on BPA versus developing their own resources to meet loads in the future. The price of BPA's power is close enough to the cost of new generation that could customers reasonably take a chance today on gaining some

independence from BPA and expect to have it pay off financially as the future unfolds. If customers take an optimistic view of future gas prices and plant performance and a pessimistic view of BPA's ability to control escalating costs, particularly non-power costs, they easily may conclude the time is right to begin diversifying their supply portfolios. For BPA this means declining market share. Customer perceptions of the size and likelihood of financial risks such as environmental mitigation costs, repayment reform and nuclear plant decommissioning could play a large role in such decision-making.

Figure 11 compares the range in costs for baseload gas-fired combined-cycle combustion turbine (CCCT) generation and the forecasted range of the BPA Priority Firm (PF) rate for similar service. The BPA PF rate projections refer to those in the *Wholesale Power and Transmission Rate Projections 1993-2014, November 1993* document. The overlap demonstrates that even using BPA's forecast there are reasonable future scenarios in which independent gas generation could provide less expensive power for customers than BPA PF power. In fact, this is evidenced by current proposals for gas generation which are being submitted at the low end of the gas price range illustrated in **Figure 11**. Of course, specific comparisons would depend on a wide array of assumptions, such as the terms of service, proximity of generation to the load center, and need for reserves.

(The gas combined cycle combustion turbine costs do not include wheeling costs that could range from 0 to 3 mills/kWh. Wheeling was not included because determining its cost depends on project specific information. It is reasonable to expect that this type of generation is more likely to be located near load centers and as a consequence the cost of wheeling can be expected to be a minor contribution to the total cost. The cost of reserves is not included beyond the implicit cost of assuming a 10 percent forced outage rate in estimating the cost per unit output. Much like wheeling, the cost of reserves depends on the specific utility system characteristics.)

Figure 11:

Gas Combined-Cycle Costs vs. PF Rate

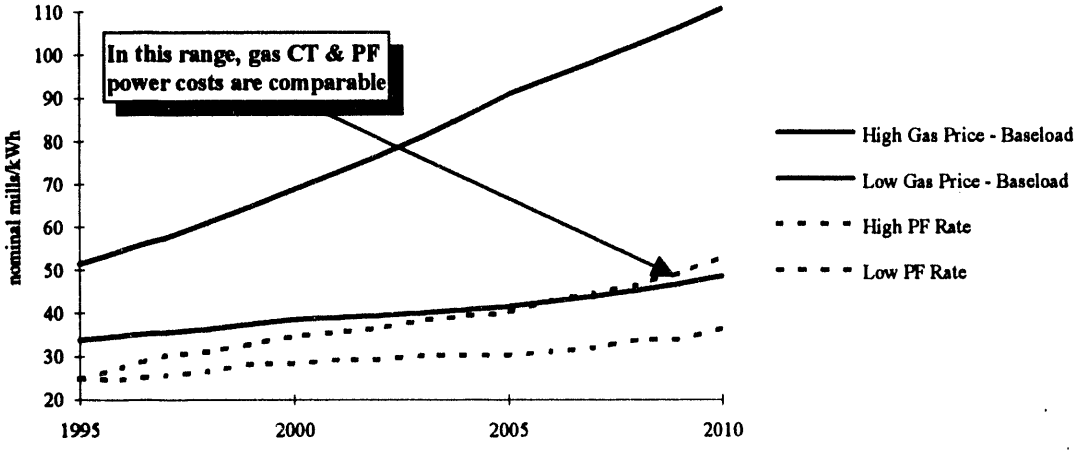


Figure 12 shows how an increase in BPA's High PF Rate would close the gap between the price of BPA's power and the cost of gas-fired generation. BPA customers could reflect a different view of the future trend in BPA prices by assigning an additional risk premium to the price of BPA's rate projections or simply assuming that BPA's official PF rate forecasts are underestimated. In addition, they may assign an "independence premium" or "hassle factor" to reflect greater uncertainty and/or their dissatisfaction with doing business with BPA. ***The effect not only closes the gap between alternatives, but it also raises the possibility that supply diversification is a current concern instead of one expected later in the decade.***

Figure 12:

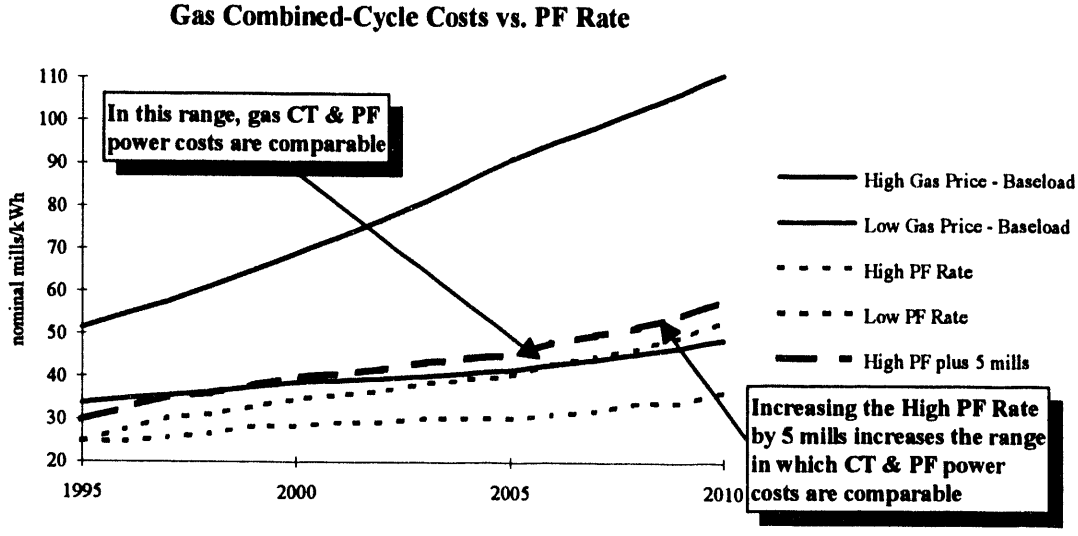
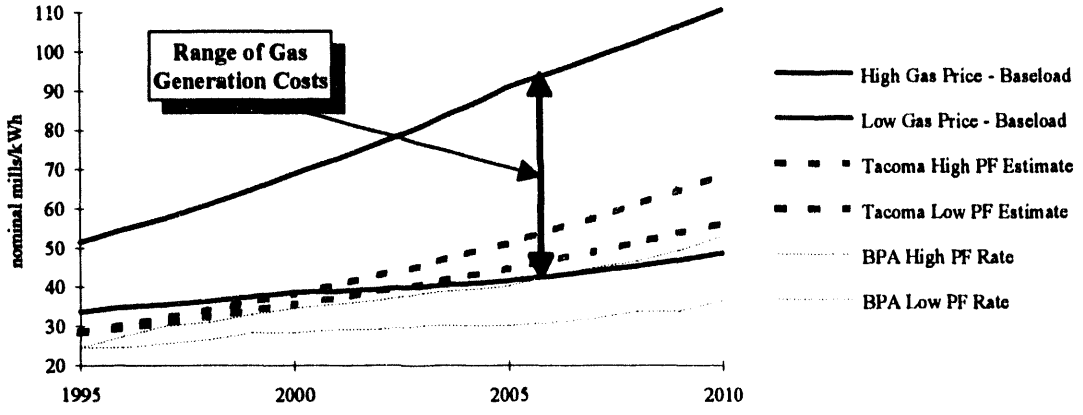


Figure 13 provides a specific example of how a more pessimistic assumption about future BPA prices affects the comparison between gas-fired generation and the price of BPA power. The range of forecasted BPA PF rates used in Tacoma Public Utilities' 1992 Least Cost Resource Plan is significantly higher than BPA's own forecasts. This figure highlights the importance of customer perceptions of future prices of BPA power and the costs of alternative sources of supply. ***Ignoring customer perceptions or minimizing the importance of BPA's large, though uncertain, financial risks could lead BPA to an unrealistic sense of security while its market share erodes due to competition from independent developers.***

Figure 13:

Tacoma Public Utilities Forecasts of BPA PF Rates Compared to the Range of Gas Generation



Direct Service Industries (DSIs)

There is considerable risk that some of the Pacific Northwest's DSI aluminum plants may permanently close or operate only intermittently. The primary reason for this reduction of load is intra-industry competition, which is affected by public policies, electricity prices, and subsidies in other parts of the world. If the average rate for total smelter power purchases (1993 dollars) increased to 35 mills, about 50 percent of the smelters may not be able to remain in business. This loss of load would amount to 1450 aMW.

In addition, a significant amount of potential load loss is driven by competition from self-generation, independent power producers, and regional utilities with surplus resources. Although the intra-industry competition described above is largely out of BPA's direct control, the latter factors could be deflected by BPA's decisions in the competitive market. BPA faces an immediate risk of potential DSI load loss from smelters acquiring combustion turbines. Realistically, up to 600 aMW of CT power may be developed by three of the most competitive aluminum smelters. This power not only could be used by the generating smelters, but also could be sold to other smelters and utilities throughout the region. For example, both Intalco and Columbia Falls Aluminum are actively investigating generation alternatives to BPA.

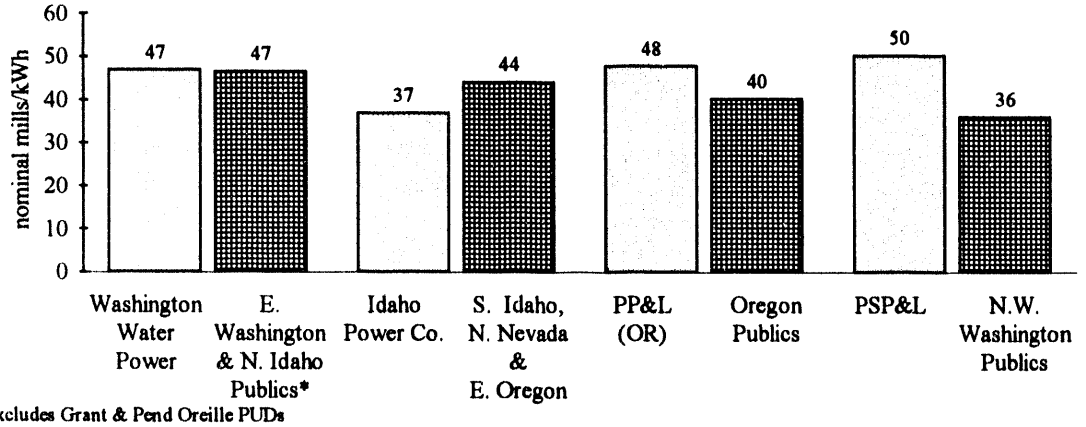
Retail Markets

Competitive forces present at the retail level are crucial to BPA, because the loss of retail loads of BPA's customers results in reduced BPA sales. The competitive forces affecting our customers at the retail level include: low prices of energy from other electric utilities and other fuels; increasing investment in co- and self-generation; and possibility of retail wheeling. The threat of load loss at the retail level is greatest in the industrial sector, with less risk in the residential and commercial sectors.

In some areas, a potential competitive threat is from adjacent or surrounding electric utilities. **Figure 14** illustrates the average retail rates of four regional Investor-Owned Utilities (IOUs) and surrounding BPA public customers. In certain areas of the region, a number of BPA customers already pay higher rates than those served by a surrounding or adjacent IOU. While higher-than-average distribution costs may be contributing to the rate differential, these customers' retail loads would become even more at risk with significant BPA wholesale rate increases. In fact one utility, Prairie Power, already has merged with the Idaho Power Company because it could not offer competitive rates to its customers.

Figure 14:

Comparison of 1990 to 1992 Average Retail Rates:
IOUs vs. BPA Public Utility Customers



* Excludes Grant & Pend Oreille PUDs

In other cases, the major competitive threat is from self-generation by retail consumers. The amount of industrial load served by BPA's public utility customers potentially at risk of being lost to competition in 1997 is almost 700 aMW under a medium-low gas price scenario, and 1100 aMW under a low gas price scenario. In addition, more than 100 aMW of commercial load may be at risk to natural gas suppliers, retail wheeling, and co-generation.

Extra-Regional Markets & Open Transmission Access

Over the past three years, the electrical utility market climate has changed in markets outside the Pacific Northwest, especially in California, as it has in the Northwest and across the country. The availability of low-cost natural gas, the high penetration of independent power producers and industrial bypass, and the passage of the open access provision of the Energy Policy Act of 1992 all have contributed to the increased competition utilities in these markets are facing. Further, in California especially, economic recession, closure of defense-related industries and increased incentives for Demand Side Management have reduced loads and put downward pressure on prices.

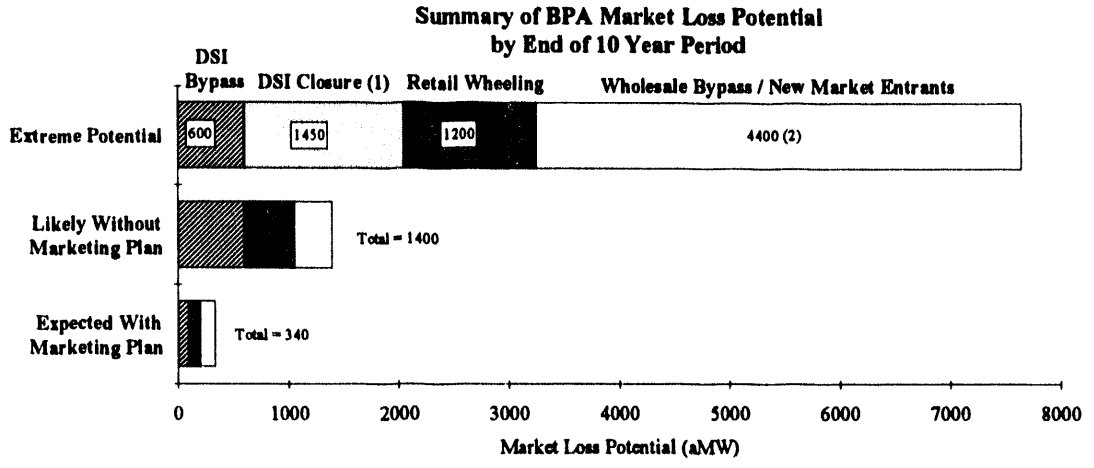
The results of these current trends in extra-regional markets are threefold: (1) they put at risk the sales potential from Federal non-firm and surplus firm transactions in California, upon which BPA traditionally has relied for significant revenue generation; (2) they will limit additional revenue opportunities in other extra-regional markets; and (3) they will likely limit or eliminate BPA's ability to minimize ESA fish flow costs by consummating seasonal exchanges with California and other extra-regional markets.

BPA has already seen the results of these trends in the extra-regional market; Traditional trading partners such as Southern California Edison and Los Angeles Department of Water and Power are now successfully competing with BPA in short- and long-term seasonal (summer and winter) capacity sales. Over the long-run, however, we believe that the California market will be a strategic business segment because of its size, eventual need for new generating capacity, and the large number of displaceable thermal generating plants.

Summary

Figure 15, *Summary of BPA Market Loss Potential*, summarizes the above discussion of competition in BPA's various markets. The figure displays BPA's potential load loss in three situations. In the extreme case, BPA could lose thousands of average megawatts of load by the end of the century. BPA's direct service industrial and other customers might acquire needed power from other suppliers; some DSI operations might shut down; and retail wheeling would further reduce BPA's loads. In a more realistic case where the actions proposed by the Marketing Plan are not implemented, the potential load loss is 1400 aMW. In the case that incorporates the effects of the actions in the Marketing Plan, only 340 aMW of load would be expected to be lost; this amount includes loads that would be retained as a result of achieving the goal of no increase in average rates for the most basic "firm requirements" products through 1999 (see the *Key Business Assumptions* section).

Figure 15:



(1) DSI closures are over and above BPA's 1993 Whitebook assumptions
(2) Portion of which could supply DSI Bypass and Retail Wheeling estimates

(1993 Pacific Northwest Loads and Resources Study (Whitebook) medium-case Federal system forecast of pubic utility and DSI loads for operating year (OY) 1995 is 7780 aMW, increasing to 8329 aMW by OY 2003. Total Federal system load for these years is 9424 aMW and 9817 aMW, respectively. Potential load loss estimates are not incorporated in the 1993 Whitebook forecast of public utility and DSI loads. Loss estimates take into account public load growth and DSI load decline assumed in the Whitebook medium-case scenario.)

Figure 15 illustrates why BPA must be proactive in responding to customer perceptions about our competitiveness, changes in the industry, and competition in our various markets. Our responsiveness is necessary in order for us to remain a viable marketer of power products and services, and to continue to fulfill our responsibilities to the region. We see these threats as opportunities to improve our efficiency, productivity, and customer service.

MARKETING PLAN SUMMARY

STRATEGIC MARKETING THRUSTS

The essence of the Marketing Plan is embodied in the following strategic marketing thrusts. They underpin all of the key assumptions, goals, and targets in the subsequent sections of the Marketing Plan.

1. Creation of sustained customer satisfaction through process enhancements, rate stabilization, and product choice.

2. Maintenance of BPA's low-cost producer status through optimizing the FCRPS.

3. Development and implementation of customer segment-specific strategies based on competitive marketing principles and mechanisms.

4. Reinvention and re-launch of conservation and energy efficiency programs.

5. Curtailment of the influence of a win/lose "entitlement" philosophy as a driver of our business by clarifying that benefits available for distribution depend on our financial success and emphasizing the value of our products and services.

6. Enhancement of BPA's role as the bulk power wheeler of choice for regional and inter-regional power flows.

7. Offering new products and services to increase revenues from regional and extra-regional customers.

8. Major revamp of customer processes, through which accountability for meeting customer needs is established.

While timing and sequencing of these strategic marketing thrusts will be refined as the Business Plan is pulled together, the following broad time table (**Table 2**), *Overview Of Strategic Thrusts By Phase*, provides guidance. This proposed schedule would achieve the productivity gains and revenue enhancements sufficient to dramatically constrain rate increases until the turn of the century.

Table 2:

OVERVIEW OF STRATEGIC THRUSTS BY PHASE

1994-1996 **Phase I** ***Secure Current Segment Loads Through Price Stabilization & Unbundling/ Rebundling***	1997-1999 **Phase II** ***Maximize Customer Satisfaction Through Targeted Product Management***	2000-2002 **Phase III** ***Leverage Segment Advantage for Mutual Gain***	2003-2015 **Phase IV** ***Expand Markets Geographically***
• Major cost reductions • Offer unbundled products and features giving customers full flexibility • Initiate "new" customer processes • Begin conservation reinvention • Initial gain from FCRPS optimization (1-2 percent annually) • Revise Intertie Access policy	• Remove remaining transmission system impediments wherever possible • Offer new transmission products • Major gains in FCRPS management (3-4 percent annually) • Offer new products to extra-regional markets • Provide higher unit sales	• Offer new high value products • Expand lines of business	• Expand transmission as necessary

Discussion Of Marketing Thrusts

1. Creation of sustained customer satisfaction through process enhancements, rate stabilization, and product choice.

Improving customer satisfaction is one of the primary goals of the Marketing Plan. To be competitive, BPA must focus on satisfying customers by designing, marketing, and reliably providing competitively priced products and services to respond to customer needs and wants. A major step in the right direction will be to implement the recommendations in the Marketing Plan and thus minimize the need for rate increases in the next six years. In addition, to make its processes of providing products and services more responsive to customer needs, BPA will streamline its decision-making process and establish clear accountability. BPA will help ensure ongoing customer satisfaction by implementing formalized customer satisfaction measurement systems with clear responsibility for any corrective action, if needed.

2. Maintenance of BPA's low-cost provider status through optimizing the FCRPS.

The preservation of BPA's low-cost provider position is critical to our future relevance in an increasingly competitive industry. Only through this position will we remain viable and maintain the necessary flexibility to respond to market forces. BPA also seeks to bring new benefits to the region and will allocate those benefits and manage the FCRPS for the benefit of its utility customers and their consumers, with flexibility to meet fishery and other objectives.

In addition to strong cost management and productivity gains, more effective use of the FCRPS, particularly the hydro system, is necessary to achieve this low-cost provider position. Optimization of the FCRPS may involve: (1) increasing the production capability at specific hydro and thermal generating plants; (2) adding complementary acquisitions to our resource mix; (3) operating existing resources more aggressively within more clearly defined non-power requirements; (4) creating and selling new products and services that efficiently use the output of our total resources; (5) pursuing co-generation and self generation joint ventures with our DSI and public agency customers; and (6) creating and pursuing different approaches to reliability.

In order to create new net benefits from the system, the continuing erosion of usable hydro system output and the uncertainty of future non-power requirements should be minimized. One of the most important ways of optimizing regional benefits from the FCRPS is to optimize usable hydro system output and to better define non-power requirements such as operations for fish and wildlife.

3. Development and implementation of customer segment-specific strategies based on competitive marketing principles and mechanisms.

BPA must be increasingly responsive to the needs, wants, and desires of individual customers. The notion of one product for essentially all customers is no longer valid. Specific strategies for each customer segment must be developed that will include choices of a variety of unbundled and rebundled products and services. These products and services must be designed to meet individual customer needs and priced to create mutual benefits for the customer and BPA. Strategies developed for specific customer segments also will generate products and services for other customer segments.

One key approach to creating benefits for customers in the various segments is to maximize access to and use of the transmission system. This will help to (1) establish and ensure operation of competitive markets; (2) create markets for products that do not already exist; and (3) meet customer needs for products and services.

Products and services will be rebundled to meet the needs for each customer segment by using the customer survey results and relying on direct information from discussions with customers. Customers will have the freedom to choose different combinations of products

and services that they believe meet their needs. The prices for some combinations of products and services may be different from the sum of the prices for the separate products and services included in the bundle. However, across all customers, pricing and revenues will be based on total costs. (See the *Pricing* section for more detail.)

4. Reinvention and re-launch of conservation and energy efficiency programs.

BPA is obligated by statute to encourage and favor conservation as a resource. This accountability translates well into a more business-oriented future where efficient use of products supports a strong and viable marketplace. However, the existing conservation program's exclusive reliance on program incentives to induce consumer participation must be realigned with a market- and results-oriented focus at BPA. In response to market forces, a transition must be made between traditional BPA conservation programs and new approaches which capitalize on BPA's strengths in the emerging competitive marketplace. ***Our goal in this reinvention remains to acquire all cost-effective conservation.*** To the greatest extent possible, the conservation program will become a self-supporting product line.

Rather than using the centralized conservation planning and delivery strategies of the past, BPA plans to use market-based approaches such as price signals that reflect the actual cost of new generating resources, market transformation, and demand-side management (DSM) products and services designed to meet our customers' needs.

The following elements comprise the cornerstones of this effort.

- BPA proposes wholesale tiered rates to provide a clear price signal to customers and consumers to reflect the cost of meeting regional power needs.
- BPA will fund and sponsor market transformation activities intended to permanently improve the energy efficiency of equipment for targeted end-uses in the marketplace.
- BPA will design and market self-supporting, new DSM products and services.

To assure that the BPA service territory is developing the appropriate portion of regional conservation targets, BPA will monitor the level of energy efficiency investment that results from these three components. Based on available information on the pace of efficiency investment through market transformation and independent utility programs, BPA will set sales targets for DSM products to meet or exceed BPA's share of the Northwest Power Planning Council Plan targets for regional conservation acquisition. If, after a reasonable period, the overall approach does not produce the desired pace and magnitude of efficiency investments, BPA will develop new approaches to meet the conservation targets.

BPA's success as a DSM provider will be determined by our ability to provide high quality products and services that customers are willing to pay for and have confidence in, especially confidence in BPA. BPA has a great investment and stake in preserving its

regional leadership during the transition from the traditional central conservation planning and delivery to a market-based DSM strategy. BPA will balance its needs for near-term rate stability with the importance of ensuring an orderly transition. Relationships with utility customers must be preserved and maintained. As a result, BPA will pursue the following objectives:

- Assist our customers in responding efficiently to price signals provided by tiered rates at the wholesale level.
- Manage the transition of DSM delivery systems.
- Satisfy its contractual obligations during the transition period.
- Ramp up market transformation and new DSM products and services to support customer conservation initiatives.

5. ***Curtailment of the influence of a win/lose "entitlement" philosophy as a driver of our business by clarifying that benefits available for distribution depend on our financial success and emphasizing the value of our products and services.***

Substantial tangible and intangible benefits will accrue to BPA, the region, and BPA's customers from implementation of the Marketing Plan. The benefits will be derived principally from: (1) unbundling and rebundling products to provide increased value to our customers; (2) optimizing the FCRPS to produce a more competitive mix of products; (3) improving the efficiency and effectiveness of BPA processes; and (4) targeting new products to existing and newly created markets consistent with statutory obligations.

As a result of these actions, BPA's costs will be reduced and BPA's revenues will be increased (see the *Summary Of Proposed Results: Closing The Revenue Gap* section). The objective of the Marketing Plan is to pass these benefits, over time, back to the region through reduced rates, accelerated fish and wildlife mitigation, and new product and service offerings. This approach is similar to a traditional business enterprise. The objectives are: (1) to be responsive to the marketplace; (2) to recognize competitive forces; and (3) to not only invest in the long-term future of BPA, but also our customers, the region's consumers and the environment.

BPA carries significant regional responsibility for protecting, mitigating, and enhancing fish and wildlife of the Columbia Basin affected by construction and operation of the FCRPS. Expenses for fish and wildlife have been one of the fastest growth areas in BPA's budget. Although BPA is assuming no changes in current law respecting our fish and wildlife obligations, the new BPA will manage the fish and wildlife activity to be more results-oriented. The need for and success of investments will be judged by how well they benefit fish and wildlife through achieving greater production, improved survival, and better management of the resources. Because BPA is not a fish and wildlife management agency, achieving these objectives will require cooperation and partnership arrangements with state, Federal, and tribal fish and wildlife management agencies.

