



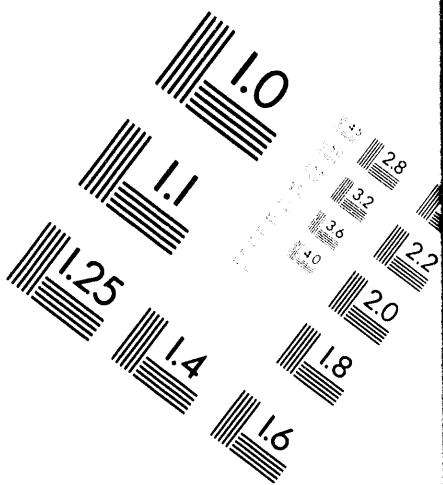
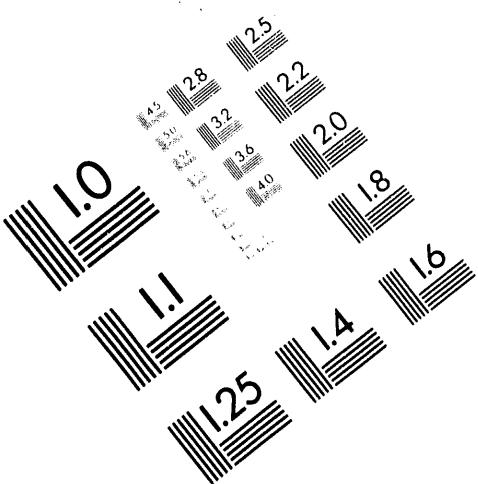
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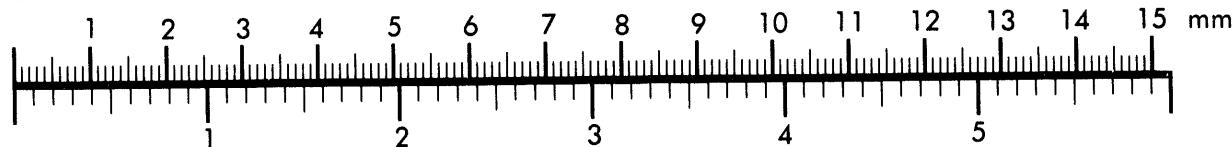
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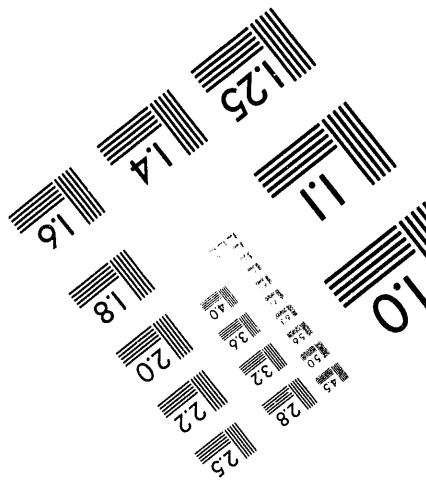
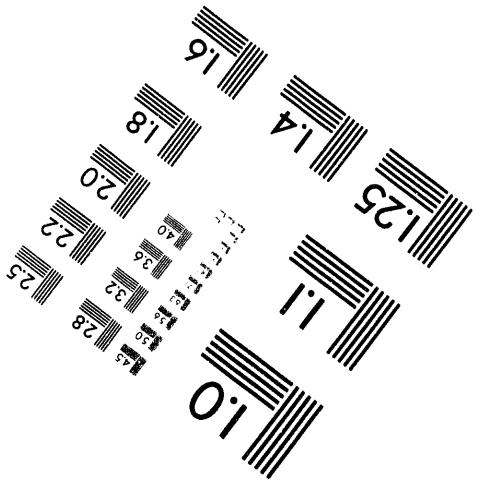
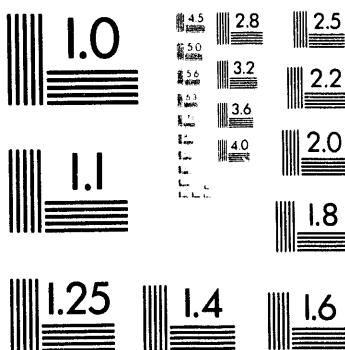
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1 of 1

# THE BUSINESS PLAN IN BRIEF

## DRAFT

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### INTRODUCTION

Competition is revolutionizing the electricity industry, and utilities may never be the same. In the past two decades, government deregulation has transformed the airline, cable television, natural gas, and telecommunications industries. Now, with the passage of new laws which have spurred the growth of independent power and opened up transmission access, the electric utility industry has become the laboratory for change.