BPA intends to remain the low-cost provider of transmission. BPA's system planning, design, construction, and maintenance activities will focus on main grid and intertie facilities, an area in which BPA has core competencies and can add greatest value. BPA will continue to maintain a safe and reliable transmission system. We will, however, reexamine the reliability criteria, including the standards/criteria for integrating new generation, to ensure that we provide the level of service that customers want and are willing to pay for.

As BPA offers more flexible wheeling services, it also will use a wider range of pricing options. While pricing based on average costs will continue to be used for some wheeling services, BPA will make greater use of pricing approaches that better reflect the incremental costs of providing transmission. Such pricing for services would allow those whose service requirements do not place certain transmission costs on BPA (because, for example, the customer assumes the financial and operational responsibility for delivery facilities) to avoid higher prices that include the costs of BPA providing these additional service requirements. Incremental cost pricing will be explored for services that require system additions or impose other incremental costs on BPA. Opportunity cost pricing should be used when the provision of wheeling service will, because of transmission constraints, prohibit BPA from engaging in legitimate and verifiable power transactions. Finally, with flexible services and flexible pricing within a cost-based framework, we expect higher utilization of existing facilities, reducing the cost to all transmission users and improving BPA's financial condition.

In addition, BPA is likely to participate in one or more Regional Transmission Groups to ensure that the system is planned to reliably meet all needs while minimizing costs and environmental impacts.

7. *Offering new products and services to increase revenues from regional and extra-regional customers.*

To create benefits for BPA and the region, as well as allow BPA to maintain the position of low-cost provider, BPA must intensify and expand efforts to market to discretionary loads. One such potential market is the extra-regional arena, specifically California and the Southwest. BPA must expand the products and services offered and create functioning markets for new unbundled products and services where none exist. A functioning market is generally characterized by many suppliers and purchasers, and by sufficient information to allow competition. This strategy will require maximizing the use of the transmission system, and optimizing and perhaps augmenting the operation of the hydro system, to secure long-term, mutually beneficial, value-added transactions.

Under the new BPA, the fish and wildlife function will be funded and managed to achieve specific increases in critical fish and wildlife populations adversely affected by the power system. Priority fish and wildlife objectives are expected to come from the Northwest Power Planning Council's subbasin and watershed planning processes and Recovery Plans arising from the Endangered Species Act. BPA's funding of projects to achieve the biological objectives will then occur through a variety of mechanisms, including contracts, grants, budget transfers, and trusts, provided those entities accepting BPA funds accept greater accountability for tangible fish and wildlife results.

BPA's budget for funding fish and wildlife projects and providing fishery operations will be based on that necessary to achieve at least the critical increases in priority fish and wildlife populations. In years of BPA fiscal success, the fish and wildlife budget would be increased to accelerate progress in rebuilding populations.

BPA will use a new 10-year implementation planning framework to schedule projects and fishery operations to better ensure that the desired growth in fish and wildlife populations occurs. This implementation process will deliver greater predictability in fish and wildlife mitigation as well as program costs. BPA intends to achieve greater understanding of the need for new fish and wildlife projects and operations through a better understanding of how each proposal affects our progress towards the biological objectives, relative to all the other actions already undertaken. A 10-year planning focus should provide greater stability in fishery operations and increase BPA's ability to optimize regional benefits from the hydro system.

Finally, BPA is not the sole source of financial resources to implement the Northwest Power Planning Council's Fish and Wildlife Program, the Endangered Species Act (ESA), and the National Marine Fisheries Service (NMFS) Recovery Plan. BPA will seek creative means to achieve cost-sharing arrangements to leverage BPA investments in order to maximize overall fish and wildlife benefits.

6. *Enhancement of BPA's role as the bulk power wheeler of choice for regional and inter-regional power flows.*

BPA recognizes that its high voltage transmission system is a regional asset that will be increasingly important as the utility industry becomes more competitive in power markets overall and to power transactions become more market-driven. In opening its transmission system strategically, BPA will be a regional and national leader in providing open access, not simply waiting for direction from FERC.

BPA will operate the transmission system as an integral part of the power system, offering a full range of wheeling services provided to all eligible transmission users. In terms of flexibility, firmness, and overall pricing, wheeling services will become even more like the service BPA provides for the movement of its own power. These practices will benefit customers who intend to rely on non-Federal power to meet a growing share of their future loads and will facilitate a competitive power marketplace.

8. Major revamp of customer processes, through which accountability for customer outcomes is established.

BPA recognizes that significant cultural, organizational, and business method (systems and processes) changes need to be made so that customers are highly satisfied with how BPA transacts business with them. We must consistently demonstrate that we are results-oriented, not process-oriented. BPA will significantly increase the speed of our responses and decision-making, clarify our policies and procedures, focus on results, and develop products and pricing that allow tailored offerings and responses to customer requests. To the extent consistent with its statutory obligations, BPA will reduce its oversight and regulation of how customers use BPA's products and services. This deregulation will reduce the need for BPA to review customers' use of our products and make "regulatory" determinations, thus reducing BPA's costs and process requirements.

SUMMARY OF PROPOSED RESULTS: CLOSING THE REVENUE GAP

One of the most important functions of the Marketing Plan is to provide measurable targets and objectives for BPA to achieve in order to increase or maintain the competitiveness and marketability of our products. The following analysis estimates the difference between the business results BPA needs to achieve to be competitive and the results we would achieve with a non-competitive approach. The analysis doesn't reflect the potential cost impact of regulatory obligations, e.g., additional Endangered Species Act mitigation, or other potential additional costs, e.g., repayment reform and Trojan decommissioning.

Figure 16 shows a forecast of BPA's revenue requirements for fiscal years (FY) 1992 through 2002. Forecasted revenue requirements shown for FY 1994 and 1995 are consistent with those from the 1993 rate case. FY 1996 through 1999 are the same as those used to conduct the Northwest Power Act section 7(b)(2) rate test documented in the 1993 Final Rate Proposal. FY 2000 through 2002 are extrapolations from the previous years.

Figure 16:

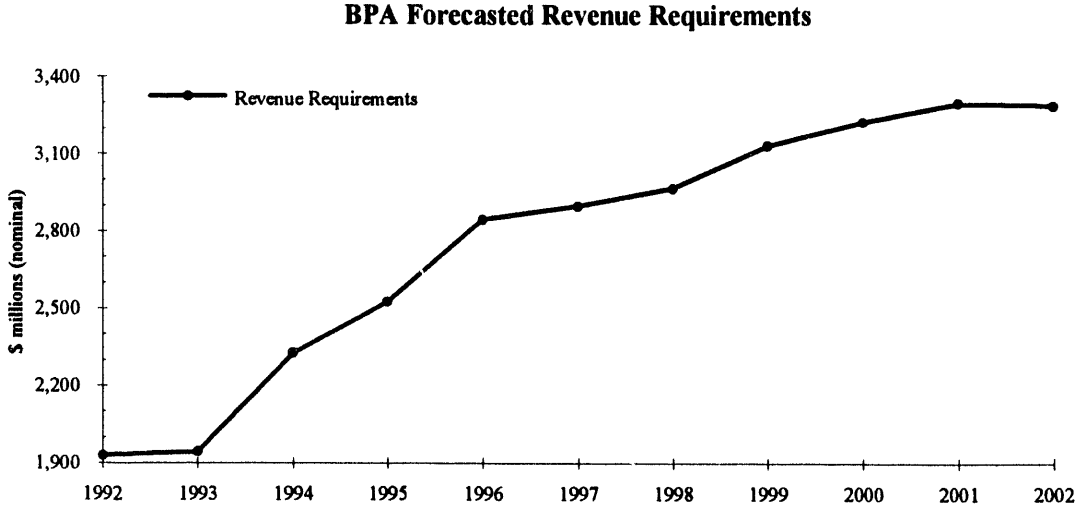
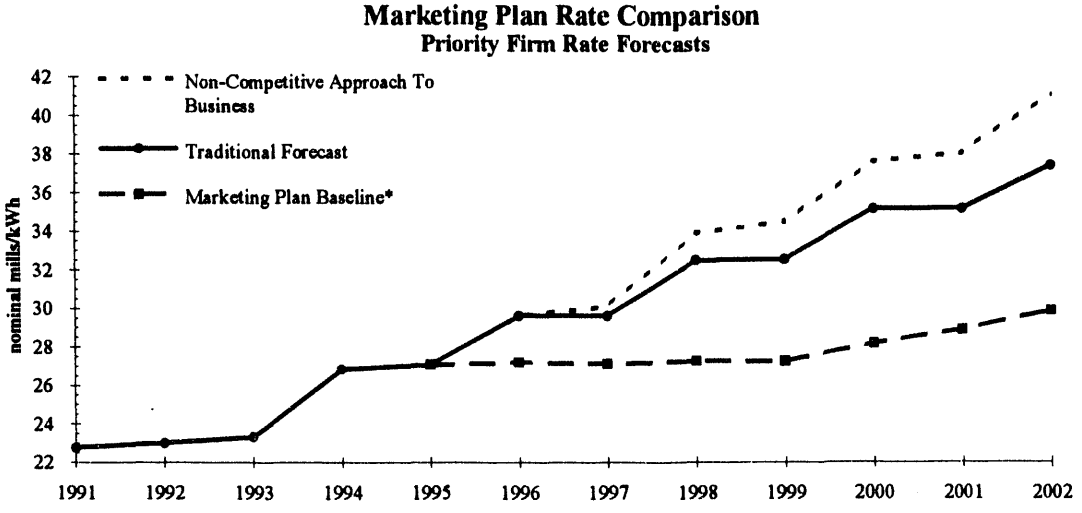


Figure 17 shows three different possibilities for the trend of the Priority Firm rate. The lowest of the three lines, the Marketing Plan Baseline, shows a possible trend for the average rate BPA would charge for the most basic Priority Firm (PF) product if a key goal of the Marketing Plan is implemented successfully: no increase in average rates for the most basic "firm requirements" products through 1999 (see the *Key Business Assumptions* section). After that, the average rate would rise slightly, held in control by the cost and revenue measures described in this Marketing Plan. The middle line, the Traditional Forecast, is the projected PF rate based on the revenue requirements shown in **Figure 17**.

The uppermost line in **Figure 17** is labeled "Non-Competitive Approach To Business" and is based not on BPA's forecasts, but on customers' perceptions of BPA and the resulting effects in the marketplace. Under a non-competitive approach to business scenario, customers would act on their perceptions that BPA is difficult to do business with, that future rate levels are unstable and unpredictable, and that BPA's costs are out of control. Customers would secure other sources of power, which would lead to significantly higher rates than under BPA's base forecast. This line shows a projected rate as it would be adjusted to recover revenues lost due to customers switching from BPA to other sources of wholesale power. BPA's estimated potential load loss by FY 2002, based on current load forecasts, is 1400 aMW (see **Figure 15**).

Figure 17:



*A goal of the Marketing Plan overall is no increase in average rates for the most basic "firm requirements" products through 1999 (see the *Key Business Assumptions* section).

Figure 18 shows the *Revenue Gap*, the $600-800 million difference between BPA's Revenue Requirements and the Marketing Plan Baseline revenue (which assumes achieving the goal of no increase in average rates for the most basic "firm requirements" products through 1999, resulting in some BPA loads being retained--see below). BPA's goal of no increase in average rates for the most basic "firm requirements" products through 1999 is a reasonable response to (1) the potential load loss of up to 1400 aMW; (2) the need to re-establish trust in BPA's cost management techniques; and (3) threats to BPA's competitiveness.

Figure 18:

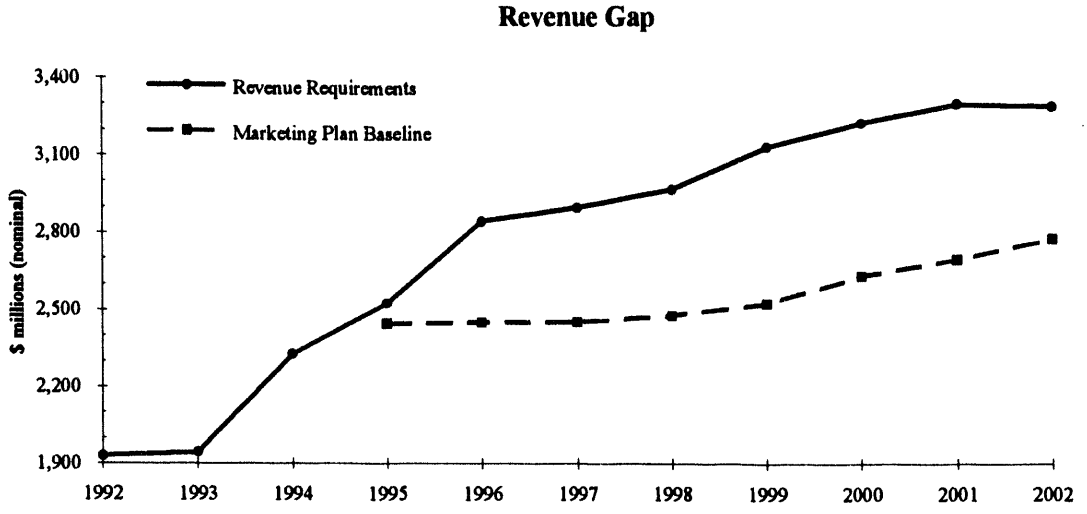


Figure 18 is not a precise quantification, because it is based on assumptions regarding the future of the electric power industry, customer perceptions of BPA and options for acquiring power from other suppliers, and BPA's ability to respond effectively to its many challenges. The assumptions that underlie the gap analysis, however, are valid to indicate the magnitude of BPA's response needed to assure long-term competitiveness and maintain the ability to meet power and non-power obligations. **Figure 18** is a tool to guide BPA's actions to generate revenues and reduce revenue requirements to maintain BPA's competitiveness.

The Marketing Plan suggests four actions BPA can take to "close the gap". These actions are fundamental changes to the way BPA does business, because incremental changes will not yield the results necessary to close the gap. As mentioned above, some will generate additional revenues and some will reduce costs. The Marketing Plan suggests four general ways to close the gap:

1. Retained Load;

2. Increased Revenues, both new and from unbundling and rebundling of new and existing products (including developing, pricing, and delivering the firm requirements products to meet customer needs);

3. Increased Efficiency and Productivity; and

4. Program "Reinvention".

Retained Load

The baseline revenues in **Figure 18** include the positive effect on the revenue gap of retaining load. If there is no increase in average rates, in nominal terms, for the most basic "firm requirements" products through 1999, described as a goal in the Marketing Plan, BPA could retain approximately 1100 aMW of the estimated 1400 aMW load loss. As the result of retaining load, forecasted revenues are greater and more predictable than the alternative of selling firm energy on the spot market (short-term sales).

The role of load retention in closing the revenue gap is significant for three reasons. First, a high proportion of BPA's costs is fixed. Second, average revenues gained from alternative markets would not be adequate to recover the average revenues lost by large reductions in sales to BPA's customers. Third, no major deferrable high-cost resource acquisitions are being made to support those sales. Therefore, the lost revenues from large reductions in loads of current customers could not be offset directly, either by reductions in resource costs or by increased revenues from other markets. It is not possible to conclude, however, that *increased* loads (i.e., relative to current forecasts) would have a positive result. The cost of new resources generally is higher than the revenues that can be obtained from increased sales to current customers. Nor does it mean that BPA should take on additional costs or reduce prices simply to retain all existing load, because these inexorably would erode BPA's overall competitiveness.

Load loss does not have negative financial consequences if BPA is making equivalent deferrable short-term purchases of high-cost power. The amount of load loss that could be tolerated in the short run would increase if BPA loses additional Federal hydro capability (for example, due to increased fish mitigation actions). Of course, in the long run, BPA must retain its ability to generate sufficient revenues to cover its costs.

Some of BPA's loads possess specific characteristics that make them desirable for BPA to retain in order to generate higher and more predictable revenues over the long term. Some of the characteristics that would make a load desirable for BPA to retain include: facilitation of capacity sales, energy exchanges, and management of BPA's fish flow obligations with fewer problems; efficient protection for and utilization of the transmission system(s); and system benefits from the load's specific location on the transmission system.

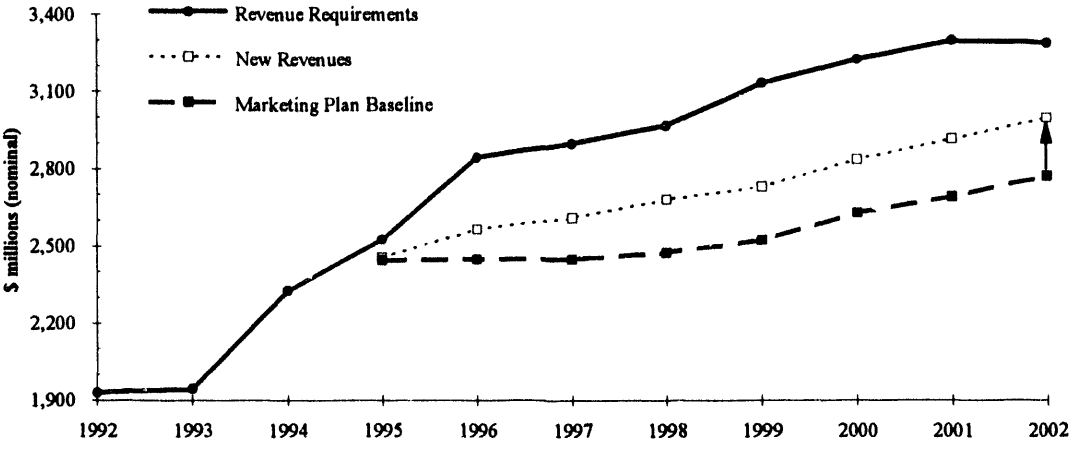
New Revenues

Figure 19 shows the effect on the revenue gap of increasing revenues by unbundling and rebundling products, by increasing sales in some markets, and by improving power system efficiency. This is complementary to retaining loads and through holding basic firm requirements rates constant as discussed above. The up arrow shows how the gap would be narrowed due to increasing revenues over those assumed for the Marketing Plan Baseline. Revenues from unbundling and rebundling existing products include those that would result from users of certain features and services paying for the product directly.

That is, BPA would separately price some products it currently gives away under the umbrella of the current "one-size-fits-all" Priority Firm, Industrial Firm Power or Variable Industrial Power rates. In addition, unbundling and rebundling will allow BPA to offer a wider array of products in greater quantity and, with appropriate pricing, to optimize more fully the operation of the FCRPS for the production of those products and services. This will produce greater revenues from both within and outside the region.

Figure 19:

Closing the Gap with New Revenues



Following is a summary of the sources of these new revenues:

Additional Power System Efficiency: Based on consultation with system operations personnel, we assumed achievement of a 4 percent increase in system output by the year 2001, with a slow ramp-up beginning in 1994. The increased output would come not only from changes in operations, but from investments in both hydroelectric and thermal power facilities to increase their capability. These are summarized in **Table 3** below:

Table 3:

Additional Power System Efficiency

	1992	1995	1998	2001	2002
Base GWh (thousands)	80	83	78	78	78
Targeted Improvement Rate		1.0%	3.0%	4.0%	4.0%
Incremental GWh (thousands)		0.8	2.3	3.1	3.1
S-T Power Displacement Price (mills/kWh)		23.1	25.3	28.3	29.4
Marginal Revenue ($mm)		19	59	88	91
Seasonally Adjusted @ 75% of Target Rate		14	45	66	69
Risk Factor Reduction @ 20%		3	9	13	14
Targeted Savings from Power System ($mm)		**11**	**36**	**53**	**55**

Enhanced Revenues From Product Repositioning, New Products From Unbundling, & Strategic Surplus Sales: BPA expects to gain new revenues from Repositioned Products

(products for which BPA proposes to change the rate design or charge separately), New Products (products not currently being produced by the Federal System), and Strategic Surplus Sales (products provided under different business arrangements to achieve sustained net revenue stream). The assumed new revenues from these categories are summarized in **Table 4** for selected years. Additional detail on what is included in these categories in the first year after the planned 1997 rate case (i.e., in 1998) is shown in **Table 5**, *Estimated Revenues From New Products/Selling Approach*. For additional detail on individual products, refer to the *Products* section.

Table 4:

New Revenues ($mm, nominal)

	1992	1995	1998	2001	2002
Repositioned Products	0	25	80	80	80
New Products	5	10	45	45	45
Strategic Surplus Sales	0	15	35	35	35
Other	0	10	85	85	85
Total New and Repositioned Revenues ($mm)	5	60	245	245	245

Efficiency & Productivity

Figure 20 shows how BPA's projected revenue requirement could be reduced by implementing efficiency and productivity improvements. The down arrow shows how the revenue gap would be narrowed by reducing BPA's revenue requirement. The targeted efficiency and productivity increases are those that previously were announced by BPA, $100 million per year by FY 1997. They include the announced 600 to 800 reduction in BPA and contractor full-time equivalent (FTE) and implementation of the proposals developed in the Function-by-Function Review. We assume the value of these gains would increase with the rate of inflation after 1997.

Figure 20:

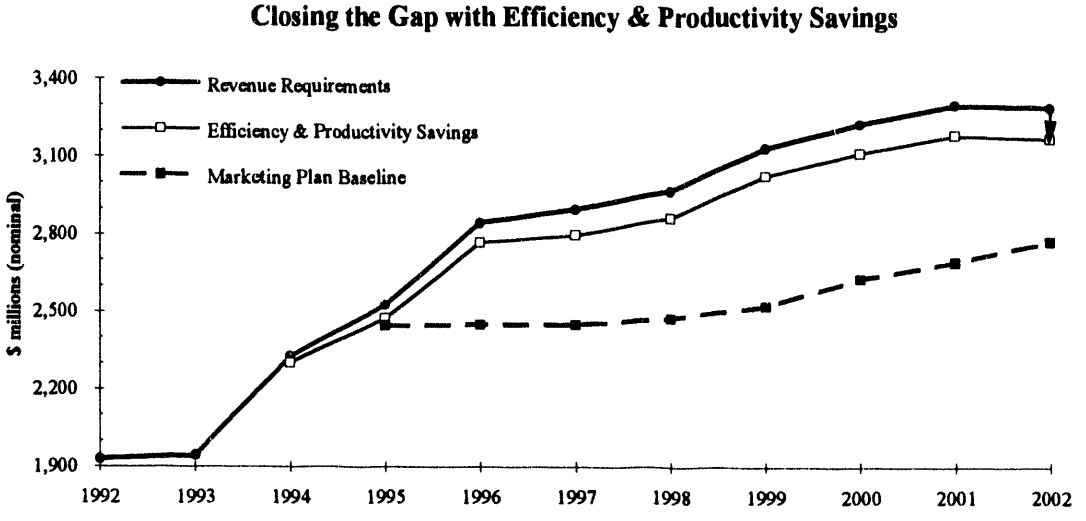


Table: 5:

ESTIMATED REVENUES

From New Products/Selling Approach

($ Millions In FY 1998)

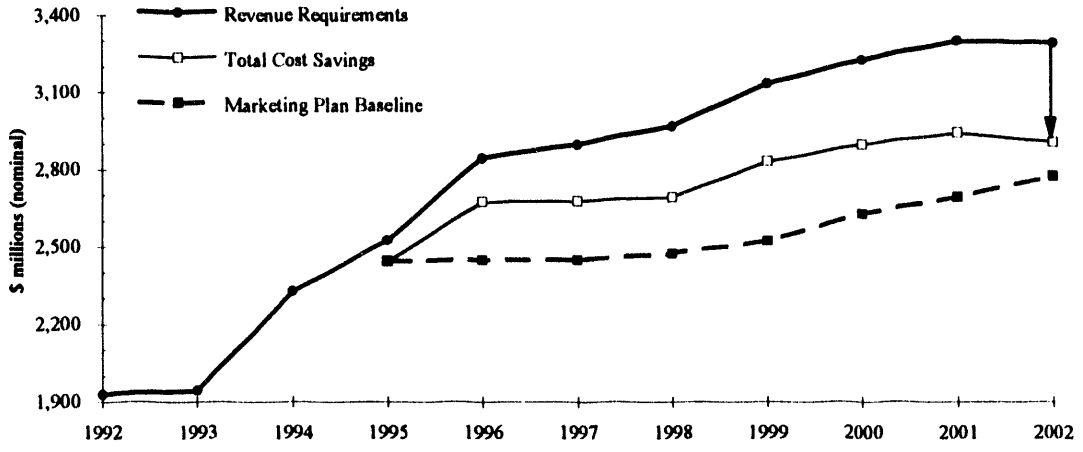
Product	*Product Description*	*Current Estimate*
Repositioned Products		
Subtransmission	Subtransmission will be included in standard firm requirements service, but the $30 million cost will be excluded from rates to customers taking delivery at network voltage.	30
Generation Guarantee	A fee to convert customer resource output to system firm energy, from customers in BPA's control area without a Service & Exchange Agreement.	4
Control Area Reserve Service	A fee to recover costs of operating reserves BPA provides for customer resources in BPA's control area. Applies to metered and computed requirements purchases without AGC for resources and interruptible purchases.	10
Interchange Energy	Revenues from increasing Interchange Energy (IE) pricing under PNCA. This estimate assumes IE is priced closer to market rates and BPA is a net exporter of this commodity.	10
Flexibility Services	A charge to use federal reservoirs to shape BPA purchases around changes in non-Federal generation. Applies to computed requirements purchasers who shape their FELCC annually and seasonally.	6
Unanticipated Load Growth & Take Or Pay Products	Increased revenues from making a forecasted amount of winter capacity take or pay and creating a product for unanticipated winter peak sales.	20
Subtotal		***80***
New Products		
Priority Service Rights	BPA cost savings from only purchasing reserves we can and will use. Transmission stability reserves from DSI loads or other large loads are our primary need. The revenue increase is the avoided cost of additional reserves assuming DSIs sign new contracts.	25
Reactive Power	Increased charges and new charges to other power systems that use reactive power from BPA's control area.	20
Conservation Products	To Be Determined (TBD)	TBD
Subtotal		***45***
Strategic Surplus Sales		
Calif., Opportunities (Summer)	Sale of additional 2000 MW summer capacity to CA and the SW. These are the result of more aggressive, market oriented capacity sales.	32
NW Opportunities (Winter)	Providing 1000 MW of Load Factoring to Northwest utilities and selling one year blocks of winter capacity. These are the result of more aggressive, market oriented capacity sales.	18
Subtotal		***50***
Power System Efficiencies	Increase in revenues and/or decrease in purchase power cost as a result of (1) increased federal hydro and thermal resource output, and (2) increased value of output.	***36***
Additional Revenue Needed To Fill "The Gap"	Other revenues from unspecified sources required to close the revenue gap (see *Summary Of Proposed Results: Closing The Revenue Gap*)	***70***
Total Revenues		***281***

Program Reinvention

Figure 21 shows how BPA's projected revenue requirement would be further reduced with program reinvention. The down arrow shows how the revenue gap would be narrowed if revenue requirements were reduced by program reinvention in addition to improvements in efficiency and productivity. Program reinvention is an effort to manage future revenue requirements, although it does not equate simply to budget cuts. Rather, reinvention is a major new effort to reshape BPA's programs to complement other aspects of the Marketing Plan. For example, tiered rates and unbundled/rebundled products and prices will provide BPA's customers with price signals that more closely reflect marginal costs. These actions will reinforce the competitive market, allow BPA to reduce conservation program incentives, and ultimately result in a conservation program that produces revenue. Taken together, these actions will allow us to meet our goal of acquiring all cost-effective conservation at much less cost to BPA. Also, a portion of BPA's fish and wildlife program spending could be more closely tied to BPA's level of competitiveness. Construction, operation, and maintenance of the transmission system will be conducted in the most efficient and cost-effective manner consistent with a business approach, rather than a more traditional programmatic approach.

Figure 21:

Closing the Gap with Cost Savings



Summary

Figure 22 shows the cumulative impact of reducing BPA's revenue requirement and increasing revenues using the actions recommended by the Marketing Plan. In some years, revenues exceed the revenue requirement, which would allow BPA to reduce rates for its firm power and transmission customers, add to its reserves, or add to BPA's net revenues used to repay the U.S. Treasury. In other years, a revenue shortfall of some size would still remain, and BPA would have to take action to eliminate the gap. In a few years, revenues might equal or come close to the revenue requirement.

Figure 22:

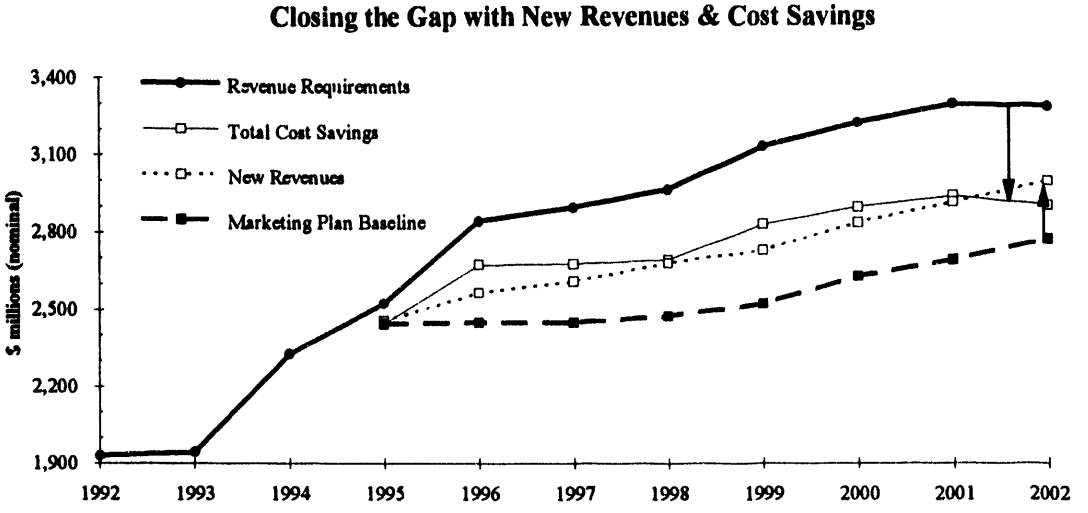
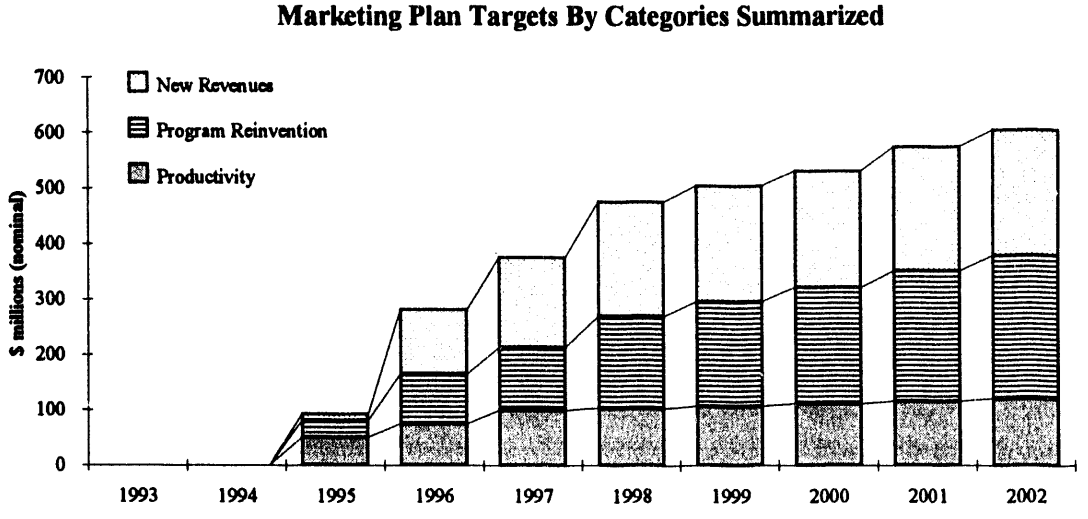


Figure 23, *Marketing Plan Targets By Categories Summarized*, shows total productivity savings, cost savings, and new revenues by year.

Figure 23:



The Marketing Plan recommendations would change BPA's "running rates", or projected costs and revenues based on current trends, by a total of approximately $685 million by the year 2002. The results for selected years are summarized in **Table 6**, *Net Result Of Marketing Plan Recommended Changes*. This table shows that the recommended changes would result in positive net revenues in some years. As mentioned previously, these results don't reflect the potential costs of such uncertain factors as additional Endangered Species Act mitigation, repayment reform, or Trojan decommissioning. Nor

do they include the offsetting impact of increased net residential exchange costs BPA would incur if it successfully reduced its other costs as a result of the Marketing Plan recommendations. In certain years, the net revenues shown in **Table 6** may not be sufficient to fully cover significant increases in net residential exchange costs. If significant revenue shortfalls result from any of these factors, BPA would have to take further action to close the revenue gap.

Table 6:

Net Result Of Marketing Plan Recommended Changes ($mm, nominal)

	1992	1995	1998	2001	2002
Targeted Incremental New Revenues	0	75	280	300	300
Targeted Productivity Gains/Cost Savings	0	80	275	360	385
Total BPA Revenue After Marketing Plan	1930	2515	2755	2990	3075
Total BPA Costs	2200	2440	2695	2940	2905
Created Net Revenues Available for Risk Coverage/Implementation Slippage	0	75	60	50	170

Note: All cost, savings and revenue dollars are rounded to the nearest $5 million.

KEY BUSINESS ASSUMPTIONS

Based upon BPA financial performance, expressed customer needs and desires, and the marketing environment in which we now find ourselves, it is clear that the Marketing Plan must be based on the need for change. The eight marketing thrusts described earlier in the *Strategic Marketing Thrusts* section can be accomplished by realizing the *Key Business Assumptions* outlined below.

KEY BUSINESS ASSUMPTIONS

Concept	*Supporting Rationale & Discussion*
1. A goal of no increase in average rates for the most basic "firm requirements" products through 1999.	• A more effective and efficient BPA that is customer-driven and market-focused can reduce costs and increase revenue to the point where rate increases for some products are eliminated or minimized. The basic "firm requirements" products for which the goal of no increase in average rates would be pursued are the specific bundled products that BPA will sell to meet the firm loads of regional customers net of their own dedicated resource capability. Other products and services, offered either unbundled or rebundled and sold by BPA to meet additional customer needs, would be sold at different rates. Rate discounts, such as the irrigation discount and the low-density discount, are not assumed to be continued.
2. Productivity gains reaching $75-$100 million per year by year four of implementation.	• The Function-by-Function Review identified reductions in BPA costs of this magnitude that are achievable through efficiency gains that can be implemented immediately.
3. New revenues totaling $150-350 million per year by 1998 from all sources, including repositioned products, new products, and strategic surplus sales.	• New revenues would come from charging separately for some services currently provided for free to a limited group of regional customers, from sale of new products not currently offered, and from emphasizing surplus marketing as a strategic business.

KEY BUSINESS ASSUMPTIONS

Concept	*Supporting Rationale & Discussion*
4. Achieve high and continually improving customer satisfaction by changing the way business transactions are conducted so that customer perceptions of quality of service received more closely match their expectations.	• Improving customer satisfaction is a proven strategy for gaining a competitive edge. BPA cannot become more business-like and competitive without improving customer perceptions of the quality of service it provides. By changing the way our business transactions are conducted so that customer perceptions of quality of service more closely match their expectations, we will achieve high and continually improving customer satisfaction. Sustainable customer satisfaction can be achieved by: (1) creating Customer Account Executives to be revenue centers for BPA; (2) establishing clear delegation and accountability for customer satisfaction results; and (3) fostering an unfailing commitment throughout the organization to excellence in delivering service to our customers.
5. Re-focus of fish and wildlife program to achieve results. Adopt a concept of a baseline program which maintains current levels with an escalator tied to achievement of targeted agency financial results.	• The rationale is based on a three-part reality: (1) our price competitiveness on average and at the margin must be maintained in order to sustain a fish and wildlife protection, mitigation, and enhancement effort; (2) a fixed, increasing rate of expenditures on environmental costs may not be consistent with our mandate to "exercise sound business judgment" in managing the FCRPS and must be replaced by reinvented programs that are results-oriented; and (3) it is prudent to make environmental expenditures now to prevent the need for later environmental mitigation. • Achieving and sustaining the baseline expenditures may be supported with investments in USCE/USBR facilities that meet fish & wildlife goals at lower operational cost.
6. Reduce capital expenditures other than conservation and fish and wildlife from the post-1993 rate case levels.	• Reduce the pressures on future rates; look for technology-based productivity gains to maximize the return on capital expenditures.

KEY BUSINESS ASSUMPTIONS

Concept	*Supporting Rationale & Discussion*
7. Implement a reinvented conservation program that replaces reliance on direct incentive payments with a combination of (1) price signals; (2) financially self-supporting DSM products and services; and (3) strategic investments in market transformation, which will result in greater energy efficiency overall.	• BPA will realign its conservation program to be consistent with a market focus. To permit a significant reduction in the direct incentive payments for conservation that add pressure to increase BPA rates more rapidly than those of its competitors, BPA will strive to make the conservation program self-supporting by (1) proposing tiered wholesale rates to provide clear price signals to customers and consumers to reflect the cost of meeting growth in power demands; (2) funding and sponsoring market transformation activities designed to permanently improve the energy efficiency of equipment applied in targeted end-uses in major energy markets; and (3) designing and marketing new Demand-Side Management (DSM) products and services that are wholly or partially self-supporting and that generate new revenues for BPA.
8. Pursue an aggressive employee incentive compensation system through which a substantial portion of total compensation (e.g., up to 20 percent of pay) for key employees, including at least all managers and supervisors, is determined by performance results.	• Signal a genuine shift toward business practices; provide incentives to accelerate the rate of organizational and process changes; provide an extra reason for sustained commitment to the Business Plan during the period of turbulence associated with adopting the Business Plan and all that it implies; attract and maintain individuals who can contribute to both the social and business agenda of the agency.
9. Operate the FCRPS within non-power requirements to create 1-4 percent additional usable capability or value over the next 5 years.	• Maintain the energy and capacity purposes of the FCRPS: define non-power requirements so as to secure certainty and stability in the power capability of the system and thus secure the additional revenues and customer/consumer benefits from enhanced river operation. The total power increase will derive from a combination of operational certainty from the System Operation Review (SOR), increased efficiency of operations, and modification of operational risk management strategies.
10. Adopt a "financial escalator" philosophy for non-core expenditures.	• Ensure that the fundamental purposes of the FCRPS are supported by all customers and constituents. Clarify that non-core expenditures and investments will be supported as business results allow. The Business Plan will not pre-empt BPA expenditures for activities undertaken to comply with environmental or other safety-related requirements. We will apply "cost-effectiveness" and risk analysis techniques to ensure that we comply with all applicable laws and regulations in the most efficient and effective way possible.

KEY BUSINESS ASSUMPTIONS

Concept	*Supporting Rationale & Discussion*
11. Establish the ability to market quasi-and pure competitively priced products.	• By appropriately defining "firm requirements" products and allocating appropriate costs to this group, the remaining power products may be priced based on other than embedded costs where fully competitive markets exist or where otherwise appropriate. All marketing will be consistent with the Regional Preference Act directives.
12. Adopt a more open transmission policy and increase transmission system utilization.	• By strategically further easing the restrictions on accessing BPA's transmission system, all constituents will receive a signal that BPA supports actions to assure transmission is not an impediment to an open, competitive bulk power market. Open transmission, combined with functioning markets for some products, allows customers to effectively implement choices offered by BPA. It also is key to achieving the fully competitive markets referred to in 11 above. Benefits to BPA include increased revenue from new products and services and from increased transmission utilization.
13. Create a benefit redistribution mechanism for the additional revenue created by unbundling, rebundling, and more effective marketing of existing and new products.	• Additional revenues will be created by unbundling/rebundling existing products and marketing new products. BPA will develop an allocation scheme that first benefits existing customers through rates but offers the flexibility of meeting other objectives, including such things as increasing the pace of fish and wildlife activities and accelerating the treasury repayment.
14. Explicitly craft Segment Strategies that recognize non-quantifiable values in customer decision-making, e.g., choice in source of power supply, greater price stability and predictability, enhanced planning flexibility.	• Signal a recognition that price and direct economic issues are not the only driving issues in our customers' planning and decision-making processes.
15. Develop and adopt a more business-like accounting system that recognizes the operating realities of our generating and transmission system, thereby explicitly dealing with actual increments of cost.	• Effective business decisions require the elimination of ambiguity that results from differences between theoretically based economic analysis and more traditional accounting-based financial analysis.

KEY BUSINESS ASSUMPTIONS

Concept	*Supporting Rationale & Discussion*
16. Adopt a tiered rate mechanism for "firm requirements" services.	• This mechanism provides a cost-based "firm requirements" product overall and sends a marginal price signal. The combination of this mechanism with the other concepts in this Plan will accomplish BPA and customer objectives without allocating portions of the FBS to individual customers.
17. Establish a proactive, customer-oriented position in extra-regional markets.	• Extra-regional energy marketplaces represent a significant potential market for BPA's new products. To increase revenue in this marketplace, BPA must understand and cultivate customers in these markets and develop a long-term, mutually beneficial strategic alliance with them.

MARKETING PLAN IMPLEMENTATION

The Marketing Plan significantly impact the 10-year planning process of the agency. Specific findings and recommendations will be presented in the Business Plan to be prepared in early 1994.

The Marketing Plan is designed to allow us to achieve our goal of being the low-cost supplier as well as to turn utilities' independent resource development into a win-win situation. Rather than erecting "regulatory" road blocks, BPA will encourage customer market choice. Utilities will be able to select the conservation and resource mix they prefer with the assurance that BPA will transmit and integrate that power into their load. BPA's rates will be based on the cost of providing the products and services necessary to integrate independent resources into the customer's load and BPA's system. The region will be better off by encouraging the least-cost mix of conservation and generating resources, and efficient operations and dispatch.

The Marketing Plan is guided by, and consistent with, all the laws that govern BPA. Some of the important requirements that shape this Plan include:

- BPA's rates must be designed to recover BPA's costs in total, without a profit that a private business might earn. Any additional value is returned to the region through lower costs, more services, or reduced debt.

- BPA's sales are subject to the preference and priority accorded public bodies and cooperatives.

- All sales also are subject to regional preference established in P.L. 88-552.

- BPA is obligated by Section 5 of the Northwest Power Act to meet the "firm requirements" of its customers.

- BPA's resource acquisitions are to be guided by the Northwest Power Planning Council's plan, including a priority for conservation.

- As confirmed in the Northwest Power Act, BPA has a fundamental stewardship role to protect, mitigate and enhance fish and wildlife affected by the Federal Columbia River Power System.

- BPA will fully comply with other statutes such as the National Environmental Policy Act, Endangered Species Act, Freedom of Information Act, Occupational Safety and Health Act, and other laws.

In conducting the Competitiveness Project and implementing the Marketing Plan, the issue for BPA is not whether or not to comply with these mandates, but how best to comply. We view these statutes as improving the way we serve the public and our customers. As we strive to combine the best of business with the best of government, BPA is committed to ensure that our environmental responsibilities and investments produce the results desired by the region. BPA's ability to compete has a direct relationship to our social and environmental responsibilities. Failing to be competitive will affect our other objectives, and failing to produce environmental results will reduce our competitiveness. Unless we act openly and fairly, consider environmental and health impacts, and seek to prevent the further listing of threatened and endangered species, we cannot expect to serve the region well.

MARKET SEGMENTATION OVERVIEW

Customer segmentation is the grouping of customers based on common characteristics and needs. Segmentation is based on the assumption that a structured and tailored approach to such customer groupings is in the best interest of both the supplier and the buyer. Segmenting the marketplace is accomplished by breaking down heterogeneous groups of customers into smaller homogeneous groups. BPA's customer segmentation is illustrated in **Figure 24**, *Marketing Plan Customer Segmentation.*

Customer segmentation allows BPA to understand and respond strategically and specifically to the changing needs of its major customer groups. Through customer segmentation, BPA will be able to:

- Ensure that products and services offered produce the desired results based on BPA's Vision and Strategic Business Objectives.
- Emphasize offering products and services that best meet BPA's strategic objectives and customers' needs.
- Better understand and respond to customer-based needs, not in legalistic terms but rather in value-creating terms. (See the *Role Of The Marketing Function* section.)
- Improve accountability for meeting customer needs.
- Determine priority of resources to meet customer needs most efficiently.

Segment management requires understanding the differences among the needs of different segments. The more that BPA targets the products and services it offers to given segments, the more effectively we can meet customers' needs and thus our own needs.

Figure 25, *Customer Segmentation & Strategy Development Process,* describes the sequential process of developing customer segments, developing segment profiles, and determining Segment Strategies.

As **Figure 25** illustrates, the customers' needs, the customers' competitive alternatives, and BPA's Strategic Business Objectives are formulated to develop segmentation criteria. BPA's traditional customer class groupings are refined based on detailed customer characteristics, including load growth, geographic location, product and service needs, and retail customer mix.

Segment profiles are developed based on broad core strategic thrust concepts, the segment definition, segment characteristics (e.g., load data, economic data, business values, competitive alternatives), and products and services needs. The segment profiles are used to customize Segment Strategies for each customer segment.

The next step, "strategic direction", provides a general framework and context around which more comprehensive Segment Strategies are developed. The procedure involves mapping BPA customers' values against BPA's values. Where the two sets of values intersect, the segments are assigned a strategic direction for use in market planning. Due to limited information, primarily BPA financial statistics, this procedure has only been partially completed. As the Segment Plans are developed, the "strategic direction" concept will be revisited.

Figure 26, *Marketing Plan Progression,* outlines a schedule for the continued development and refinement of the Marketing Plan and the Segment Plans. During late spring and early summer 1993, BPA's executive management developed and refined key concepts and guidance needed for the Marketing Plan. The final result of this corporate guidance is embodied in BPA's Vision and Strategic Business Objectives. All of the Marketing Plan's goals, beginning with the development of BPA's Strategic Marketing Thrusts and proceeding through the implementation of the Marketing Plan, are driven by this guidance and are aimed directly at pursuing BPA's Vision and achieving its Strategic Business Objectives.

Through the summer and fall of 1993, BPA developed the *Strategic Marketing Thrusts* which underlie all of the Marketing Plan's assumptions, goals, and targets. Further, they drove development of the Segment Strategies. The *Segment Strategy Summary* section and **Table 7**, *Segment Strategy Summary,* describe the common key characteristics and strategic concepts which already have been developed for each segment.

Through the Spring of 1994, BPA will be refining the Segment Strategies and developing the Segment Plans. The Segment Plans will contain the specific tactics and programs for implementing Segment Strategies. Using the Segment Plans as guidance, first drafts of customer-specific Marketing Plans, or Account Plans, will be developed by Fall 1994. Implementation of the Marketing Plans will begin thereafter.

The Marketing Plan emphasizes satisfying customers, meeting their needs, and maintaining the efficiency and low-cost position of the FCRPS through well planned and well executed marketing programs. BPA's customers expect a basic level of quality and reliability, timely problem resolution, and courteous, respectful interactions. Customers within each individual segment have additional expectations based on their specific needs. BPA must recognize and meet segment specific expectations. It is through meeting customers' expectations and providing added value that BPA will position itself as a "provider of choice," able to effectively compete in an increasingly crowded marketplace.

Figure 24:

MARKETING PLAN
CUSTOMER SEGMENTATION

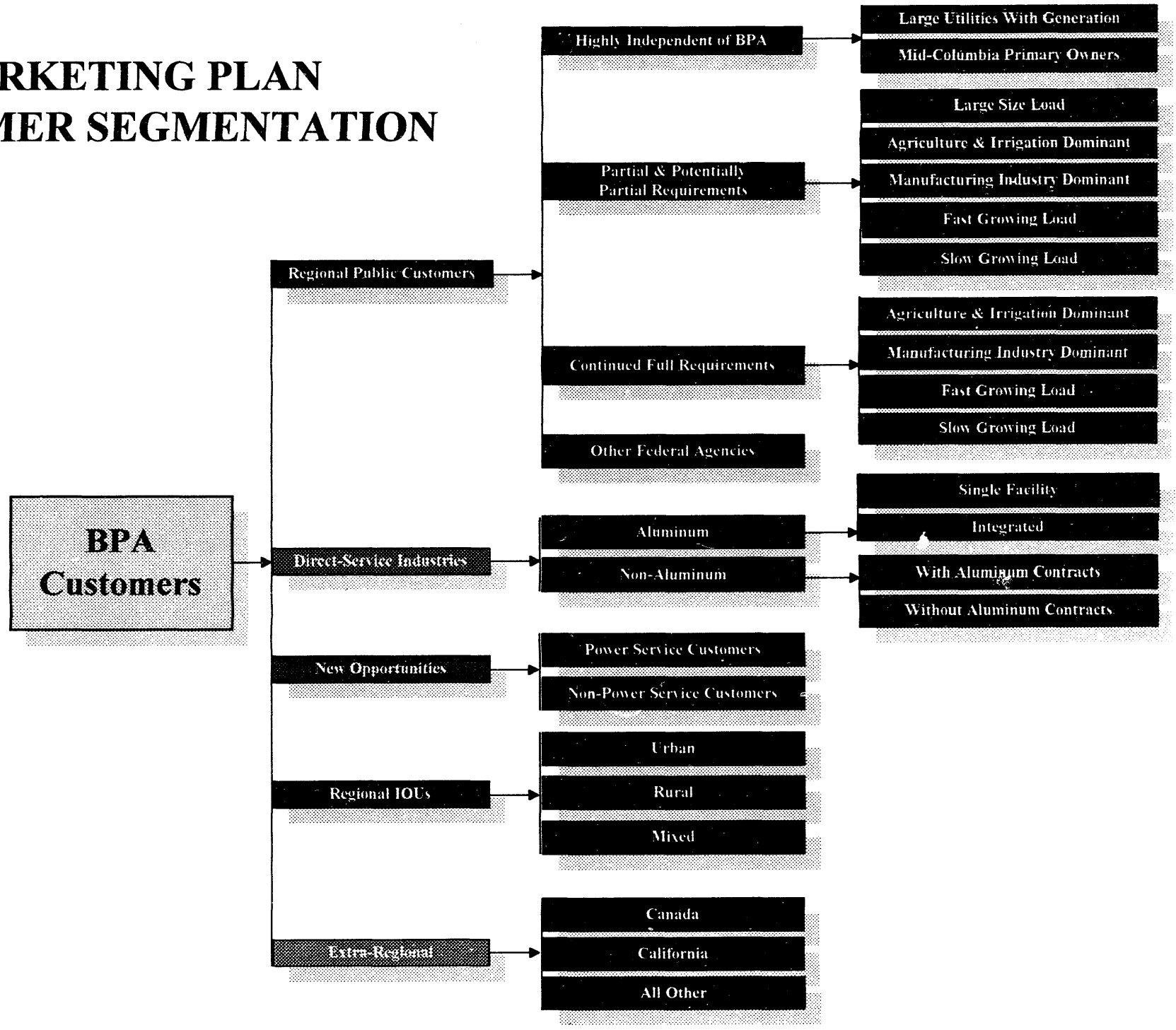


Figure 25: **CUSTOMER SEGMENTATION AND STRATEGY DEVELOPMENT PROCESS**

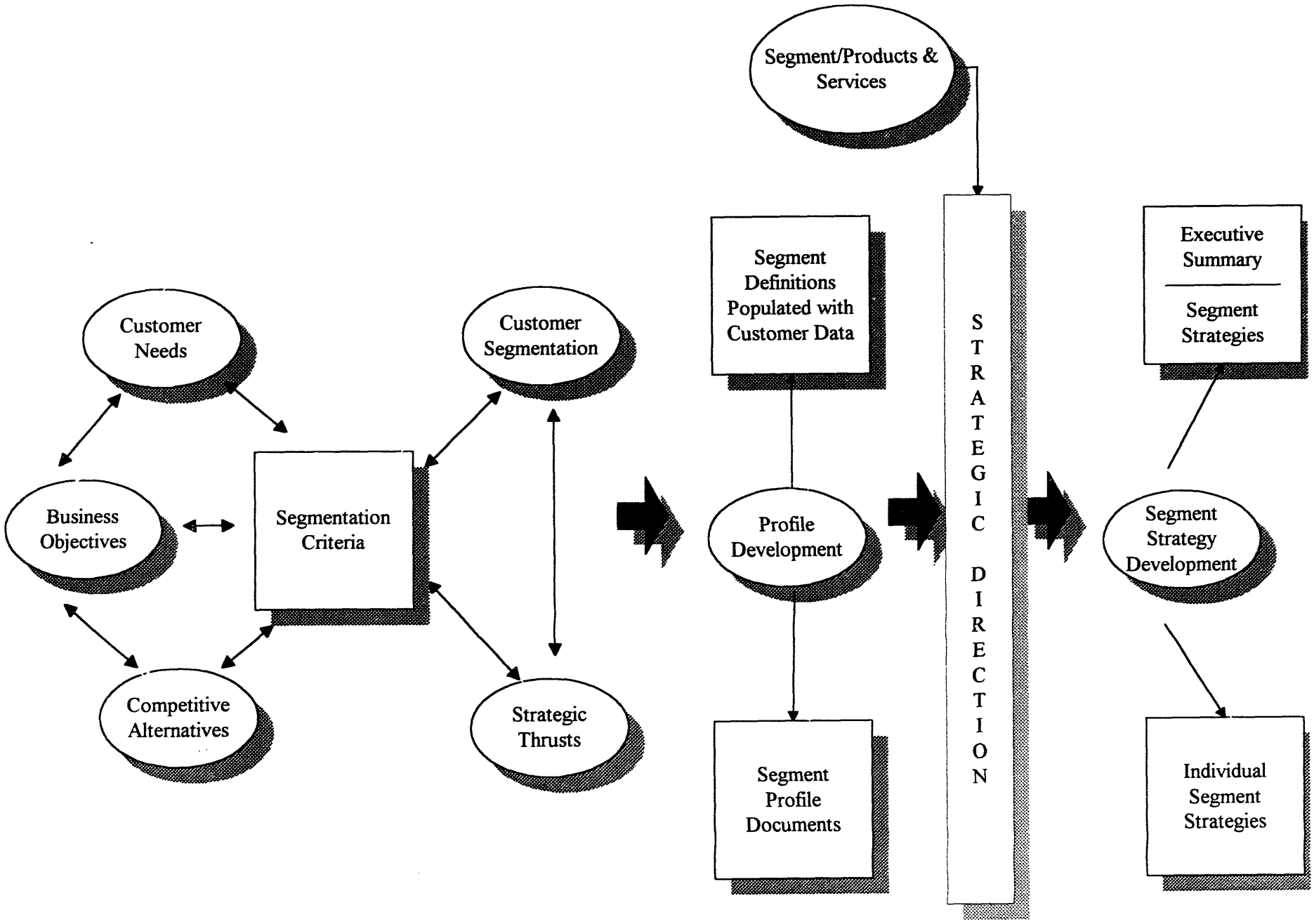
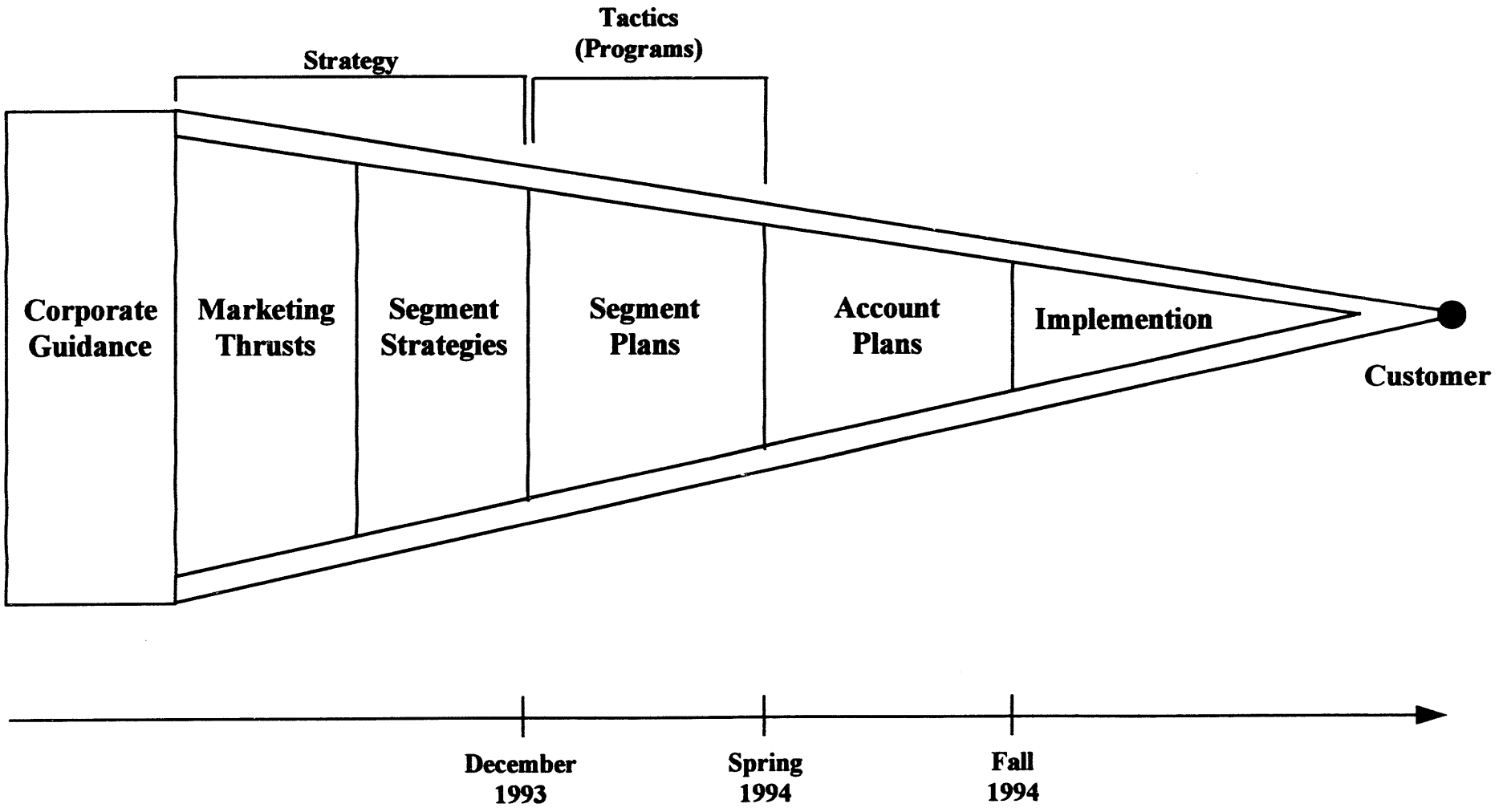


Figure 26:

Marketing Plan Progression



SEGMENT STRATEGY SUMMARIES

The following are Segment Strategy summaries for most of BPA's defined market segments (see **Figure 24**). Segment Strategies were not developed for all segments due to limited financial and economic statistics, and limited time. Further, these segments and strategies are not static; we will continue to develop and redefine them as our customers' needs change over time.

Regional Public Customers, Highly Independent Of BPA; Large Utilities With Generation & Mid-Columbia Project Owners

The largest utilities with generation and the Mid-Columbia project owners represent about 8 percent of BPA's total revenue and produce nearly 20 percent of BPA's firm network wheeling revenue. This segment is experienced in developing and operating resources.

The primary strategic thrusts for this segment are (1) provide tailored products and services to meet customers' needs; (2) provide highly technical conservation consulting for a fee, as most of these utilities have experienced conservation staff; (3) explore joint ventures for power generation, where these customers could have the option to purchase project shares in small increments with auxiliary services such as shaping, scheduling, wheeling, storage, back-up power, and fuel management services; and (4) provide open transmission access. BPA needs to retain its flexibility in coordinating the Federal hydro system in order to provide better coordination services, but should move toward a "partnership" relationship with these customers.

Regional Public Customers, Partial & Potentially Partial Requirements; Large Utilities

This segment comprises customers who are not full requirements customers, system loads greater than 250 aMW, that provide almost 10 percent of both total BPA load and revenue. Their current strained relationship with BPA could result in a willingness to pay a substantial premium for increased independence from BPA. In view of this situation there are three primary goals with respect to this segment: (1) increase customer satisfaction in business transactions; (2) provide services to support their desire to diversify suppliers; and (3) explore generation joint ventures. This situation also provides opportunities for BPA: (1) these utilities are supportive of the New BPA concept, and successful reinvention could help to forge new, positive relationships with these utilities; and (2) revenues could be enhanced by charging appropriately for services provided to support the customers' independent resource development.

Regional Public Customers, Partial & Potentially Partial Requirements; Agriculture & Irrigation Dominant

This small segment (2 customers) produces one-half of one percent of BPA's total revenue. It is made up of BPA utility customers that currently (or in the future will) own, control, or have contracted for non-BPA resources to serve a portion of their load, and whose economy is dominated by the effects of the agriculture sector. These utilities serve some irrigation and agricultural based consumers, yet the largest share of their load and revenue is found in the residential, commercial and/or industrial sectors. Although the issues surrounding irrigation energy use are important, of equal or greater importance is the economic health of the agriculture industry as a whole. These utilities rely heavily on agriculture-related industry such as food processing for their economic base. The utilities see the necessity of maintaining a relatively stable agricultural industry to provide economic stability for the manufacturers in their communities.

The strategic thrusts for this segment are (1) establish and continually improve business relationships in which BPA fully meets customers' expectations regarding excellence in product and core service quality; (2) position BPA as a partner in stabilizing customers' manufacturing load by offering industry value-adding rebundled power products (where possible based on load characteristics, etc.) and demand side management products; (3) function as a supportive partner to present a fully integrated utility approach to the increasingly competitive marketplace; (4) provide a variety of unbundled products and service options targeted at helping utilities meet their load growth, including Tier 2 power products, generation joint ventures with customers, value-adding unbundled products for customer-owned resources, demand side management products and services, and facilities services offering low cost construction expertise to deliver turn-key facilities for integrating new generation or serving new load; and (5) establish a partnership with irrigation customers to assemble the components of a lower cost, higher dollar risk alternative power supply for irrigators, including non-firm, spot market surplus, rebundled power products, and demand side management.

Regional Public Customers, Partial & Potentially Partial Requirements; Manufacturing Industry Dominant

This segment consists of 13 customers that produce 13 percent of BPA's total revenue. In the future, the utilities in this segment may own, control, or have contracted for non-BPA resources to serve a portion of their load. Generally, these utilities have over 25 percent of their load dedicated to manufacturing plants, with one or a few large manufacturing plants in each service territory. Consequently, the communities and the utilities are concerned about preserving the stability and viability of these industries. This segment is projected to grow 175 aMW in the next 10 years.

This segment is most concerned about the volatility of the economies within these utilities' service territory, and the large volume of load growth. To meet these concerns, BPA's

primary strategic thrusts are to (1) establish and continually improve business relationships in which BPA fully meets customers' expectations regarding excellence in product and core service quality; (2) position BPA as a partner in stabilizing customers' manufacturing load by offering industry value-adding rebundled power products (where possible based on load characteristics, etc.) and demand side management products; (3) provide growth management services such as Tier 2 power products, generation joint ventures with customers, value-adding unbundled products for customer-owned resources, demand side products and services, and facilities services, offering low cost construction expertise to deliver turn-key facilities for integrating new generation or serving new load; and (4) function as a supportive partner to present a fully integrated utility approach to the increasingly competitive marketplace.

Regional Public Customers, Partial & Potentially Partial Requirements; Fast Growing

This fast-growing load segment consists of 13 customers and produces about 5 percent of BPA's revenue. It has growth rates forecasted at 1.9 percent per year (75 aMW in the next 10 years), and consists mainly of customers who are considering developing their own resources, because of management philosophy and economic feasibility. Within the framework of wholesale tiered rates, this will create a new, competitive, open marketplace where BPA has to compete to serve their load growth. Approximately 55 percent of the load is residential, and the water heating portion is or will be susceptible to natural gas competition. Recent surveys indicated this segment of customers was among the most dissatisfied with its relationship with BPA. To retain load and compete in providing services it is critically important that our organization and processes rapidly evolve toward their described ideal.

The strategic thrusts for this segment are (1) establish and continually improve business relationships in which BPA fully meets customers' expectations regarding excellence in product and core service quality; (2) provide a variety of unbundled products and service options targeted at helping utilities meet their load growth, including Tier 2 power products, generation joint ventures with customers, value-adding unbundled products for customer owned resources, demand side management products and services, and facilities services offering low cost construction expertise to deliver turn-key facilities for integrating new generation or serving new load; (3) function as a supportive partner to present a fully integrated utility approach to the increasingly competitive marketplace; and (4) position BPA as a partner in stabilizing customers' manufacturing load by offering industry value-adding rebundled power products (where possible based on load characteristics, etc.) and demand side management products.

Regional Public Customers, Partial & Potentially Partial Requirements; Slow Growing

This slow-growing segment of 8 customers produces about 4 percent of BPA's revenue. It is made up of BPA utility customers that currently (or in the future may) own, control, or have contracted for non-BPA resources to serve a portion of their load. This segment is unique in that its customers do not have much load growth (47 aMW over next 10 years) yet they are considering developing their own resources or looking for non-BPA resources to serve their load (some already have done this), mainly due to management philosophy, unsatisfying business relationships with BPA, and financial and economic feasibility. These utilities are well diversified with respect to retail consuming sector loads. The low growth rate and limited economic prospects concern these utilities. Many of them are involved in economic development activities and have been critical of BPA's lack of responsiveness when rare economic opportunities present themselves. Many of the customers within this segment have high retail rates and may not be able to compete if their purchase price increases. Given their high retail rates, they likely will be particularly sensitive to fuel switching for space and water heating. DSM is a low priority for these utilities, due to their lack of load growth, and a perception that it erodes revenues they cannot replace.

The strategic thrusts for this segment are (1) establish and continually improve business relationships in which BPA fully meets customers' expectations regarding excellence in products and core service quality; (2) function as a supportive partner to present a fully integrated utility approach to the increasingly competitive marketplace; (3) position BPA as a partner in stabilizing customers' manufacturing load by offering industry value-adding rebundled power products (where possible based on load characteristics, etc.) and demand side management products; and (4) establish a partnership with irrigation customers to assemble the components of a lower cost, higher dollar risk alternative power supply for irrigators, including non-firm, spot market surplus, rebundled power products, and demand side management.

Regional Public Customers, Full Requirements; Agriculture & Irrigation Dominant

This segment consists of 18 customers and produces 3 percent of BPA's total revenue. These customers (1) currently have no existing resources outside of BPA and are not assumed to pursue any in the foreseeable future and (2) have a large percentage of their energy sales in the irrigation sector. Power purchase cost constitutes a large portion of the utilities' total costs. They are primarily low consumer density systems, and have little ability to shift or absorb rate or cost increases. This segment is unique in that it purchases the majority of its power seasonally (mid-spring to summer). Large corporate farms are generally proactive in seeking efficiencies and cost reduction, although they must irrigate when and for as long as the crops need it, whether during peak or non-peak hours. Recent surveys indicated that these were among BPA's most dissatisfied customers and in order

to retain their loads, BPA needs to address their concerns to improve their perceptions of BPA and the way it does business.

The strategic thrusts for this segment are (1) establish and continually improve our business relationships in which BPA fully meets customers' expectations regarding excellence in product and core service quality; (2) establish a partnership with irrigation customers to assemble the components of a lower cost, higher dollar risk alternative power supply for irrigators, including non-firm, spot market surplus, rebundled power products, and demand side management; (3) function as a supportive partner to present a fully integrated utility approach to the increasingly competitive marketplace; and (4) provide a variety of unbundled products and service options targeted at helping utilities meet their load growth, including Tier 2 power products, generation joint ventures with customers, value-adding unbundled products for customer owned resources, demand side management products and services, and facilities services offering low cost construction expertise to deliver turn-key facilities for integrating new generation or serving new load.

Regional Public Customers, Full Requirements; Manufacturing Industry Dominant

This segment consists of 11 customers who almost 2 percent of BPA's total revenue. These customers serve primarily industrial loads (greater than 30 percent of their total load is industrial customers). The dominant manufacturers often support the economic base of the service territory, and in fact, this segment is unique in that the local economy and the utility are often largely dependent on one large load. Consequently, there exists a concern within the community and utility about stability and viability of that industry. A primary focus of this segment's strategies is contributing to these industries' stability. This segment is most interested in the products and services we can offer industrial loads and BPA's understanding that the utilities' revenues are primarily based on the market position of the industries they serve. Additionally, recent surveys indicate that these customers are dissatisfied with BPA, and in order to retain their loads, BPA needs to address their concerns to improve their perceptions of BPA and the way it does business.

The strategic thrusts for this segment are (1) establish and continually improve business relationships in which BPA fully meets customers' expectations regarding excellence in product and core service quality; (2) position BPA as a partner in stabilizing customers' manufacturing load by offering industry value-adding rebundled power products (where possible based on load characteristics, etc.) and demand side management products; (3) provide a variety of unbundled products and service options targeted at helping utilities meet their load growth, including Tier 2 power products, generation joint ventures with customers, value-adding unbundled products for customer owned resources, demand side management products and services, and facilities services offer lowing cost construction expertise to deliver turn-key facilities for integrating new generation or

serving new load; and (4) function as a supportive partner to present a fully integrated utility approach to the increasingly competitive marketplace.

Regional Public Customers, Full Requirements; Fast Growing

This segment (26 customers) produces about 5 percent of BPA's revenue. It has the largest number of fast growing customers, with growth rates forecasted at 1.5 percent per year (78 aMW over 10 years). These growing customers may not be considering developing their own resources at this point, either because of management philosophy, lack of experience, or perceived economic unfeasibility. We believe that wholesale tiered rates will stimulate increased interest by this group in developing their own resources and will create a new, competitive, open marketplace where BPA has to seriously compete with other potential suppliers to serve their load growth. Given the large residential load (70 percent of the segment total), we believe these customers will be particularly sensitive to fuel switching for space and water heating. Recent surveys have indicated this segment of customers is among the most unhappy with its relationship with BPA.

The strategic thrusts for this segment are (1) establish and continually improve our business relationships in which BPA fully meets customers' expectations regarding excellence in product and core service quality; (2) provide a variety of unbundled products and service options targeted at helping utilities meet their load growth, including Tier 2 power products, generation joint ventures with customers, value-adding unbundled products for customer owned resources, demand side management products and services, and facilities services offering low cost construction expertise to deliver turn-key facilities for integrating new generation or serving new load; (3) function as a supportive partner to present a fully integrated utility approach to the increasingly competitive marketplace; and (4) position BPA as a partner in stabilizing customers' manufacturing load by offering industry value-adding rebundled power products (where possible based on load characteristics, etc.) and demand side management products.

Regional Public Customers, Full Requirements; Slow Growing

This segment consists of 24 customers with annual average total system loads greater than 25 aMW and a projected system load growth of less than 1 percent. It contributes approximately 2 percent of BPA's revenues. The customers in this segment effectively purchase their entire loads from BPA and are expected to continue to do so. Slow growth and the economic future are major concerns for these utilities. Because this segment is slow growing, they do not value DSM. This segment has some of the highest retail rates in the region, while at the same time the large share of consumer income in this segment coming from transfer payments (retirement, etc.) limits the ability of the residential consumer to pay higher retail rates. Natural gas already constitutes 14 percent of this

segment's space heat market share, and continued fuel switching is likely as long as this segment continues to have rates much higher than other utilities. Recent surveys indicated this segment of customers is among the most unhappy with its relationship with BPA.

Because of their flat growth, these utilities continually seek economic development, and BPA's primary opportunity with this segment is to be a supportive partner when opportunities for economic development occur.

The strategic thrusts for this segment are (1) establish and continually improve our business relationships in which BPA fully meets customers' expectations regarding excellence in product and core service quality; (2) function as a supportive partner to present a fully integrated utility approach to the increasingly competitive marketplace, seeking to contribute to the long-term economic well-being of the utilities we serve; and (3) position BPA as a partner in stabilizing customers' manufacturing load by offering industry value-adding rebundled power products (where possible based on load characteristics, etc.) and demand side management products.

Regional Public Customers; Other Federal Agencies

This Segment Strategy was not developed due to limited financial and economic statistics, and limited time.

Direct Service Industries

BPA's direct service industrial (DSI) customer group contains both aluminum and non-aluminum producing industries. BPA provides 94 percent of the installed capacity needs to the aluminum DSIs, who comprise 90 percent of this market segment. The DSIs, represent 32.5 percent of BPA's total load. In return, these customers contributed 23.3 percent of total BPA revenue in 1992. Based on the dissatisfaction expressed by the DSIs about the way BPA currently does business and assuming projected rate increases, BPA has forecast that it could lose as much as one-half of its aluminum DSI market share by the year 2002.

The main thrusts of the DSI marketing strategy are (1) to retain load that can generate revenues commensurate with our cost of providing service, (2) to increase the usefulness of reserves provided by the DSI load, (3) to individualize service, and (4) to provide customer satisfaction. Under this strategy, individual DSIs will be able to choose from different qualities of service based on the level of risk each DSI is willing to take and on the price it can afford to pay. The DSIs will be able to retain BPA (for a fee) as a consultant on demand side management and energy efficiency services. The DSIs will be able to take advantage of joint ventures with BPA to develop new resources, or develop resources on their own. BPA will explore development of risk sharing to help reduce the

impact on the DSIs of a simultaneous occurrence of low aluminum prices and poor water conditions. BPA also will offer wheeling of non-Federal power and low-voltage and reactive power services. BPA will require transmission stability reserves from the DSIs and seek to acquire operating reserves when economic.

Investor-Owned Utilities (Urban, Rural & Mixed)

The investor-owned utilities (IOUs) purchase surplus power products and transmission from BPA. In the past, they have expressed dissatisfaction in their dealings with us. For the IOUs, the biggest benefit of the Marketing Plan approach will be a marked increase in BPA's ability to respond rapidly to their requests for products and decisions. This approach should result in our ability to maintain long-term commitments.

Some of the IOUs are experiencing rapid load growth. We expect them to be interested in purchasing some power from BPA as we demonstrate our commitment to attractive, stable rates. In the event they choose not to purchase from BPA, they will be able to take advantage of open transmission access to integrate new resources into their system. The IOUs currently use several shaping services made available on an ad hoc basis. Flexibility products have been designed to provide load-shaping and reserve opportunities to complement resource purchases and the utility's own resources. Additionally, as demand for transmission increases, they will benefit from BPA removing bottlenecks in the Federal transmission system.

Capacity products also have been designed to be responsive to the needs of IOUs. The flexible features of various capacity contracts have been separately identified in order to facilitate rapid customizing of packages. Some sample capacity packages have been identified in this document.

Extra-Regional, Canada

This Segment Strategy was not developed due to limited financial and economic statistics, and limited time.

Extra-Regional, California

The California marketing segment consists of all the public, private and Federal government loads in California. The main thrust of the proposed California marketing strategy is to increase and stabilize BPA's net revenues from these markets. In the future, BPA will approach the California market as a strategic source of net revenue. The resulting net revenues are expected to provide direct benefits to BPA core customers through lower rates and will help BPA meet its other objectives, such as its fish and wildlife program and Treasury repayment.

In the past, BPA has treated long-term extra-regional markets as an opportunity to dispose of a limited amount and type of surplus products and services. BPA's long-term marketing approach has been to identify surpluses and then sell them in extra-regional markets under terms beneficial to BPA's customers in the Northwest as well as to the California parties.

The strategic approach to extra-regional marketing starts with researching the needs and desires of the customers and then designing higher-value surplus products and services that could fill some of those needs. This approach includes considering California customers' needs when packaging products and services for sale, carefully identifying surplus products and services, obtaining necessary transmission paths even outside the region, and stretching and changing the BPA system output in a way that provides a higher-value surplus product and services mix. BPA also should identify and vigorously pursue flexibilities available to it by statute to market products outside the Pacific Northwest in a business-like fashion. The long-run result will be to encourage the extra-regional utilities to look more closely to BPA as a potential source of both surplus products and services for fulfilling a portion of their needs. Under this approach, BPA would explore augmenting products and services and transmission to add value to BPA surpluses in order to serve the needs of extra-regional utilities.

Extra-Regional, All Other Markets

This Segment Strategy was not developed due to limited financial and economic statistics, and limited time.

Table 7:

SEGMENT STRATEGY SUMMARY

Segment[1]	*Segment Description FY 1992 % Of BPA Revenue & Load*	*Competitors & Threats To BPA's Load & To BPA's Strategic Position*	*Opportunities For BPA*
Regional Public Customers, Highly Independent Of BPA; Large Utilities With Generation	• A significant portion of these customers' load is not served by BPA resources • 7.5% of Total BPA Revenue • 8.1% of Total BPA Load (aMW)	• Other fuel choice (retail) • Independent resource development • Industrial (large load) loss • Local utility by-pass via retail wheeling • Continued relationship erosion • Canadian power	• Market services to help shape the customers' resources to their load • Improved coordination of the river or operation rights • Explore joint venture transmission additions • Explore joint venture on CT or other new resources • They are mutual support providers (real time operations) • They are power supply providers to BPA • Segment's industrial load could provide outage reserves to BPA
Regional Public Customers, Highly Independent Of BPA; Mid-Columbia Project Owners	• These utilities own resources in the Mid-Columbia hydroelectric projects • 0.4% of Total BPA Revenue • 0.4% of Total BPA Load (aMW)	• Linked to and allied with project share purchasers (IOUs & public generators) • Continued relationship erosion • Canadian power	• Market services to help shape the customers' resources to their load • Act in a partnership to achieve improved coordination of the river or operation rights • Explore joint venture transmission additions • Possible low cost power from Mid-Columbia project withdrawal rights • They are mutual support providers (real time operations) • They are power supply providers to BPA
Regional Public Customers, Partial & Potentially Partial Requirements; Large Utilities	• These customers are not full requirements customers and each has a 250 MW system or greater load • 9.5% of Total BPA Revenue • 9.7% of Total BPA Load (aMW)	• The customers' willingness to pay a substantial premium to be independent of BPA • Continued relationship erosion • Independent resource development • Other fuel choice (retail)	• These customers are supportive of the New BPA • Provide services to support the customers' independent resource development
Regional Public Customers, Partial & Potentially Partial Requirements; Agriculture & Irrigation Dominant	• These customers either are not currently full requirements or are not expected to continue to be in the future • Their economic base is heavily influenced by the agriculture industry • 0.4% of Total BPA Revenue • 0.4% of Total BPA Load (aMW)	• Large agricultural-related industrial loads are at risk if the agriculture industry is unstable • Large agricultural-related industrial loads may be threatened due to retail wheeling • CT development • Canadian power	• Target food processing industrial sites for added service • Recognize sensitive economic issues which are facing the agriculture industry and related manufacturing industries • Provide DSM products and services • Explore joint ventures on CT or other new resources

[1]The segments indicated are those for which segment strategies were developed. In future Strategic Marketing Plans, strategies will be developed for additional segments.

Table 7:

SEGMENT STRATEGY SUMMARY

Segment	*Segment Description FY 1992 % Of BPA Revenue & Load*	*Competitors & Threats To BPA's Load & To BPA's Strategic Position*	*Opportunities For BPA*
Regional Public Customers, Partial & Potentially Partial Requirements; Manufacturing Industry Dominant	• These customers either are not currently full requirements or are not expected to continue to be in the future • They serve either one major industry or have a few large manufacturing loads • The economy in these customers' service territory is largely determined, by the health of the manufacturing industry or specific plant --- • 13.2% of Total BPA Revenue • 13.9% of Total BPA Load (aMW)	• General economic conditions put large industrial loads at risk, especially if those large loads are resource-industry driven • Due to heavy reliance of one or a few large industrial loads, the local economies are at risk if the industrial load is at risk • Large industrial loads may be threatened due to retail wheeling • CT development • Canadian power	• Improve business relationship with the customers • Target large industrial sites for added service • Recognize sensitive economic issues which are facing resource-based industries and other manufacturing industries • Provide DSM products and services • Serve load growth • Explore joint ventures on CT or other new resources
Regional Public Customers, Partial & Potentially Partial Requirements; Fast Growing Load	• These customers either are not currently full requirements or are not expected to continue to be in the future • The expected load growth in these customers' service territory is faster than long-term historical rates (over 1%) • These customers have either a well-diversified or a largely residential load --- • 4.8% of Total BPA Revenue • 5.0% of Total BPA Load (aMW)	• Alternative energy suppliers and retail wheeling • Displacement of BPA purchases • Competition from natural gas for residential space heating loads • Independent resource development • Canadian power	• Provide DSM products and services • Provide resource management products and services • Serve load growth • Explore joint ventures on CT or other new resources

Table 7:

SEGMENT STRATEGY SUMMARY

Segment	*Segment Description FY 1992 % Of BPA Revenue & Load*	*Competitors & Threats To BPA's Load & To BPA's Strategic Position*	*Opportunities For BPA*
Regional Public Customers, Partial & Potentially Partial Requirements; Slow Growing Load	• These customers either are not currently full requirements or are not expected to continue to be in the future • The expected load growth in these customers' service territory is slower than long-term historical rates (under 1%) • These customers have either a well-diversified or a largely residential load • 4.1% of Total BPA Revenue • 4.5% of Total BPA Load (aMW)	• High retail rates inviting competition • Alternative energy suppliers and retail wheeling • Competition from natural gas for residential space heating loads • Independent resource development • Canadian power	• Be a supportive partner in attracting appropriate new load to the customers' service territory
Regional Public Customers, Full Requirements; Agriculture & Irrigation Dominant	• These customers buy 100% of their load requirements from BPA • Their economic base is heavily influenced by the agriculture industry • They have a large percentage of their energy sales in the irrigation sector • This segment is unique in that it purchases the majority of its power during a short period of time (mid-spring to summer) • 3.0% of Total BPA Revenue • 3.7% of Total BPA Load (aMW)	• The volatile agricultural economy • The heavy reliance of the customers on one consuming sector • The impact of an unhealthy agricultural economy on the health of other agricultural-related industries in other BPA customer segments • Canadian power	• Provide rebundled power products as an alternative to the irrigation discount • Be a supportive partner in diversifying the customers' load • Encourage efficient water use by irrigators to help fish and power

Table 7:

SEGMENT STRATEGY SUMMARY

Segment	*Segment Description FY 1992 % Of BPA Revenue & Load*	*Competitors & Threats To BPA's Load & To BPA's Strategic Position*	*Opportunities For BPA*
Regional Public Customers, Full Requirements; Manufacturing Industry Dominant	• These customers buy 100% of their load requirements from BPA • They serve either one major industry or have a few large manufacturing loads • The economy in these customers' service territory is influenced by the health of the manufacturing industry or specific plant --- • 1.8% of Total BPA Revenue • 2.0% of Total BPA Load (aMW)	• General economic conditions put large industrial loads at risk, especially resource-industry driven loads • Due to heavy reliance of one or a few large industrial loads, the local economies are at risk if the industrial load is at risk • Large industrial loads may be threatened due to retail wheeling • Canadian power	• Target large industrial sites for added service • Recognize sensitive economic issues which are facing resource-based industries and other manufacturing industries • Provide DSM products and services • Serve load growth
Regional Public Customers, Full Requirements; Fast Growing Load	• These customers buy 100% of their load requirements from BPA • The expected load growth in these customers' service territory is faster than long-term historical rates (over 1%) • These customers have either a well-diversified or a largely residential load --- • 5.1% of Total BPA Revenue • 5.3% of Total BPA Load (aMW)	• Alternative energy suppliers and retail wheeling • Competition from natural gas for residential space heating loads • Canadian power	• Improve business relationship with the customers • Provide DSM products and services • Provide resource management products and services • Serve load growth

Table 7:

SEGMENT STRATEGY SUMMARY

Segment	*Segment Description FY 1992 % Of BPA Revenue & Load*	*Competitors & Threats To BPA's Load & To BPA's Strategic Position*	*Opportunities For BPA*
Regional Public Customers, Full Requirements; Slow Growing Load	• These customers buy 100% of their load requirements from BPA • The expected load growth in these customers' service territory is slower than long-term historical rates (under 1%) • These customers have either a well-diversified or a largely residential load • 1.8% of Total BPA Revenue • 1.9% of Total BPA Load (aMW)	• High retail rates inviting competition • Alternative energy suppliers and retail wheeling • Competition from natural gas for residential space heating loads • Canadian power	• Be a supportive partner in attracting appropriate new load to the customers' service territory
Regional Public Customers; Other Federal Agencies	• These customers are federal agencies which do not fit in the other Regional Public Customers segments • The analysis for this segment has not been fully developed • 1.5% of Total BPA Revenue • 1.3% of Total BPA Load (aMW)	• To Be Developed	• To Be Developed
Direct Service Industries	• These are direct service industrial customers of BPA, both nonaluminum and aluminum producing industries • 23.2% of Total BPA Revenue • 32.5% of Total BPA Load (aMW)	• Global competition in the aluminum market • CT development, power purchases from non-BPA resources • Reduced production • Canadian power	• Acknowledge and work with the DSIs on the fluctuating economic conditions of the aluminum market • Offer unbundled products • Improve customer satisfaction • As a market segment, these loads posses unique system and operational attributes with the benefits accruing to both BPA and each plant

Table 7:

SEGMENT STRATEGY SUMMARY

Segment	*Segment Description FY 1992 % Of BPA Revenue & Load*	*Competitors & Threats To BPA's Load & To BPA's Strategic Position*	*Opportunities For BPA*
Investor-Owned Utilities, Urban	• Include Portland General Electric and Puget Sound P&L, who serve primarily urban areas in the Pacific Northwest Region • 9.1% of Total BPA Revenue • 36.5% of Wheeling Revenue • 5.2% of Total BPA Load (aMW) • 2.1% of Total BPA Load (cumulative MW)	• Self generation • NUGs • Other utility generators • Canadian power • Gas companies • Co-generation • Other WSCC transmission owners • SW and Inland SW utilities	• Market for capacity, reserves and other unbundled products and services • Growing market for power • Resource and transmission development offer potential for joint development • "In lieu" provisions create opportunity to sell power under the residential exchange so as to reduce BPA's exchange costs
Investor-Owned Utilities, Rural	• Include Montana Power, Idaho Power, and Washington Water Power, who serve primarily rural areas in the Pacific Northwest Region • 4.6% of Total BPA Revenue • 16.4% of Wheeling Revenue • 2.4% of Total BPA Load (aMW) • 0.2% of Total BPA Load (cumulative MW)	• Self generation • NUGs • Other utility generators • Canadian power • Gas companies • Co-generation • Other WSCC transmission owners • SW and Inland SW utilities	• Market for capacity, reserves and other unbundled products and services • Growing market for power • Resource and transmission development offer potential for joint development
Investor-Owned Utilities, Mixed	• Pacificorp, including Utah Power, which serves both rural and urban areas in multiple northwest states • 6.2% of Total BPA Revenue • 17.1% of Wheeling Revenue • 1.0% of Total BPA Load (aMW) • 10.3% of Total BPA Load (cumulative MW)	• Self generation • NUGs • Other utility generators • Canadian power • Gas companies • Co-generation • Other WSCC transmission owners • SW and Inland SW utilities	• Market for capacity, reserves and other unbundled products and services • Growing market for power • Resource and transmission development offer potential for joint development • Utah Power's high ASC offers the most lucrative in lieu alternative, possibly cost effective compared to other resource costs

Table 7:

SEGMENT STRATEGY SUMMARY

Segment	*Segment Description FY 1992 % Of BPA Revenue & Load*	*Competitors & Threats To BPA's Load & To BPA's Strategic Position*	*Opportunities For BPA*
Extra-Regional, Canada	• These are utility customers located in Canada • 0.7% of Total BPA Revenue • 10.5% of Wheeling Revenue • 0.0% of Total BPA Load (aMW) • 0.0% of Total BPA Load (cumulative MW)	• Canadian resource developers • Other WSCC transmission owners • Higher prices for storage rights • Loss of transmission access to Canadian reservoirs	• Increased coordination • Access to low-cost resources • Potential exchanges and other "complex" transactions • Wheeling access to other suppliers
Extra-Regional, California	• These are utility customers located in the state of California • 3.0% of Total BPA Revenue • 0.0% of Wheeling Revenue • 2.6% of Total BPA Load (aMW) • 0.2% of Total BPA Load (cumulative MW)	• Self generation • NUGs • Other utility generators • Canadian power • Gas companies • Co-generation • Other WSCC transmission owners • SW and Inland SW utilities	• Seasonal diversity opportunities • Market for summer capacity sales and exchanges • Market for firm summer power sales and exchanges • Limited market for May-June energy • Market for July-August energy • Source of winter energy through purchases and exchanges
Extra-Regional, All Other Markets	• These customers are all other extra-Pacific Northwest Region utilities • This includes utilities located in the Midwest, in Mexico, and the Southwest region • Eventually, these customers will be disaggregated into more homogenous segments by location • 0.1% of Total BPA Revenue • 0.1% of Wheeling Revenue • 0.1% of Total BPA Load (aMW) • 0.2% of Total BPA Load (cumulative MW)	• Coordination issues between BPA & WAPA • Other locationally advantaged utilities • Independent power producers • River restrictions on Missouri River • Transmission limitations • Canada [Manitoba Hydro' presence in the MAPP region]	• MAPP region - potential short and long-term power sales, storage and exchange agreements, and wheeling transactions • Southwest Power Administration - does not have enough capacity to serve all the needs of their public utility customers • Baja Norte region of Mexico - expected to need an additional 1100 MW of generating capacity by the year 2000

PRODUCTS

One of the most fundamental aspects of the Marketing Plan is the unbundling of BPA service into separate products. Unbundled products were developed based primarily on differences in quality of service the customers may desire from the products they purchase. The products were unbundled to enable a customer to tailor BPA service to meet its individual needs. **Table 8**, *Benefits Table*, summarizes the benefits of unbundling products. The *Definition of Terms* section explain the terms used in describing unbundled products. The *Unbundled Products & Services, Power & Transmission* section explains the unbundled products. (Because the conservation program is just beginning to be reinvented, conservation products are still being developed.)

BPA traditionally has met the needs of different customer classes by providing *different* packages of service at the *same* price. BPA can continue to meet customer needs through rebundling of products. Products can be rebundled into packages either by BPA or through negotiations with individual customers. Except as noted below, this will result in *different* packages of service at *different* prices.

BPA has not lost sight of its mission to provide low-cost power to its customers. BPA has identified two cost-based firm requirements packages that meet BPA's obligation to provide firm power requirements service to its customers to supplement their own resources: a "Full Requirements" package and a "Partial Requirements" package. The Full Requirements package is designed to provide wholesale firm power and transmission services for a customer operating only as a distribution utility or for a direct service industrial customer that does not participate in the wholesale power market (i.e., a customer that comes to BPA for all of its service needs other than resource development). Like the current Computed Requirements service, the Partial Requirements package is designed to meet a customer's firm power requirements that exceed its dedicated resources. This package is intended either for a utility customer operating as a distribution utility and in the wholesale power market, or for a direct service industrial customer operating in the wholesale power market. These two packages would be priced *identically*. These packages will provide the customer a base from which to assess the array of choices available in the electric power marketplace.

An important consideration in the design of the Full and Partial Requirements packages was the allocation of resource development risk among BPA, the purchaser, and other BPA customers. These packages do not require customers to make resource development choices at a particular point in time. Instead, customers will make an annual commitment for power with 4.5-year notice. This affords BPA the certainty of load obligations with sufficient time to adjust resource acquisition needs or market any surplus resources.

In addition to the Full and Partial Requirements packages, this Marketing Plan includes descriptions of other proposed packages to illustrate how customers could combine products to meet their exact needs. For example, the "Actual Computed Requirements without Automatic Generation Control" package shows the combination of products BPA

currently provides to customers operating their own resources in BPA's control area and purchasing resources on the wholesale market. Another package, the "Sustained Peaking Support Energy" package, is designed to accommodate customers having large amounts of instantaneous capacity from their own resources, but a shortage of sustained capacity from those resources. Other examples of packages are shown in the *Explanation of Packages, Power* section, the *Power Product Line Build-Ups* section, the *Package Composition, Power* section and the *Package Composition, Transmission* section.

The products will be phased in over time. The *Products & Services List* shows the proposed implementation of many products in 1995 and 1997. BPA will meet with customers to test this initial prioritization and customer interest in products and packages.

Each product imposes costs on BPA's system. Understanding the cost of providing various products will allow BPA to develop packages to meet the individual needs of each of its customers. However, the availability of products will play a major role in pricing. For example, many of the services customers may need to integrate resources are provided from the flexibility of the hydroelectric system. The amount of flexibility is limited. If prices of flexibility services were based on the cost of *existing* resources or if BPA continued to provide these services at no additional charge, the demand would exceed the supply. Therefore, under the Marketing Plan, BPA will price flexibility products to recover the cost of *new* resources needed to provide them. In the past, since the resources providing flexibility services have other uses in the power system (e.g., firm energy or sustained peaking capacity), BPA has been reluctant to offer such services. Under the Marketing Plan, these services will be offered on a competitive basis at a price based on the cost of replacing resources.

Table 8:

BENEFITS TABLE

Product or Service Packaging Objectives	*Benefits to Customers of Redesigned Products*	*Benefits to BPA of Redesigned Products*	*Long Term Regional Benefits*
1. Unbundled Product Line	• Purchase options • Planning flexibility • Flexibility in use of products • Choices that allow customer development of generation	• Revenue capture • Customer Satisfaction • System Optimization	• More efficient and less regulatory BPA • Power purchases tailored to precise customer needs
2. Traceable Product Costs	• Efficiency in pricing • Eliminate "beneficiary-focused" based cross-subsidization	• Full recovery of costs • Enable custom product design • Empower BPA staff to provide customer service	• Increased productivity for users and providers of electricity
3. Competitive Pricing	• Reflects costs to actual users • Choice of service providers • Reflect market realities before unplanned market forces impact competitiveness	• Prioritize use of flexibility in the system • Incentives for efficient operation	• Provide information to consumers on value of electric power used • Allows users and providers to make smart investments
4. Internal and External (Marketplace) Planning Incentives	• Dramatically increase choice and flexibility • Open access to transmission system	• Optimize returns consistent with legislative objectives	• Capture value of local investments • Create incentives for efficient use of electric power

DEFINITION OF TERMS

Power

Product

A product is intended to represent the least common denominator for sales or services. (In the broadest sense, the word is used to denote products, services, and features.)

Example: The smallest increment of firm power "Monthly Firm Energy" was limited to the following:

- A block of monthly firm energy,
- Delivered to the customer, without separate transmission charge, at existing points of delivery,
- Shaped at BPA's discretion, but generally in Light Load Hours

Feature

A feature is like a product except it cannot be sold on its own merits. To acquire a feature, the customer must also acquire an associated product.

Example: To take advantage of the Heavy Load Hour Energy Entitlement feature, the customer must purchase the Monthly Firm Energy product from BPA.

Package

A package is a grouping of products designed to address customer needs. It is not necessarily designed to be a complete-service package.

Service Package

A service package is a complete-service option based on BPA's current understanding of the needs and desires of the customers. Service packages were developed to give the customer an alternative to purchasing unbundled products.

DEFINITION OF TERMS

Transmission

Wheeling Services

Point-to-Point: **Point-to-point service involving a single point of interconnection (POI) and a single point of delivery (POD).**

Network: **Contract service using multiple POIs and multiple PODs. This product is required to serve multiple customers.**

Curtailment Classes

Nonfirm: **Transmission provided without contract on an as-available basis: The first class of service to be curtailed.**

Interruptible: **The second class of service to be curtailed. Interruptions are limited to the numbers of interruptions permitted or the amount of energy.**

Firm: **The last class of service curtailed in case of emergency.**

Note: See Facility Planning Criteria below for distinction between Main Grid and Intertie firm transmission.

Facility Planning Criteria

N-0: **A planning criterion for facility construction based on maintaining transmission with all facilities in service while meeting BPA's reliability criteria.**

Construction planning for Intertie facilities is based on N-0 criteria.

N-1: **A planning criterion for facility construction based on maintaining transmission with the most limiting facility out of service while meeting BPA's reliability criteria.**

Construction planning for Main Grid facilities is based on N-1 criteria.

UNBUNDLED PRODUCTS AND SERVICES

Power and Transmission

Ref #	*Title*	*Explanation*
Power		
A1	Monthly Firm Energy	Monthly firm energy, delivered at existing BPA points of delivery: Scheduled at BPA's discretion (usually on Light Load Hours) at delivery rates up to 400% of the monthly average amount of energy.
A2	Right to Determine LLH Shape	Light Load Hour Capacity: The Utility schedules the monthly firm energy on Light Load Hours, in equal daily amounts.
A3	Right to Determine HLH Shape	Firm Capacity for Heavy Load Hour delivery.
A4	Planned Load Change - cap	Changes the customer's take-or-pay capacity obligation to reflect more recent forecasts of loads.
A5	Planned Load Change - eny	Changes the customer's take-or-pay energy obligation to reflect more recent forecasts of loads.
A6	Unanticipated Ld Grwth - cap	Firm capacity to serve firm loads in excess of estimated needs.
A7	Unanticipated Ld Grwth - eny	Firm energy to serve firm loads in excess of estimated needs.
A8	Back-up Capacity	Firm capacity for scheduling customer's system problems.
A9	Back-up Energy	Firm energy for scheduling customer's system problems.
A10	Emergency Power	Firm capacity and/or energy for scheduling customer's system stability problems.
A11	Priority Nonfirm Energy	The highest quality nonfirm energy.
A12	Nonfirm Energy	Energy in excess of the water and energy needs of the Federal System (includes such needs as refill, fish requirements and recreation).
A13	Daily Peaking Energy	Heavy Load Hour Peaking energy with a rolling 24-hour replacement. Can be used to supplement daytime monthly firm energy needs if necessary.
A14	HLH Cap. w/ Peaking Eny	The first four to ten hours of Heavy Load Hour Peaking Energy.
A15	Extended Pkg Energy	Peaking Energy in excess of the first 10 hours (see A14).
A16	Excess Rate of Rtn for Pk Repl	The right to replace peaking energy during Light Load Hours in excess of 60% of a pre-defined Heavy Load Hour Capacity amount.
A17	LLH Peaking Energy	Peaking energy provided during Light Load Hours (for more than 4 hours); replacement of the energy must be made within 24 hours. (Can be used for Forced Outage situations.)
A18	Option to purch add'l eny	Ability to purchase additional energy for any reason. (for partial req'ts cust.)
A19	Option to purch add'l cap	Ability to purchase additional capacity for any reason. (for partial req'ts cust.)
A20	Capacity Reservation	A DSI's right to increase Operating Demand to Contract Demand level.
A21	Surplus Firm cap	Surplus firm capacity power products for scheduling utilities.
A22	Surplus Firm eny	Surplus firm energy power products for scheduling utilities.
B1	Basic Load Following	Load following service assuming normal load shapes.
B2	Load Following for Ecc. Lds	Load following service for loads with radical shapes.
B3	Supplemental Control Area Reserves	BPA provides controlling utilities a limited amount of reserves to supplement reserves maintained by the utility.
B4	Control Area Reserve Service	BPA takes on the Operating Reserve obligation for the customer's resources.
B5	Suppl Oper. Reserve - 1 hr	One hour of non-Spinning Operating Reserve (as defined by the Northwest Power Pool).
B6	Suppl Oper. Reserve - 4 hr	Up to four hours of non-Spinning Operating Reserve.
C1	Presch. Delivery - Incr	The ability to increase preschedule deliveries for an hour with 30-minute prior notice.
C2	Presch. Delivery - Decr	The ability to decrease preschedule deliveries for an hour with 30-minute prior notice.
C3	Presch. Receipt - Incr	The ability to increase preschedule receipts for an hour with 30-minute prior notice.
C4	Presch. Receipt - Decr	The ability to decrease preschedule receipts for an hour with 30-minute prior notice.

UNBUNDLED PRODUCTS AND SERVICES

Power and Transmission

Ref #	*Title*	*Explanation*
D1	Storage	Storage of water in the Federal System, accounted in terms of energy units. Some storage arrangements are custom-designed.
D2	Generation Guarantee	Back-up services for firm capability (currently provided through Service and Exchange Agreements or by negotiated fee).
D3	Annual Energy Shaping	The ability to shape monthly firm energy within a year.
D4	Flexibility	Limited planned firm storage or advance service during an Operating Year.
D5	Extended Return of Pk Repl	The ability to extend a peaking replacement obligation beyond 24 hours.
D6	Power Disposal	BPA will dispose of a customer's power at a price determined by BPA.
D7	Power Purchase	BPA will purchase power for a customer, at the customer's request.
D8	Scheduled Purch Reduction	The right to displace purchases of capacity or energy purchases from BPA. (This concept is equivalent to the current availability charge for energy or the demand ratchet for capacity.)
D9	Unrealized Firm Load - cap	The ability to avoid the take-or-pay obligation associated with capacity, if loads come in below estimates.
D10	Unrealized Firm Load - eny	The ability to avoid the take-or-pay obligation associated with energy, if loads come in below estimates.
D11	HLH Energy Entitlement	The ability to move monthly firm energy entitlement from Light Load Hours to Heavy Load Hours.
D12	Weekly Eny Shaping	The ability to shape weekly amounts of energy among days of the week.
D13	Monthly Eny Shaping	The ability to shape monthly amounts of energy among weeks of the month.
D14	Scheduling Agent	BPA will act as a Scheduling Agent at a non-scheduling customer's request.
D15	Shaping for Customer Resources	Light Load Hour to Heavy Load Hour shaping for customer resources.
E1	Harmonic Control	BPA will detune system harmonics if the customer doesn't meet system standards.
E2	Voltage (VAR) Support	BPA will control VAR flow within a standard tolerance if the customer doesn't meet system standards.
E3	Volt. Support - Close Toler.	BPA will control VAR flow within a tolerance closer than a standard tolerance if requested by the customer.
E4	Subtransmission of Federal Power	Transmission and transformation service to move Federal power from main grid to new customer points of delivery.
E7	Load Shedding	Arming a load shedding scheme as required to satisfy the purchaser's load shedding obligation.
E8	Generator Dropping	Dropping generation as required to satisfy the purchaser's generator dropping obligation.
F1	Environmental Protection	BPA will plan in order to avoid a hazardous waste accident and will take the steps necessary to implement the plan. (This may be a mandatory product, if shared facilities require some implementation steps.)
F2	Environmental Clean-Up	BPA will clean up a site having shared facilities, in the event of a hazardous waste accident. (This may be a mandatory product, if clean-up is not voluntarily undertaken.)
G1	Operating Resv. (sold to BPA)	Generation or load dropping provided to BPA for use up to 1 hour. (BPA will provide up to 5-minute notice.)
G2	Xmn/Stability Resv. (to BPA)	Load dropping provided to BPA for up to 30 minutes with no advance notice from BPA when used.
G3	Load Buy-Down (sold to BPA)	Load dropping provided to BPA for use at BPA's discretion (e.g., could be for up to 2 weeks on either 20-minute or 24-hour advance notice).

UNBUNDLED PRODUCTS AND SERVICES

Power and Transmission

Ref #	*Title*	*Explanation*
Transmission		
L1	Point-to-Point Firm	Point-to-point service (N-1 Criteria)
L2	Point-to-Point Interruptible	Point-to-point service (N-0 Criteria)
L3	Network Firm	Multiple point-to-point service (N-1 Criteria)
L4	Network Interruptible	Multiple point-to-point service (N-0 Criteria)
L5	Network Nonfirm	As-available Xmn without specified points
M1	Intertie Firm	Firm Xmn on an intertie (N-0 Criteria)
M2	Intertie Nonfirm	As-available Xmn on an intertie
M3	Capacity Ownership	Ownership-like rights to new BPA facilities (available for Intertie only)
N1	3rd Party Wheeling	Permits third-party wheeling
N2	SubXmn (Wheeling of NonFed Power)	Low voltage step-down transformation and Xmn
N3	Transfer	System-to-load wheeling with load following.
N4	Interconnection	Service to integrate customer generation into BPA's Main Grid.
N5	Reservation	Option guaranteeing future rights to transmission capacity.
N6	Transmission ROW	Use of BPA right-of-way for utility's own transmission.
N7	Other ROW	Use of ROW for non-electric utility services.

EXPLANATION OF PACKAGES
Power

Package	*Title*	*Explanation*
Package 1	Full Requirements - w/o Options	***Service Package:*** BPA serves customer's total load, providing shaping, smoothing and substation support.
Package 2	Full Requirements - w/Resource Support	***Service Package:*** BPA serves customer's load in excess of resource output, providing shaping, smoothing and substation support. BPA supports and manages resource operation. Customer may sell reserve products to BPA.
Package 3	Full Requirements - w/Options	***Service Package:*** BPA serves customer's load in excess of resource output, providing shaping and smoothing. BPA supports/manages customer resource operation. Customer makes own investments in subtransmission facilities and may sell reserve products to BPA.
Package 4	Partial Requirements - w/o Options	***Service Package:*** Service for a customer who purchases a portion of its load from BPA. Customer supports/manages its own resource operation.
Package 5	Computed Requirements - Planned	***Service Package:*** For comparison purposes, the build-up of the current "Planned Computed Requirements" service, using new products and services, has been included.
Package 6	Computed Requirements - Actual w/o AGC	***Service Package:*** For comparison purposes, the build-up of the current "Actual Computed Requirements" service for customers in BPA's control area, using new products and services, has been included.
Package 7	LLH Energy (e.g., Puget)	***Package:*** Service for scheduling customers wanting a block of Firm Energy which they can preschedule in LLH. Customers may want some shaping services.
Package 8	Capacity I (e.g., PP&L)	***Package:*** Peaking Capacity with short notice requirements and special replacement features.
Package 9	Capacity II (e.g., PGE)	***Package:*** Peaking with various return options, schedule change capability, and dispatching services for loads and resources.
Package 10	Seasonal Firm Power (e.g., MPC)	***Package:*** Shaped Low Risk Power with Winter Season Constraints and options to increase monthly power. Access to Surplus power and nonfirm energy.
Package 11	Sustain Peak Support Eny (e.g., SCL/TCL)	***Package:*** Firm power (without HLH Capacity) with some Short Term Reserves for customers with large amounts of instantaneous capacity but a shortage of sustained capacity.
Package 12	Partial Requirements w/Options	***Service Package:*** Basic Partial Requirements Service with a listing of all the additional options available.

POWER PRODUCT LINE BUILD-UPS

Explanation Of Terms

Service Shaped Hourly

Energy

This is the basic energy component of service.

Shaping

These are the basic shaping components of service providing the customer with the rights to have BPA shape their service to load, hourly. (A customer would tell BPA 4.5 years in advance how much power the customer wants to purchase each day of the year. This amount could change year by year to adjust to changes in the customer's net requirement for power due to changes in loads or customer resources.)

Service Smoothed To Forecast

These are products needed to ensure the customer's service will be matched instantaneously to its load.

Other Services

Service assumes the customer load meets BPA standards for system harmonics and for power factor. Service also assumes the customer participated in investments to protect point of delivery substations, including customer-owned equipment, from the risk of potential contamination from hazardous wastes and the customer shares in the cost of cleaning up accidents.

Transmission

The basic energy component of service will be provided at existing points of delivery. Some low-voltage transformation and transmission may be needed to move Federal power from the Main Grid to new points of delivery on the customer's distribution system.

Resource Services

Customers with generating resources and no generation-control capability will need resource services from BPA (or another utility) to manage their resource operation.

POWER PRODUCT LINE BUILD-UPS

Explanation Of Terms

Standard Considerations

Standard considerations are products which are common to most packages. Generally, these are unilateral products: Services the purchaser will need, which will be provided by BPA by default, if not obtained elsewhere.

In some cases (e.g., for Direct Service Industry customers), reserves will be a basic component of a package. They are shown under standard considerations because they are sold *to* BPA.

POWER PRODUCT LINE BUILD-UPS

Package 1
Full Requirements Service

Service Shaped Hourly

Energy

A1 Monthly Firm Energy

Shaping

A2 Right to Determine LLH Shape
A3 Right to Determine HLH Shape
D11 HLH Energy Entitlement
D12 Weekly Energy Shaping

Service Smoothed To Forecast

A4/5 Planned Load Change - Capacity/Energy
A6/7 Unanticipated Load Growth - Capacity/Energy
B1 Basic Load Following
D9/10 Unrealized Firm Load - Capacity/Energy
D13 Monthly Energy Shaping

Other Services

Transmission - None
Resource Services - None

Standard Considerations

E1 Harmonic Control - (Unilateral)
E2 Voltage (VAR) Support - (Unilateral)
F1 Environmental Protection - (Unilateral)
F2 Environmental Cleanup - (Unilateral)
G2 Transmission/Stability Reserves (to BPA) - (Basic for DSIs)

POWER PRODUCT LINE BUILD-UPS

Package 2
Full Requirements Service – With Resource Support

Service Shaped Hourly

Energy

A1 Monthly Firm Energy

Shaping

A2 Right to Determine LLH Shape
A3 Right to Determine HLH Shape
D11 HLH Energy Entitlement
D12 Weekly Energy Shaping

Service Smoothed To Forecast

A4/5 Planned Load Change - capacity/energy
A6/7 Unanticipated Load Growth - capacity/energy
B1 Basic Load Following
D9/10 Unrealized Firm Load - capacity/energy
D13 Monthly Energy Shaping

Other Services

Transmission

E4 Subtransmission of Federal power - *(Optional)*

Resource Services

B4 Control Area Reserve Service
D2 Generation Guarantee
D14 Scheduling Agent - *(Optional)*

Standard Considerations

E1 Harmonic Control - *(Unilateral)*
E2 Voltage (VAR) Support - *(Unilateral)*
F1 Environmental Protection - *(Unilateral)*
F2 Environmental Cleanup - *(Unilateral)*
G1 Operating Reserve (sold to BPA) - *(Optional)*
G2 Transmission/Stability Reserves (to BPA) - *(Basic for DSIs)*
G3 Load Buy-Down (sold to BPA) - *(Optional)*

POWER PRODUCT LINE BUILD-UPS

Package 4
Partial Requirements Service

Service Shaped Hourly

Energy

A1 Monthly Firm Energy

Shaping

A2 Right to Determine LLH Shape
A3 Right to Determine HLH Shape
D11 HLH Energy Entitlement

Service Smoothed To Forecast

B1 Basic Load Following

Other Services

Transmission - None
Resource Services - None

Standard Considerations

E1 Harmonic Control - *(Unilateral)*
E2 Voltage (VAR) Support - *(Unilateral)*
F1 Environmental Protection - *(Unilateral)*
F2 Environmental Cleanup - *(Unilateral)*
G2 Transmission/Stability Reserves (to BPA) - *(Basic for DSIs)*

POWER PRODUCT LINE BUILD-UPS

Package 6
Partial Requirements
Actual Computed Requirements Without AGC

Service Shaped Hourly

Energy

A1 Monthly Firm Energy

Shaping

A2 Right to Determine LLH Shape
A3 Right to Determine HLH Shape
D11 HLH Energy Entitlement
D12 Weekly Energy Shaping

Service Smoothed To Forecast

A4/5 Planned Load Change - Capacity/Energy
A6/7 Unanticipated Load Growth - Capacity/Energy
B1 Basic Load Following
C1-4 Preschedule Changes
D3 Annual Energy Shaping
D4 Flexibility
D9/10 Unrealized Firm Load - Capacity/Energy
D13 Monthly Energy Shaping

Surplus Services

A10 Emergency Power - *(Optional)*
A11 Priority Nonfirm Energy - *(Optional)*
A13 Daily Peaking Energy
A22 Surplus Firm Energy - *(Optional)*
D6/7 Power Disposal and Purchase - *(Optional)*
D8 Scheduled Purchase Reduction

Other Services

Transmission

E4 Subtransmission of Federal power - *(Optional)*

Resource Services

B4 Control Area Reserve Service

POWER PRODUCT LINE BUILD-UPS

Package 6
Partial Requirements
Actual Computed Requirements Without AGC

Standard Considerations

E1	Harmonic Control - *(Unilateral)*
E2	Voltage (VAR) Support - *(Unilateral)*
F1/2	Environmental Protection/Cleanup - *(Unilateral)*
G1	Operating Reserve (sold to BPA) - *(Optional)*
G2	Transmission/Stability Reserves (to BPA) - *(Basic for DSIs)*
G3	Load Buy-Down (sold to BPA) - *(Optional)*

POWER PRODUCT LINE BUILD-UPS

Package 11
Partial Requirements
Sustained Peaking Support Energy

Service Shaped Hourly

Energy

A1 Monthly Firm Energy

Shaping

A2 Right to Determine LLH Shape
D11 HLH Energy Entitlement
D12 Weekly Energy Shaping

Service Smoothed To Forecast

A5 Planned Load Change - energy - (Optional)
A7 Unanticipated Load Growth - energy - (Optional)
B1 Basic Load Following
D3 Annual Energy Shaping - (Optional)
D4 Flexibility - (Optional)
D8 Scheduled Purchase Reduction - (Optional)
D13 Monthly Energy Shaping - (Optional)

Other Services

Transmission - None Identified

Resource Services

G1 Operating Reserve (sold to BPA)

Standard Considerations

E1 Harmonic Control - (Unilateral)
E2 Voltage (VAR) Support - (Unilateral)
F1 Environmental Protection - (Unilateral)
F2 Environmental Cleanup - (Unilateral)
G2 Transmission/Stability Reserves (to BPA) - (Basic for DSIs)

PACKAGE COMPOSITION
Power

			Package 1	*Package 2*	*Package 3*	*Package 4*	*Package 5*	*Package 6*	*Package 7*	*Package 8*	*Package 9*	*Package 10*	*Package 11*	*Package 12*	
			Full Req'ts w/oOptions	*Full Req'ts w/Resc*	*Full Req'ts w/Options*	*Partial Req'ts w/oOptions*	*Comp. Req'ts Planned*	*Comp. Req'ts Actual w/o AGC*	*LLH Energy (eg. Puget)*	*Cap-I (eg. PP&L)*	*Cap-II (eg. PGE)*	*Seasonal Firm Pwr (eg. MPC)*	*Sustain Peak Support Eny (eg. Seattle/ Tacoma)*	*Partial Req'ts w/Options*	
A1	Monthly Firm Energy	Mo. eny at existing POD. Sched at BPA discret'n (usually LLH)	Basic	Basic	Basic	Basic	Basic	Basic	Basic			Basic	Basic	Basic	A1
A2	Right to Determine LLH Shape	LLH Capacity. Utility schedules LLH, equal daily amts	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	A2
A3	Right to Determine HLH Shape	Firm Capacity for Heavy Load Hour delivery	Basic	Basic	Basic	Basic	Basic	Basic		Basic	Basic	Basic		Basic	A3
A4	Planned Load Change - cap	Modifies take-or-pay obligation for changes in cap loads	Basic	Basic	Basic		Basic	Basic						Opt.	A4
A5	Planned Load Change - eny	Modifies take-or-pay obligation for changes in eny loads	Basic	Basic	Basic		Basic	Basic					Opt.	Opt.	A5
A6	Unanticipated Ld Grwth - cap	Firm cap for firm loads in excess of estimated needs	Basic	Basic	Basic		Opt.	Basic						Opt.	A6
A7	Unanticipated Ld Grwth - eny	Firm eny for firm loads in excess of estimated needs	Basic	Basic	Basic		Opt.	Basic					Opt.	Opt.	A7
A8	Back-up Capacity	Firm cap for scheduling customer's system problems												Opt.	A8
A9	Back-up Energy	Firm eny for scheduling customer's system problems												Opt.	A9
A10	Emergency Power	Firm cap/eny for sched. cust, for system stability.					Opt.	Opt.						Opt.	A10
A11	Priority Nonfirm Energy	Highest quality nonfirm						Opt.	Opt.	Opt.	Opt.	Opt.		Opt.	A11
A12	Nonfirm Energy	Eny above Fed Sys water/eny needs (refill/fish/rec/etc.)							Opt.	Opt.	Opt.	Opt.		Opt.	A12
A13	Daily Peaking Energy	HLH peak eny with 24-hr repl. (if mo. firm eny is used up)					Basic	Basic							A13
A14	HLH Cap w/ Peaking Eny	'4-10' The first 4 to 10 hrs of HLH Peaking Eny								Basic	Basic			Opt.	A14
A15	Extended Pkg Energy	>10' HLH Peaking Eny in excess of first 10 hrs									Opt.			Opt.	A15
A16	Excess Rate of Rtn for Pk Repl	Rt to repl. Pk Eny during LLH above 60% of HLH Cap.								Basic	Opt.			Opt.	A16
A17	LLH Peaking Energy	Peaking Eny during LLH (>4 hrs); repl. w/in 24 hrs								Basic	Opt.			Opt.	A17
A18	Option to purch add'l eny	Additional eny for partial req'ts cust for any reason							Opt.	Opt.	Opt.	Opt.		Opt.	A18
A19	Option to purch add'l cap	Additional cap for partial req'ts cust for any reason							Opt.	Opt.	Opt.	Opt.		Opt.	A19
A20	Capacity Reservation	DSI's right to increase Op. Demand to Contr. Demand		(Option-DSI)	(Option-DSI)		(Option-DSI)	(Option-DSI)	(Option-DSI)			(Option-DSI)	(Option-DSI)	Opt.	A20
A21	Surplus Firm cap	Surplus Power Product for scheduling utilities - cap						Opt.	Opt.	Opt.	Opt.	Opt.		Opt.	A21

Basic: Necessary products
Potential: Products needed by some customers.
Optional: Products wanted by some customers. (Not shown in the Xmn Matrix)
Unilateral. Services customer will need; if not obtained elsewhere, BPA will provide by default.

PACKAGE COMPOSITION
Power

			Package 1	*Package 2*	*Package 3*	*Package 4*	*Package 5*	*Package 6*	*Package 7*	*Package 8*	*Package 9*	*Package 10*	*Package 11*	*Package 12*	
			Full Req'ts w/oOptions	*Full Req'ts w/Resc*	*Full Req'ts w/Options*	*Partial Req'ts w/oOptions*	*Comp. Req'ts Planned*	*Comp. Req'ts Actual w/o AGC*	*LLH Energy (eg. Puget)*	*Cap-I (eg. PP&L)*	*Cap-II (eg. PGE)*	*Seasonal Firm Pwr (eg. MPC)*	*Sustain Peak Support Eny (eg.Seattle/ Tacoma)*	*Partial Req'ts w/Options*	
A22	Surplus Firm eny	Surplus Power Product for scheduling utilities - eny						Opt.	Opt.	Opt.	Opt.	Opt.		Opt.	A22
B1	Basic Load Following	Load following assuming normal load shapes	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	Basic	B1
B2	Load Following for Ecc. Lds	Ld following for loads w/radical shape			Opt.						Opt.			Opt.	B2
B3	Suppl. Control Area Reserves	Ltd amt of resv to supplement resv maintained by util													B3
B4	Control Area Reserve Service	BPA takes on Operating Resv obligat'n for cust resc		Basic	Opt.		Opt.	Basic			Opt.			Opt.	B4
B5	Suppl Oper. Reserve - 1 hr	Non-Spinning Operating Resv (1 hr)									Opt.			Opt.	B5
B6	Suppl Oper. Reserve - 4 hr	Non-Spinning Operating Resv (4 hr)													B6
C1	Presch. Delivery - Incr	Incr preschedule delivery: 30-min. notice					Basic	Basic		Basic	Opt.			Opt.	C1
C2	Presch. Delivery - Decr	Decr preschedule delivery: 30-min. notice					Basic	Basic		Basic	Opt.			Opt.	C2
C3	Presch. Receipt - Incr	Incr preschedule receipt: 30-min. notice						Basic		Basic	Opt.			Opt.	C3
C4	Presch. Receipt - Decr	Decr preschedule receipt: 30-min. notice						Basic		Basic	Opt.			Opt.	C4
D1	Storage	Water stored, accnt'd in eny units - (numerous types)												Opt.	D1
D2	Generation Guarantee	Back-up for firm capability: ('Serv and Exch' or 'fee')		Basic	Opt.									Opt.	D2
D3	Annual Energy Shaping	Shape mo. firm eny within a year.					Basic	Basic	Opt.				Opt.	Opt.	D3
D4	Flexibility	Ltd planned firm stor/advance service during Op. Yr.					Basic	Basic					Opt.	Opt.	D4
D5	Extended Return of Pk Repl	Rtn-periods > 24 hrs for cap. w/o firm eny								Basic	Opt.			Opt.	D5
D6	Power Disposal	Dispose of customer's power at a BPA-stated price						Opt.						Opt.	D6
D7	Power Purchase	Short-term purchases of power for customers						Opt.						Opt.	D7
D8	Scheduled Purch Reduction	Rt to displace purch of cap/eny (avail.chg or ratch).					Basic	Basic					Opt.	Opt.	D8
D9	Unrealized Firm Load - cap	Downward flexibility of cap from BPA	Basic	Basic	Basic			Basic						Opt.	D9
D10	Unrealized Firm Load - eny	Downward flexibility of eny from BPA	Basic	Basic	Basic			Basic						Opt.	D10

Basic: Necessary products.
Potential: Products needed by some customers.
Optional: Products wanted by some customers. (Not shown in the Xmn Matrix)
Unilateral: Services customer will need; if not obtained elsewhere, BPA will provide by default.

PACKAGE COMPOSITION
Power

			Package 1	*Package 2*	*Package 3*	*Package 4*	*Package 5*	*Package 6*	*Package 7*	*Package 8*	*Package 9*	*Package 10*	*Package 11*	*Package 12*	
			Full Req'ts w/oOptions	*Full Req'ts w/Resc*	*Full Req'ts w/Options*	*Partial Req'ts w/oOptions*	*Comp. Req'ts Planned*	*Comp. Req'ts Actual w/o AGC*	*LLH Energy (eg. Puget)*	*Cap-I (eg. PP&L)*	*Cap-II (eg. PGE)*	*Seasonal Firm Pwr (eg. MPC)*	*Sustain Peak Support Eny (eg.Seattle/ Tacoma)*	*Partial Req'ts w/Options*	
D11	HLH Eny Entitlement	Move energy entitlement from LLH to HLH	Basic	Basic	Basic	Basic	Basic	Basic				Basic	Basic	Basic	D11
D12	Weekly Eny Shaping	Shape energy among days of the week	Basic	Basic	Basic		Basic	Basic	Basic			Basic	Basic	Opt.	D12
D13	Monthly Eny Shaping	Shape energy among weeks of the month	Basic	Basic	Basic		Basic	Basic	Opt.			Basic	Opt.	Opt.	D13
D14	Scheduling Agent	Act as Sched. Agent for non-sched customers		Opt.	Opt.										D14
D15	Shaping for Cust Resources	LLH to HLH Shaping for Customer Resources							Opt.	Opt.	Opt.				D15
E1	Harmonic Control	Detune system harmonics	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	E1
E2	Voltage (VAR) Support	Control VAR flow within Standard Tolerance	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	E2
E3	Volt. Support - Close Toler.	Controlling VAR flow with closer tolerance													E3
E4	Subtransmission of Fed. Power	Xmn and Xformat'n: Fed. pwr from main grid to new cust POD		Opt.	Opt.		Opt.	Opt.						Opt.	E4
E7	Load Shedding	Arm load shedding scheme to satisfy purchaser's obligation												Opt.	E7
E8	Generator Dropping	Drop generation to satisfy purchaser's obligation												Opt.	E8
F1	Environmental Protection	Planning against hazardous waste accident.	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	F1
F2	Environmental Clean-Up	Cleanup of hazardous waste accident.	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral	F2
G1	Operating Resv. (sold to BPA)	BPA purchase of 1-hr gen. or load-dropping (5-min notice)		Opt.	Opt.		Opt.	Opt.	Opt.	Opt.	Opt.	Opt.	Basic	Opt.	G1
G2	Xmn/Stability Resv. (to BPA)	BPA purchase of 30-min load-dropping (no notice)	(Basic DSI)	Opt. (Basic-DSI)	Opt. (Basic-DSI)	(Basic-DSI)	Opt. (Basic-DSI)	Opt. (Basic-DSI)	Opt. (Basic-DSI)	Opt.	Opt.	Opt. (Basic-DSI)	Opt. (Basic-DSI)	Opt. (Basic-DSI)	G2
G3	Load Buy-Down (to BPA)	BPA purch. of load drop (eg, 2-wk ld-drop; 20min or 24hr notice)		Opt.	Opt.		Opt.	Opt.	Opt.	Opt.	Opt.	Opt.	Opt.	Opt.	G3

Basic: Necessary products.
Potential: Products needed by some customers.
Optional: Products wanted by some customers. (Not shown in the Xmn Matrix)
Unilateral: Services customer will need; if not obtained elsewhere, BPA will provide by default.

PACKAGE COMPOSITION

Transmssion

			Package 1	*Package 2*	*Package 3*	*Package 4*	*Package 5*	*Package 6*	*Package 7*	*Package 8*	
			Gen Publics Mid-Col	*Gen Publics Other*	*Non-Gen Publics & Federal Agencies*	*DSI*	*IOU*	*Ex Reg Calif (w / Canada)*	*Small NUG*	*Large NUG*	
L1	Point-to-Point Firm	Point-to-point service (N-1 Criteria)		Potential		Potential	Potential	Basic	Basic		L1
L2	Point-to-Point Interruptible	Point-to-point service (N-0 Criteria)					Potential				L2
L3	Network Firm	Multiple point-to-point service (N-1 Criteria)	Basic	Basic			Basic	Basic		Basic	L3
L4	Network Interruptible	Multiple point-to-point service (N-0 Criteria)									L4
L5	Network Nonfirm	As-available Xmn without specified points	Basic	Basic			Potential	Basic			L5
M1	Intertie Firm	Firm Xmn on an intertie (N-0 Criteria)		Potential			Basic	Basic			M1
M2	Intertie Nonfirm	As-available Xmn on an intertie	Basic	Potential			Basic				M2
M3	Capacity Ownership	Ownership-like rights to new BPA facilities (available for Intertie only)		Potential			Potential				M3
N1	3rd Party Wheeling	Permits third-party wheeling	Potential	Potential			Potential				N1
N2	Subtransmission (Wheeling of NonFederal Power)	Low voltage step-down transformation and Xmn		Potential	Basic	Potential	Potential		Basic	Basic	N2
N3	Transfer	System-to-load wheeling with load following								Basic	N3
N4	Interconnection	Service to integrate customer generation into BPA's Main Grid					Potential		Basic	Basic	N4
N5	Reservation	Option guaranteeing future rights to Xmn capacity									N5
N6	Transmission ROW	Utility can use BPA right of way for own Xmn									N6
N7	Other ROW	Use of ROW for non electric utility services									N7
B4	Control Area Service	See Power B4		Potential		Potential			Basic	Basic	B4
D2	Generation guarantee	See Power D2		Potential		Potential			Basic	Basic	D2
D14	Scheduling agent	See Power D14		Potential		Potential			Basic	Basic	D14
E2	Voltage (VAR) Support	See Power E2	Unilateral	Unilateral	Unilateral	Unilateral	Unilateral		Basic	Basic	E2
E8	Generation dropping	See Power E8		Potential		Potential			Basic	Basic	E8

Basic: Necessary products.
Potential: Products needed by some customers.
Optional: Products wanted by some customers. (Not shown in the Xmn Matrix)
Unilateral: Services customer will need; if not obtained elsewhere, BPA will provide by default.

PRODUCTS & SERVICES LIST BY PHASE

PHASE 1: Products & Services

(Products and services that BPA proposes to offer for sale in 1995)

Packaged Power Products

Full Requirements Service

(This service includes the following products and services: Monthly Firm Energy {A1}, Right to Determine LLH and HLH shapes {A2, A3}, Planned Load Change {A4, A5}, Unanticipated Load Growth {A6, A7}, Basic Load Following {B1}, Unrealized Firm Load {D9, D10}, HLH Energy Entitlement {D11}, Weekly Energy Shaping {D12}, Monthly Energy Shaping {D13}. DSI purchasers would be required to offer Transmission/Stability Reserves to BPA {G2}.)

Partial Requirements Service

(This service includes the following products and services: Monthly Firm Energy {A1}, Right to Determine LLH and HLH shapes {A2, A3}, Basic Load Following {B1}, and HLH Energy Entitlement {D11}. DSI purchasers would be required to offer Transmission/Stability Reserves to BPA {G2}.)

Products and Services to Accommodate Changes in Power Purchase Needs

Unanticipated Load Growth (Capacity and Energy) {A6, A7}

Surplus Firm Power Products (currently offered on an unbundled basis)

(These run the gamut from emergency service to long-term surplus power sales)

Back-Up Capacity {A8}

Surplus Firm Capacity {A21}

Surplus Firm Energy {A22}

Nonfirm Power Products (currently offered on an unbundled basis)

Nonfirm Energy {A12}

(Nonfirm Energy can take a number of forms ranging from guaranteed nonfirm to sales made "out-of-Operating Reserve.")

Services for Non-Federal Resources

Control Area Reserve Service {B4}

Storage *(currently offered on an unbundled basis)* {D1}

Generation Guarantee Service {D2}

Power System Support Services

Harmonic Control {E1}
VAR Support {E2}
Environmental Protection Service {F1}
Environmental C'ean-Up Service {F2}

Power Delivery Products

Preschedule Delivery Service (Increases and Decrease) {C1, C2}
Preschedule Receipt Service (Increases and Decrease) {C3, C4}
Annual Energy Shaping {D3}
Flexibility {D4}
Subtransmission of Federal power {E4}

PHASE 2: Products

(Additional Products that BPA tentatively plans to offer for sale in 1997)

Products and Services to Accommodate Changes in Power Purchase Needs

Planned Load Changes (Capacity and Energy) {A4, A5}
{i.e., planned changes in power purchases from BPA}
Scheduled Purchase Reduction Service {D8}

Nonfirm Power Products

Priority Nonfirm Energy *(possibly)* {A11}

Capacity Services

Extended Peaking Energy {A15}
Excess Rate of Return of Peaking Replacement Energy {A16}
Extended Rate of Return of Peaking Replacement Energy {D5}
(within 1 week, within 1 month, in the following season)

Services for Non-Federal Resources

Supplemental Operating Reserves for a customer's resource (1 hr / 4 hr) {B5, B6}
Power Disposal Service {D6}
Power Purchase Service {D7}
Load Shedding Service {E7}
Generator Dropping Service {E8}

Power Delivery Products

Load Following for Eccentric Loads {B2}
Supplemental Control Area Reserves {B3}
Weekly Energy Shaping {D12}
Monthly Energy Shaping {D13}

PRICING

BPA's pricing policies are designed to meet multiple objectives, including:

- providing maximum customer choice and encouraging optimal use of the FCRPS;
- contributing to BPA's continued viability in an increasingly competitive West coast market environment;
- allowing BPA to take full advantage of its responsibility and authority to manage the FCRPS, consistent with all statutory requirements; and
- providing a mechanism for distributing to BPA's core customers the benefits resulting from the implementation of BPA's Business Plan.

Power Products

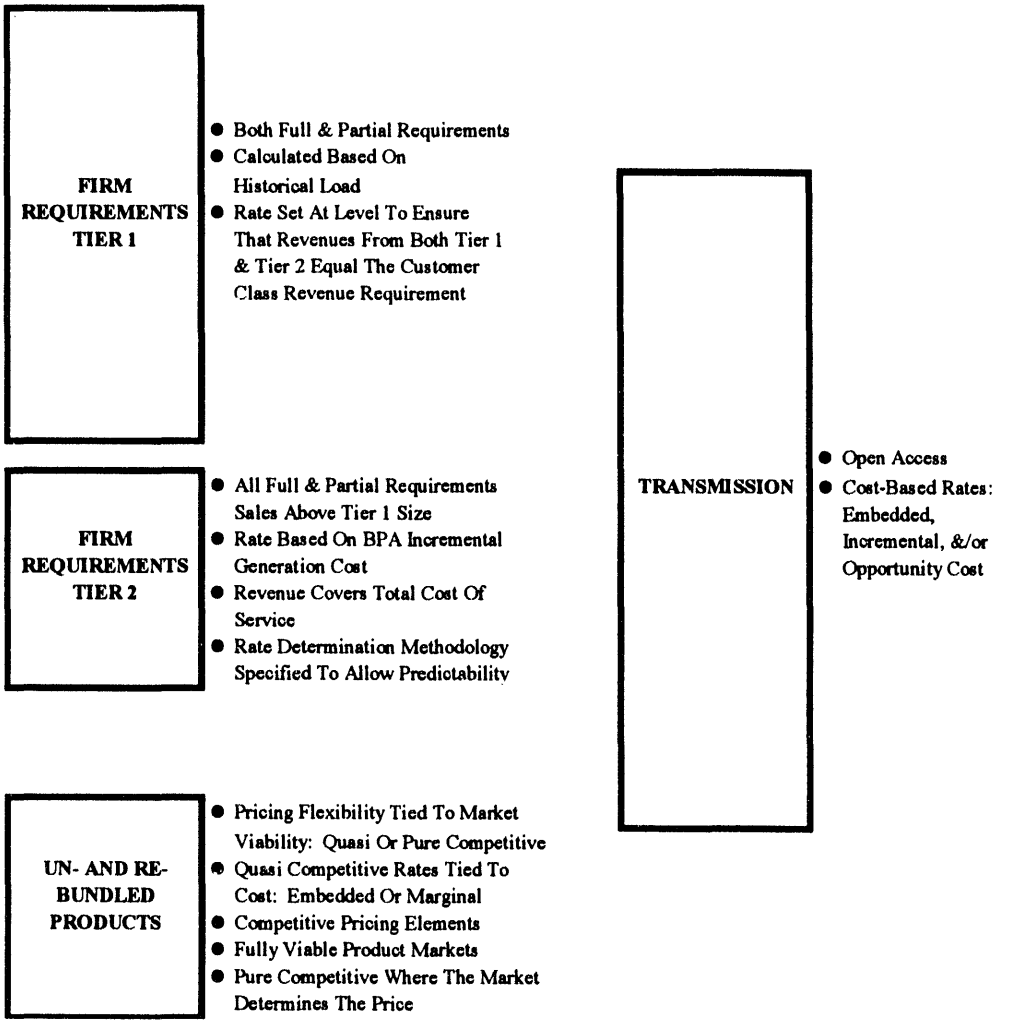
With competition increasing for sales of power products, BPA intends to position its products so as to increase their value to customers. One way of increasing value is to allow flexibility to tailor the products to the customers' needs. The pricing of products also should direct the range of BPA products to their highest customer-valued use, consistent with BPA's statutory ratemaking responsibilities. Given the tradeoff between quantities of products that can be offered from BPA's system, this will allow BPA to offer a full range of products at competitive price levels. Unbundling products will allow ready rebundling into packages that suit particular customers as well as product sales on an individual basis.

The pricing of these unbundled and rebundled products will be based on three general markets: (1) firm requirements Tier 1, primarily existing loads; (2) firm requirements Tier 2, primarily new load growth; and (3) other unbundled and rebundled products, including delivery flexibility and customer resource support products. Which market a product is sold in will be defined by the type of service being provided. The amount of pricing flexibility that BPA exercises will take into account many considerations, especially the viability of the market for a particular product.

Figure 27, *Marketing Plan Business Construct and Product Pricing*, illustrates and describes the markets and relevant product pricing for the three markets listed above, plus the transmission market.

Figure 27:

MARKETING PLAN
BUSINESS CONSTRUCT &
PRODUCT PRICING



Firm Requirements Pricing

The first level of pricing is for firm requirements service. In this Marketing Plan, firm requirements is defined to include general requirements service to public body, cooperative, and Federal agency customers and all other requirements service provided to regional customers. Generally, section 5(b)(1) of the Northwest Power Act requires that BPA offer to sell to regional preference and investor-owned utility customers enough firm power to meet their regional firm power loads, less the amount of their firm resources dedicated to serving their regional firm loads. With respect to sales to public body, cooperative, and Federal agency customers, section 7(b) of the Northwest Power Act defines sales to meet that obligation, less service to "New Large Single Loads", as "general requirements" and establishes the cost basis for rates applied to general requirements sales. BPA intends to meet this statutory directive by offering two firm

requirements products to regional customers: full requirements service and partial requirements service. BPA intends to meet the firm requirements of its DSI and IOU customers by offering similar full and partial requirements products.

Full requirements service will be available to regional customers who choose to operate as distribution utilities and do not operate resources to meet their own load or loads in the wholesale power markets. If a customer operates a resource to meet its own load, it must either purchase a Generation Guarantee, which is either a Service and Exchange Agreement or a charge for connecting the output of the resource to an amount of firm power. It will be a highly bundled product adequate to meet the total actual firm power loads of the customer on a real-time basis for the term of the contract, and is virtually identical to the product sold to metered requirements customers under the current Power Sales Contracts.

If a regional customer chooses to participate in the wholesale power market, then partial requirements service will be available for that customer. Partial requirements service is a less bundled product than full requirements service that allows the customer to meet their net firm load (total firm load less dedicated firm resource capability) on an annual and multi-year planning basis. The customer will specify for the last year of the planning period (4.5 years), prior to the start of the planning period, the daily amounts of energy within each month, the daily maximum rate of delivery during the heavy load hours, and the amount of daily energy that will be taken during the heavy load hours, limited by the customer's net firm load. No changes in these amounts will be allowed within the planning period unless other flexibility products are purchased separately. The hourly energy deliveries will be prescheduled the day before the deliveries within the previously specified parameters, with no changes to preschedules allowed unless other flexibility products are purchased separately. Within the planning period, partial requirements sales will be take-or-pay.

The two firm requirements products would be available under rate schedules compa able to the Priority Firm rate, New Resources Firm rate, and the Industrial Firm Power or Variable Industrial Firm Power rate. Within a customer class, the two different products will be sold at the same rate; i.e., the same demand and energy charges. Customers will be free to structure their purchases to optimize their payments under those rate charges. Applying the same rate charges to the different products takes into account the differences in the ability of full and partial requirements to manage their purchases from BPA and, therefore, impose costs on BPA. The ability of partial requirements customers to use their resource capability to optimize their purchases from BPA relative to market and other conditions can force BPA to incur greater costs than it does for full requirements customers who essentially turn their market over to BPA for service, which allows BPA to maximize its operations against those markets. The design of the two products attempts to levelize this difference in cost incurrence.

Tiered Rates

Selling firm requirements products at the average embedded cost for each unit sold would perpetuate existing concerns with the current rate design. These problems include: higher than economically efficient sales that could lead BPA to acquire resources at marginal costs faster than BPA's competitors are acquiring resources, thus eroding BPA's current cost advantage; limited incentive for customers to invest in conservation without significant reimbursement from BPA; and sub-optimal operation of the FCRPS relative to production of the highest customer-valued products. Tiered rates is a pricing mechanism that can both meet the statutory requirements for firm requirements rates and provide a price signal that allows for more efficient investment decisions and system operation.

Tiered rates will allow price signals to be sent within the overall framework of average embedded-cost pricing. With this approach, sales of firm requirements power are divided into two tiers. Tier 1 includes all sales up to a specified amount. All further sales are in Tier 2. The prices for the two tiers are set at levels that together recover the total costs allocated to the particular customer class. When BPA's incremental costs are greater than average cost, the Tier 2 price is set higher than the Tier 1 price.

The price for Tier 2, the amount of power that can be purchased under Tier 1, and the approach to minimizing potential adverse impacts from Tier 2 costs on Tier 1 prices are the key factors that define the tiered rates structure contemplated under this Marketing Plan. While the average rate for all firm requirements sales to a customer class would be equal to the average embedded cost allocated to that class pursuant to section 7 of the Northwest Power Act, the rate for Tier 2 sales is assumed to be set based on the cost of the incremental resource BPA has acquired or intends to acquire to serve the Tier 2 requirements. BPA would rely on actual resource cost data included in BPA acquisition planning to set the Tier 2 price, to provide as much predictability as possible in how that price will be determined. BPA will seek to set the price for Tier 2 products at a level that will recover their full cost (including expected resource operation and transmission costs) and avoid adverse impacts on Tier 1 prices. The primary way of avoiding adverse impacts on Tier 1 prices is by BPA not acquiring resources to serve Tier 2 loads without customer commitments to place Tier 2 loads on BPA. However, the nature and duration of the commitment that will be required from customers for Tier 2 purchases to support resource acquisition decisions, and any other ways of limiting risk to Tier 1 prices, have not been determined.

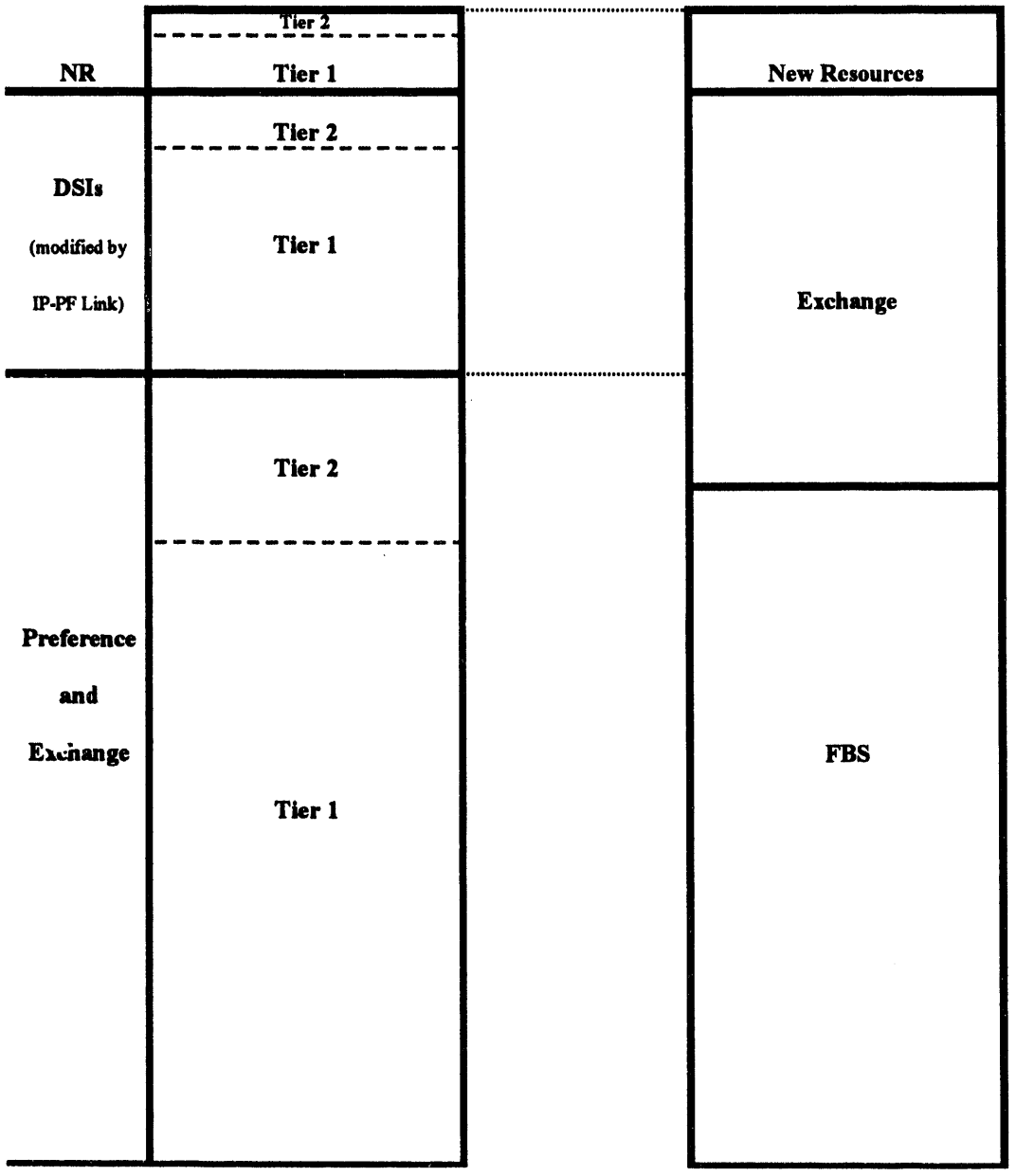
The amount of purchases to which the Tier 1 price will apply will be a one-time determination that will remain fixed over a reasonable period. It will be set at a level based on some percentage of the customers' load over a historical period. The percentage will probably be less than 100 percent to provide an immediate and appropriate price signal to all customers as they make investment decisions on conservation, generating resources, and power purchases. The price for Tier 1 will be set to reconcile total revenues from both tiers to the costs allocated to the customer class. In other words, the

total revenues from a customer class under tiered rates will be equal to the costs allocated to that customer class on a prospective basis.

Figure 28 illustrates how the tiering concept would be applied as part of rate design when setting rates for different customer classes. The right side of the figure illustrates BPA's current cost allocation method and maps it to the tiered rates illustration.

Figure 28:

TIERED RATES
Firm Requirements



This approach to tiered rates fits well into the overall context of the Marketing Plan. It is consistent with existing statutes and BPA interpretations of those statutes. It also allows the pricing of Tier 2 sales in a manner that reflects market conditions to facilitate efficient use of BPA products. However, other tiered rates approaches may also achieve the objectives of this Marketing Plan and BPA will continue to evaluate these other approaches.

Unbundled & Rebundled Product Pricing

As described above, firm requirements service will be provided in two general product forms. All other products, including additional products and services to supplement the firm requirements products, will be sold outside the firm requirements framework. Sales for these additional products and services may occur under either quasi-competitive or pure competitive pricing, depending on the viability of the competitive market for a particular product and other factors. BPA has had a large role historically in planning and operating a significant share of the region's power system. Given that role, and the evolutionary nature of competition in power markets, BPA expects to market many of its unbundled and rebundled products under quasi-competitive pricing. Such pricing would be applied to products until fully viable markets for them are established, absent a compelling reason to proceed sooner. Quasi-competitive rates would be set with the intent of reflecting competitive elements in the market, but would be tied to BPA costs: embedded, incremental, opportunity, or marginal costs. For those products where fully viable markets exist or can be created, such as the economy energy market, BPA would set prices at levels determined by the market; i.e., on a purely competitive basis.

The pricing for these other power products will allow BPA to set price levels that will fully cover the production or variable costs of the product and any incremental investment costs required to sustain their long term availability. This will ensure that there are no adverse impacts on firm requirements rates from the sale of these products. To the extent that the market for a particular product will not support a price that will recover incremental investment costs, BPA may offer to sell the product at a lower price, but the amount would be limited to existing production capability, and then only if the price were above production costs.

Sample Power Product Price Ranges

For illustration, **Table 9** provides a set of extremely preliminary draft price ranges for portions of the product line that BPA has identified in this Marketing Plan and for which BPA anticipates some demand by 1998. BPA has not had the time or resources to develop precise costs on a product basis or to develop market information on each product. There also is considerable work still needed to understand the current inventory level of each product, how the production of different products tradeoff against the production of other products, and the costs of expanding product inventories. However, BPA also recognizes the need to begin discussions with customers to test the concepts in this Marketing Plan against the market. Prices are important for customers to be able to

evaluate BPA products against potential alternatives and to understand the potential overall impact of this Marketing Plan for them.

Table 9 reflects BPA's very initial attempt to identify a range of potential prices for each product, given the limited information available and the complexity of the changes proposed in the Marketing Plan. Many shortcuts and stopgaps had to be used to get around the lack of solid data and information and move from the conceptual basis to product pricing. **Therefore, these price ranges should be used with extreme caution and for illustrative or discussion facilitating purposes only.** The actual ultimate pricing offers potentially may fall outside the ranges in **Table 9**.

Table 9:

For Illustrative and Discussion Purposes Only

SAMPLE POWER PRODUCT PRICE RANGES

1998

Availability	Power Products	Product List Reference	Tier *	Units	PRICE Low	PRICE High
Current	Metered Requirements	A1, 5, 7, D2, 10, 11, 12, 13,	Tier 1	mills/kwh	22.5	26.5
		A2, 3, 4, 6, B1, 4, D9	Tier 2	mills/kwh	33.5	49.5
			average	mills/kwh	26.0	28.5
Current	Computed Requirements	A1, 5, 7,13, D3, 4, 8, 10, 11, 12, 13	Tier 1	mills/kwh	23.0	25.5
		A2, 3, 4 ,6, B1, C1, 2, 3, 4, D9	Tier 2	mills/kwh	30.0	44.0
			average	mills/kwh	25.0	27.5
Current	DSI - Non-Aluminum	A1, 5, 11, 20, D10, 11, 12, 13,	Tier 1	mills/kwh	23.5	26.0
		A2, 3, 4, 23, 24, 25, B1, 4, D9, G1, 2, 3	Tier 2	mills/kwh	29.5	43.0
			average	mills/kwh	25.5	28.0
Current	DSI - Aluminum	A1, 5, 11, 20, D10, 11, 12, 13,	Tier 1	mills/kwh	22.5	25.5
		A2, 3, 4, 23, 24, 25, B1, 4, D9, G1, 2, 3	Tier 2	mills/kwh	29.5	43.0
			average	mills/kwh	24.5	27.0
New	Full Requirements	A1, 5, 7, D10, 11, 12, 13	Tier 1	mills/kwh	23.0	26.5
		A2, 3, 4, 6, B1, 4, D2, 9	Tier 2	mills/kwh	32.0	47.5
			average	mills/kwh	25.5	28.5
New	Partial Requirements	A1, D11	Tier 1	mills/kwh	22.0	25.5
		A2, 3, B1	Tier 2	mills/kwh	31.0	46.0
			average	mills/kwh	25.0	27.5

Availability	Reference	Power Product	Units	Low	High
Reserves:					
New	B5	Supplemental Operating Reserves -1 Hour	$/kw-mo	0.50	1.25
New	B6	Supplemental Operating Reserves-4 hour	$/kw-mo	0.50	1.25
New	D2	Generation Guarantee	$/kw-mo	0.50	1.25
Shaping:					
New	D4	Flexibility ("near-term" ability to change)	mills/kwh	1.0	10.0
New	D13	Monthly Energy Shaping	mills/kwh	1.0	6.0
Preschedule Changes:					
New	C1/2	Presch. Delivery Incr. & Decr. w/30-min notice	$/kw-mo	0.25	1.00
New	C3/4	Presch. Receipt Incr. & Decr. (no LLH) w/30-min notice	$/kw-mo	0.25	1.00
Load Swings:					
New	B1	Basic Load Following	$/kw-mo	0.50	4.00
New	B2	Load Following for Eccentric Loads	$/kw-mo	9.00	14.00
New	B4	Control Area Service	$/kw-mo	0.75	1.25
Peaking Variations:					
New	D15	Surplus Daily Energy Shaping	mills/kwh	3.0	5.0
New	A14	HLH Capacity w/ Peaking Energy	$/kw-mo	3.50	7.00
New	A15	Extended Peaking Energy	$/kw-mo	0.40	1.00
New	A16	Excess Rate of Return for Peaking Engy	$/kw-mo	0.25	1.00
New	D5	Extended Return of Peaking Replacement	$/kw-mo	0.40	1.00
Other Options:					
Current	A12	Nonfirm Energy	mills/kwh	17.0	25.0
New	A21/22	SP Power	mills/kwh	28.0	45.0
New	A21	SP Capacity (for NW in Winter; for SW in Summer)	$/kw-mo	3.50	7.50

Note: Some new products; e.g., supplemental reserves; may require an additional energy charge for actual energy deliveries.

* Based on an assumption of a 70 percent Tier 1 size for the low and a 90 percent Tier 1 size for the high. The Tier 2 price was based on a range of costs for a combined cycle combustion turbine added to BPA's system.

Transmission Pricing

BPA is reviewing its transmission pricing strategy to ensure consistency with the overall direction of the Marketing Plan, its statutory responsibilities, and the goals of EPA 92. To foster a competitive market, BPA must be cognizant of the customers' needs and willingness to pay, and then must reflect this information in the transmission system development program. That is, to a greater degree than in the past, BPA plans to develop its transmission system as a response to the market; the rates should reflect and give better information on the cost of this service. Based in part on BPA prices, customers will decide whether, and to what extent, to purchase wheeling services. To facilitate this process, transmission pricing objectives include: fair and efficient prices, and communication of cost differences; encouraging use of the system by setting the lowest possible rates without using subsidies; and for transmission rates overall, collecting total costs. This is not necessarily a complete list of transmission pricing objectives, but reflects some of BPA's current thinking on this topic. BPA is engaged in a process with its customers and interested third parties that examines pricing issues in a comprehensive fashion, and will pursue the ideas expressed here in that process.

Some rate design concepts being considered that may help achieve an economically efficient transmission system are presented here briefly. Pricing for main grid use could include a number of elements. First, recognizing and reflecting cost differentials based on location (or distance from resource to load) would give developers information to be used in siting resources. For example, by dividing the Federal Columbia River Transmission System (FCRTS) into zones, wheeling charges could be assessed based on which zones were involved to integrate and deliver power. Second, expansion of the transmission system to serve additional transmission uses is a major cause of transmission rate increases. Recognition of these costs in the pricing structure would give information regarding the capacity-constrained portions of the system. A charge, possibly based on a marginal cost concept, would reflect the cost of expanding the transmission system to accommodate additional transmission services. Third, BPA has made investments in facilities required to deliver power at low voltages. These costs currently are collected through rates to our power sales customers. A credit will be developed to encourage customers to buy or develop their own delivery voltage facilities.

Fourth, pricing that better reflects quality of service considerations is being considered. BPA's initial product list includes firm, interruptible, and non-firm transmission service. If this differentiation is sustained, pricing would be developed to reflect the different services. Regardless of the products offered, a greater price differential between firm and non-firm service probably would result from more closely identifying cost causation factors. Finally, BPA is considering opportunity cost pricing as an option when transmission is constrained. (Opportunity cost is defined as the net loss of revenue or the net increase in generation cost caused by displacing one transaction with another when the transmission system is constrained.) In addition, opportunity cost pricing may be appropriate when there are no plans to upgrade the facilities further--for example, on the Southern Intertie.

As a fundamental outcome, any new rate designs still must provide for equitable treatment of Federal and non-Federal use of the FCRTS. However, to encourage widespread use of BPA's power and to avoid rate complexity, we will continue to use postage-stamp pricing of Federal power.

BPA has not determined precisely how transmission pricing will evolve and, as noted earlier, will be discussing these issues in the ongoing Comprehensive Wheeling Service and Rate Review forum. Pricing for new and existing products should advance the goals of the Marketing Plan by supporting an economically efficient transmission market. Transmission pricing will attempt to more closely identify cost causation and send price signals that reflect the cost of removing constraints on the transmission system.

PROCESS ENHANCEMENTS

The customer survey results described in the *Customer Values & Needs* section indicate there is an unacceptably high level of dissatisfaction with BPA's methods of transacting business. Sixty-five percent of the customers indicated they are either somewhat or extremely unsatisfied with BPA's processes. Compared to customer expectations, BPA is significantly under-performing relative to virtually every service attribute, including reliability, responsiveness, assurance, and empathy. The customers also indicated that they are not highly satisfied with how BPA conducts various specific types of transactions and processes, including power sales and transmission contract negotiation and administration.

The customers provided numerous reasons for their dissatisfaction with how BPA conducts business. Some of the more prominent reasons cited include: (1) BPA is too slow and bureaucratic; (2) BPA is more concerned about process than results; (3) transacting business with BPA does not instill confidence; and (4) BPA decision-making authority is frequently not vested in those BPA employees who work with customers. The results of the customer survey indicate that customer dissatisfaction with BPA is widespread among the various customer segments.

An additional internal survey conducted in October 1993 identified a number of practices or deficiencies that BPA managers and employees prevent BPA from meeting customer expectations. The key findings in the internal surveys include: (1) BPA management does not show sufficient commitment to delivering quality service; (2) generally BPA does not have goals for service quality; (3) employees do not believe that their performance is rated on, or rewarded for, providing quality service to customers; and (4) employees do not feel they have an adequate understanding or training in the products and services offered by BPA.

What's Needed

In order to improve customer satisfaction, *BPA must meet customer needs*. BPA must be competitive in terms of how effective and efficient it is when transacting business with customers. BPA's customers, like all customers, not only evaluate products or services on the outcome of those products or services, but they also evaluate the process of product or service delivery.

The importance of customer attitudes about how BPA currently transacts business with them goes beyond the transactions themselves. Clearly, BPA's ability to be efficient and reliable, and to produce results in its transactions with customers is a key means for customers to assess BPA's overall effectiveness as a power supplier. The view many customers have of BPA as a future power supplier is affected by how well we are now conducting business with them.

Achieving high levels of customer satisfaction must be done in a manner that is consistent with BPA's financial and other performance objectives, and values. Improving customer satisfaction and how BPA transacts business should not to be misunderstood, particularly within BPA, as having anything to do with "giveaways" or "always saying yes" to customers. Sustainable customer satisfaction is achieved by: (1) providing competitive, varied, and high value products and services; and (2) transacting business in the professional, timely, and results-oriented manner customers require.

The surveys cited above were structured on the *Service Quality Gap Model* (see **Figure 29**). The model identifies service delivery gaps which, if closed, will reduce the performance gap between what customers expect regarding service quality and what they perceive they are receiving. **Figure 29** displays some key factors contributing to customer dissatisfaction. By changing practices and improving performance relative to these factors, we can significantly improve customer satisfaction with how BPA transacts business.

Fundamental changes are needed in BPA's culture, organization, and business methods (systems and processes) if BPA is to achieve a high level of customer satisfaction. BPA needs to approach the needed changes in an integrated manner, recognizing that culture, organization, and business methods (systems and processes) all are interconnected and interdependent. In addition, BPA needs to take some immediate steps to redesign selected business processes. **Figure 30**, *BPA Business Processes*, displays the recommended overall approach for improving how BPA transacts business with its customers.

Cultural Change

While there are a number of wide ranging cultural changes that need to be made in order to improve customer satisfaction, a key cultural change is that BPA must instill in itself the belief that BPA's basic purpose is to serve customers, while at the same time meeting the agency's other responsibilities. Those parts of BPA that deal with customers have to have customer satisfaction as their first responsibility. Those parts of BPA which do not deal directly with customers must understand that a primary function is to support, help and facilitate the activity of those who do. BPA's management and employees must better understand the realities of BPA's business and its' customers'.

All of BPA's managers and employees must adopt a principle of openness, honesty, clarity, and welcome communication from within a unit or from across the organization. We must actively encourage, seek, and reward the free flow of information and ideas up and down the organization. An agency-wide goal must be to instill in each employee the need to make internal process as simple as possible. We should eliminate processes that are duplicative or steps that are repetitive. Decision-making authority should be delegated downward and outward toward the customer. We need to adopt a "can do" attitude on making decisions. BPA should replace as much as possible the veto, check or control of support staff with the concept of staff being a facilitator, helper, and giver of information, advice and counsel.

Figure 29:

SERVICE QUALITY GAP MODEL

GAP 5: CUSTOMER EXPECTATIONS ARE NOT MET

- NOT OUTWARDLY (CUSTOMER) FOCUSED
- DO NOT SHOW INTEREST IN SOLVING PROBLEMS
- DECISION MAKING SLOW, PROCESS ORIENTED
- SEEK WIN/LOSE OUTCOMES
- EMPLOYEES LACK AUTHORITY TO ACT
- LACK CONFIDENCE IN BPA

GAP 1: NOT KNOWING WHAT THE CUSTOMER EXPECTS

- INADEQUATE USE OF CUSTOMER FEEDBACK (MARKET RESEARCH)
- POOR UPWARD COMMUNICATION OF CUSTOMER NEEDS

GAP 2: THE WRONG SERVICE QUALITY STANDARDS

- NO MANAGEMENT COMMITMENT TO QUALITY SERVICE
- FEW QUALITY SERVICE GOALS
- LACK OF PERFORMANCE STANDARDS FOR QUALITY SERVICE

GAP 3: THE SERVICE PERFORMANCE GAP

- EMPLOYEES UNCERTAIN ABOUT MANAGEMENT EXPECTATIONS
- EMPLOYEES NOT EMPOWERED TO MAKE DECISIONS
- PERFORMANCE NOT RATED ON NOR REWARDED FOR QUALITY SERVICE

GAP 4: PROMISES DO NOT MATCH DELIVERY

- POOR COMMUNICATION AMONG OFFICES
- LACK OF KNOWLEDGE OF BPA's BUSINESS

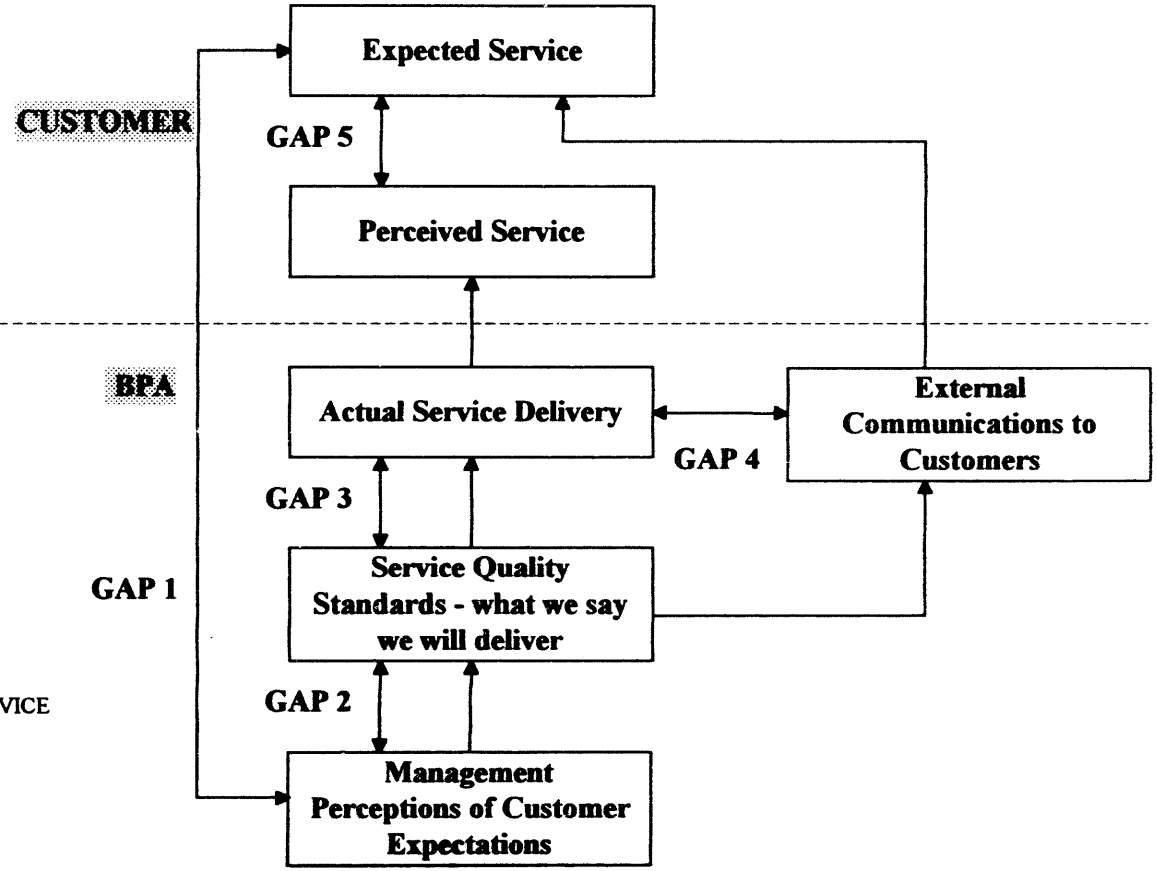
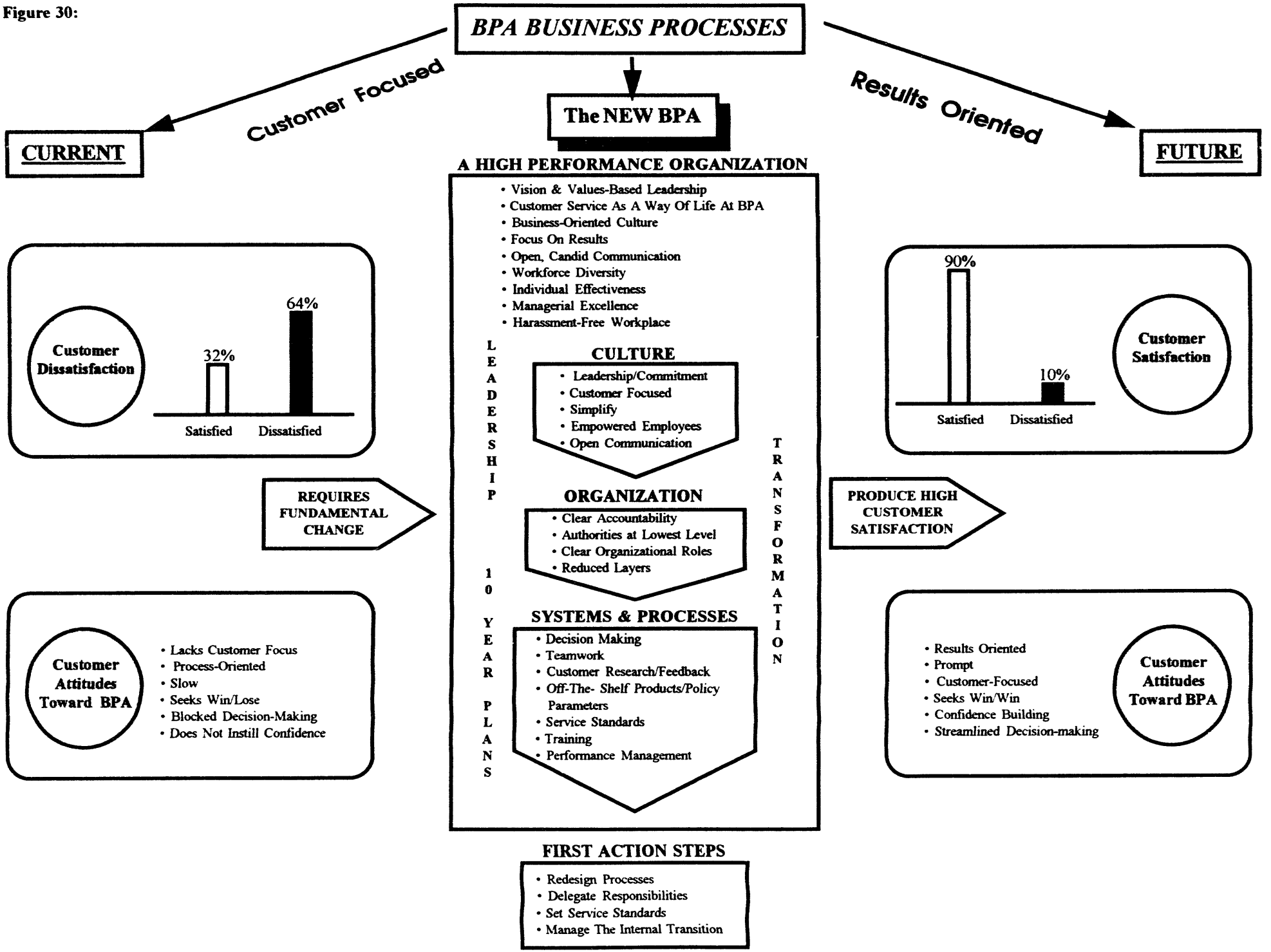


Figure 30:


BPA BUSINESS PROCESSES
Customer Focused
Results Oriented
The NEW BPA
CURRENT
FUTURE
A HIGH PERFORMANCE ORGANIZATION
• Vision & Values-Based Leadership
• Customer Service As A Way Of Life At BPA
• Business-Oriented Culture
• Focus On Results
• Open, Candid Communication
• Workforce Diversity
• Individual Effectiveness
• Managerial Excellence
• Harassment-Free Workplace
LEADERSHIP
CULTURE
• Leadership/Commitment
• Customer Focused
• Simplify
• Empowered Employees
• Open Communication
TRANSFORMATION
ORGANIZATION
• Clear Accountability
• Authorities at Lowest Level
• Clear Organizational Roles
• Reduced Layers
10 YEAR PLANS
SYSTEMS & PROCESSES
• Decision Making
• Teamwork
• Customer Research/Feedback
• Off-The- Shelf Products/Policy Parameters
• Service Standards
• Training
• Performance Management
Customer Dissatisfaction
32%
64%
Satisfied
Dissatisfied
REQUIRES FUNDAMENTAL CHANGE
Customer Attitudes Toward BPA
• Lacks Customer Focus
• Process-Oriented
• Slow
• Seeks Win/Lose
• Blocked Decision-Making
• Does Not Instill Confidence
90%
10%
Satisfied
Dissatisfied
Customer Satisfaction
PRODUCE HIGH CUSTOMER SATISFACTION
• Results Oriented
• Prompt
• Customer-Focused
• Seeks Win/Win
• Confidence Building
• Streamlined Decision-making
Customer Attitudes Toward BPA
FIRST ACTION STEPS
• Redesign Processes
• Delegate Responsibilities
• Set Service Standards
• Manage The Internal Transition

Organizational Change

BPA should be structured so there is an organization or organizations which are clearly accountable for achieving customer satisfaction. It should be clear which organization(s) is responsible for BPA's marketing functions, including product and policy development, product pricing, customer research and knowledge, product sales, policy implementation, and service delivery. The organization or organizations should have delegated decision-making authority consistent with accountability for achieving customer satisfaction.

Customer Account Executives should be established and they should be directly responsible for sales, policy implementation and transactional satisfaction of groups of customers. Customer Account Executives should have the delegated decision-making authority to act on BPA's behalf regarding a wide range of products and services as well as fully represent BPA on a variety of policy implementation and service delivery matters. Staff and technical resources from all BPA organizations should be readily available to support those directly accountable for customer satisfaction and service delivery.

In the *Role Of The Marketing Function* section which follows, additional information is provided on marketing functions to be addressed by a proposed organization.

Systems & Processes Changes

There are numerous changes that need to be made in BPA's systems and processes in order to achieve high levels of customer satisfaction. BPA needs to consistently conduct customer research and solicit customer feedback regarding satisfaction with its products, prices and service delivery methods. BPA should conduct a periodic customer survey to measure customer satisfaction and select individual customer transactions to routinely conduct performance follow-ups. Customer complaints regarding processes and transactions should be evaluated and appropriate corrective actions taken.

BPA needs to expand the number of "off-the-shelf" products and establish clear policy guidelines and parameters. The availability of more off-the-shelf products, together with policy guidance and standard offer contracts, will enable more timely responses to customer needs. Products must be fully designed with established prices, clear product definitions, and internal delivery systems. Employees must be fully trained on the off-the-shelf products so that customer needs can be efficiently matched with products.

Service standards should be established regarding customer transactions. Service standards need to reflect customer expectations and be set at a high level and continually move upward. The establishment and adherence to aggressive service standards regarding timeliness will require that BPA's products and policies be well defined, and that organizational and individual responsibilities and authorities be well established and clear.

Those BPA employees who work directly with customers should be delegated authority to make final decisions and pursue activities within a set of principles, guidelines, and

parameters. We should eliminate or significantly reduce the amount of internal reviews and multiple sign-offs. BPA should accept the risks associated with delegated decision-making and manage that risk by investing in the knowledge, skill, and expertise of its employees.

BPA needs to clarify those policies that involve oversight of the way customers use BPA products and services, striving to eliminate such oversight or reducing it to the minimum necessary to comply with BPA's statutory and financial obligations. To the extent some oversight will continue, BPA needs to publish clear guidelines stating how it will implement such policies. Guidelines should include what information BPA will use to make such determinations and how it applies that information, and should establish service standards for prompt decisions.

When forming a team to work on customer-related transactions, the chartering organization should provide clear, explicit direction regarding what is required, when it is required, and the respective responsibilities of team members and team leaders. Team size should be small and the team leader and team members should be held accountable for the team's results. BPA should establish a performance management and compensation system that is tied clearly to BPA's objectives, including achieving high and continually improving customer satisfaction. A portion of the compensation, and recognition, for customer contact employees and those who support such employees should be based upon the quality of service provided to customers.

Table 10, *Top Ten List*, provides a brief outline of the key actions needed to achieve customer satisfaction with how BPA transacts business.

Table 10:

TOP TEN LIST

Actions Needed To Achieve Customer Satisfaction* With How BPA Transacts Business

1. Leadership & Commitment Of Senior Management To Achieving Customer Satisfaction	• Demonstrate Customer Satisfaction Is Critical • Be Active, Visible To Employees • Provide Clear Guidance
2. Be Customer-Focused/Obtain & Use Customer Feedback	• Basic Purpose Is To Serve Customers • Assess BPA Performance Using Customer Criteria
3. Establish Specific Goals Regarding Customer Satisfaction	• Get Started On Changes Right Now • Set Aggressive Near-Term & Long-Term Goals
4. Become "Boundaryless" No "Wall-Building" At BPA	• Be Results-Oriented • Focus Outward On Customer Needs • Foster Open Communication
5. Establish Clear Accountability For Achieving Customer Satisfaction	• Establish Accountability For Marketing Functions • Establish Segment Managers/Account Executives
6. Delegate Decision-Making Authority To Those Who Work With Customers	• Accountability = Delegated Authority • Delegate To Segment Managers/Account Executives
7. Establish Service Standards for Transactions/Practice Continuous Quality Improvement	• Based On Customer Expectations • Timeliness & Other Standards Require Clear Roles, Products & Policies
8. Get Teamwork Right	• Use Teams When Necessary • Keep Small • Consensus Is Desirable, But Team Leads Can Make Decisions
9. Develop Wide Range Of "Off The Shelf" Products/Establish Clear Policy Guidelines	• Do Design Work Up Front • No Product Is Offered Before Its Time • Transactions Based On Established Principles
10. Tie Performance Management & Compensation To Customer Satisfaction	• Achieving BPA Objectives & High Customer Satisfaction = More Recognition & Compensation

* Using These Ten Action Items, BPA Should Immediately Examine & Redesign A Selected Number Of High Priority Business Transactions.

ROLE OF THE MARKETING FUNCTION

Summary

Within the context of the Competitiveness Project, the mission of a marketing function at BPA is to develop, install, and manage strategic marketing activities at the agency. The marketing function must ensure that BPA operates in a competitive, business-like way by providing marketing plans which integrate:

- an accurate perception of the specific needs of its diverse customers;
- a menu of products and services which meet those needs;
- pricing of those products and services in a way that creates maximum value for the customers consistent with maintaining strong BPA financial performance;
- targets for management of capital investment programs and operating expenses to ensure BPA can remain the low-cost producer of the products and services it offers; and
- review and redesign of all major processes and activities related to customer transactions, to ensure that customers are highly satisfied doing business with BPA.

The marketing function should evolve to become the *integrating* and *focusing* force that ensures BPA's business success. Marketing will be the signal of BPA's evolution to a business-based enterprise: ***market-driven, customer-focused, cost-conscious, and results-oriented.***

Marketing Function Responsibilities

The specific responsibilities of an effective marketing function are many and comprehensive, and they are constantly changing. However, the basic responsibilities of a marketing department can be grouped into some general categories. The specifics of the marketing organization at BPA are still to be finalized, but the function will either include or coordinate the following:

Research

Customer Research - The experience that comes from active involvement in the marketplace, including direct polling of customers and a comprehensive information system, supports the strategic areas of market segmentation, product/service evaluation, and the integration of these areas with agency strategy. Events or trends that occur

outside the agency will have more to do with BPA's success than its own initiatives, unless there is a conscious effort to turn those outside events to our advantage.

To be customer-centered, BPA's market planning must incorporate customer needs and wants, both at the beginning and during the planning process. A comprehensive market research program is the key to defining these customer needs and wants. A strong market research program, combined with emphasis on customer needs and wants by segment, will lead to a market-driven planning process that is influenced as much by the customers' decision process as by BPA's. These programs will be much more effective than programs designed in the absence of customer input.

Technology Research - An effective marketing department also will take need a structured approach to researching and analyzing evolving technologies and services they will eventually use to meet customer needs and wants.

Market Segmentation

One of the keys to understanding customer needs and wants lies in effective market segmentation and development of Segment Strategies. BPA's marketing personnel must understand and be skillful at what segmentation is and how it is done.

Product & Service Evaluation

To achieve business success, it is important to evaluate products and services in terms of the marketplace (customer), the product (specific technology or service and how it relates to customer needs) and the company (its ability and desire to take the product to the customer). All three of these areas must be considered when evaluating any action that affects the marketplace. This not only provides a framework to focus on customer needs and wants, it helps employees understand that any action that affects the marketplace should be driven by the corporate vision.

The Customer	*The Product*	*The Company (BPA)*
Who is the customer?	What does it do?	Consistent with the vision?
Is there a need or want?	Will it satisfy customer needs?	Satisfy customer needs?
Can the customer participate?	Will it work?	Can we implement?
Will the customer participate?	Can it be taken to market?	Impact on society?

Today, many utilities have programs to evaluate electro-technologies. However, it is not common for the product evaluation system to be effectively integrated with the customer research program and the company vision statement. This integration at BPA will be important.

Integration Of Corporate Strategy

Strategic planning is the process of analytical thinking and the commitment of resources to action. It is the key to growth and security in operating a business. The process of taking the output from market segmentation and product/service evaluation, and integrating this knowledge with the corporate strategic plan is the process of strategic planning. It is here that corporate strategy drives planning.

A strong strategic planning process enables all employees to focus on common strategies and achieve common outcomes. In some respects, the process is more important than the product. Since conditions change so rapidly, BPA marketing staff should understand the strategic planning process, including the common purposes and outcomes sought by management, in order to participate effectively and proactively.

Value-Based Market Planning

The process by which the results of market segmentation and product evaluation come together can be called Value Based Planning. It is the perceived relative value of the total package of products and services that influences the behavior of selected customers, and thus competitive success. In short, it is the difference between what the customers think the benefits are worth and what they actually have to pay for them.

Relative value can change for any one of three reasons: the company changes what it offers; customers' needs or preferences change; or competitors change what they are offering. Any supplier to the marketplace who gains a sustainable relative perceived quality advantage (perhaps in service rather than product attributes) automatically adopts a better-value position than its competition. This better-value positioning of BPA products and services will be a key responsibility of the marketing organization to be established.

Product Positioning

The key to all marketing is product positioning. BPA's marketing staff must include Segment Managers who will unify the marketing efforts of the segment through positioning of products. All major decisions affecting the segment should flow from positioning--customer benefits, merchandising, promotion, advertising, sales approach, everything.

Positioning is the essence of what potential customers think about a product--in the case of BPA, the accompanying service makes up a major part of the product. Positioning as a marketing action will be the marketing organization's attempt to influence how customers view a product in their ranking/classification system for the products they are aware of.

Positioning is really the central issue of what the product is in terms of:

1. Who the target customers are.
2. What benefits the product will deliver to this group of customers.
3. Where the members of the user group will place the product mentally--especially how they will view the product versus substitute products and near-substitute products.

Positioning is the product and/or service as the customer thinks of it. Since the customer is the ultimate user of the product, their perception of it is what the product really is.

Customer Satisfaction

While customer satisfaction is part of the initial market research discussed above, it is appropriate to mention it separately because it is the objective of all the marketing activities overall. BPA's marketing staff must track and measure customer satisfaction, especially as it relates to specific programs. It also must regulate and report the results of that tracking to management and use those findings as the basis for future recommendations.

Revenue Sufficiency

The ultimate objective of any business is long-term financial health, which can be reached only through sufficient revenues. By ensuring that BPA generates revenues that allow us to maintain competitive rates, the marketing staff will ensure adequate availability of future capital and continued support for meeting our fish and wildlife goals and repaying the treasury.

END

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