Here in the Northwest, dramatic changes in the electric industry mean that the Bonneville Power Administration (BPA) is facing real competition. Our customers have more choices than they had in the past. BPA's draft Business Plan is a direct response to this changing environment. The plan presents how we propose to adapt to the new competitive marketplace.

This is a summary of the plan and some of the important issues it raises for regional discussion. The draft plan contains much more detail on all the topics mentioned here.

We are interested in hearing the opinions of our customers and constituents on the proposals in the plan. How you can comment is explained on the last page of this summary. A final version of the plan will be issued late this year.

The Business Plan is BPA's first attempt to integrate the long-term strategic plans of the various parts of the agency with a strategic financial plan. Change is evident throughout the plan--change in our operating environment, in our strategic direction, in our customer and constituent relationships, and in BPA itself as an organization.

### BPA'S MANDATES

What has not changed is our commitment to our legislative mandates. In fact, the changes proposed in the Business Plan are designed to make sure BPA is well equipped to carry out its legal mandates in a competitive, dynamic environment.

BPA is proposing to change the means, but not the ends it needs to achieve. Those ends are defined in the Northwest Power Act and the other laws that govern BPA, stretching back to the Bonneville Project Act that created the agency in 1937. Among those mandates are the following:

- Market power from the federal hydro system and other projects, which includes developing and maintaining the high-voltage transmission system.
- Protect, mitigate, and enhance fish & wildlife, with guidance from the Northwest Power Planning Council.

- Develop new power sources to meet customers' needs, upon request.
- In acquiring resources, give highest priority to cost-effective conservation and renewable energy resources, with guidance from the Council.
- Give public agencies and cooperatives preference to BPA's electric power and give Northwest customers first call on BPA's surplus power.
- Pay BPA's costs through revenues from selling power and transmission, not through taxes.
- Provide ample opportunity for public participation in BPA decisionmaking.



## THE COMPETITIVE CHALLENGE FACING BPA TODAY

Over its 57 year history, BPA has struggled to balance and meet these mandates, with considerable success. Citizens of the Northwest have benefited through low-cost and reliable power, economic growth, improved energy efficiency, and major investments in the protection, mitigation, and enhancement of fish, wildlife, and the environment.

We have had one huge advantage in meeting these mandates--our low-cost power system. Until recently, our rates were far below those of competing sources of power. BPA faced no real competition, and when more money was needed to construct transmission system additions, acquire new power resources, build fish hatcheries, or pay for conservation, rates could be raised as necessary. Most customers had no reasonable alternative except to continue to buy from BPA.

The mandates have not changed, but our historic cost advantage has largely gone away. Dramatic changes in the electric power industry now mean that BPA faces real competition. These changes are so profound that if we continue with business as usual, our ability to meet our basic mandates is in doubt.

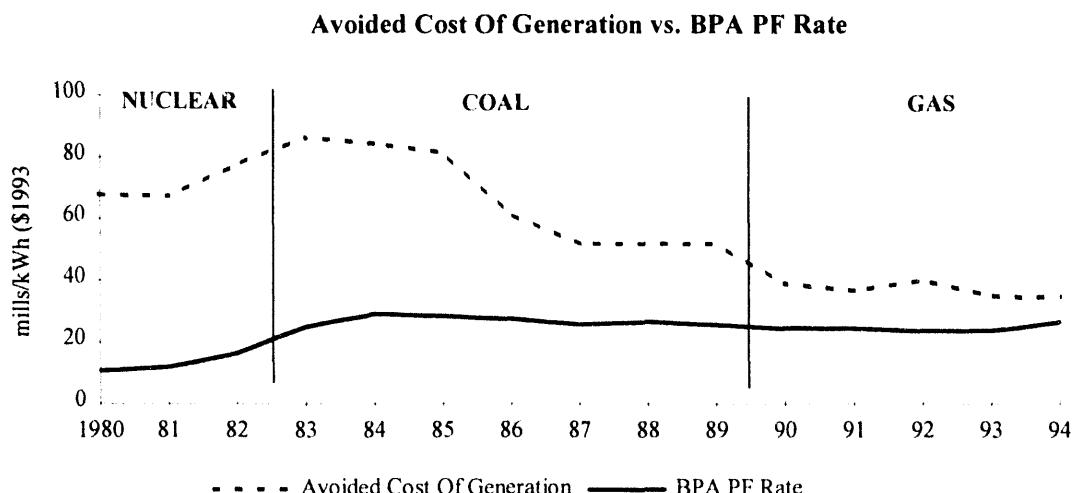
### Real Competition

Today, rising BPA costs and falling natural gas prices have combined to challenge BPA's historic position as the most economical and preferred power provider. Independent power producers are offering new sources of electricity at prices that can compete with federal hydropower.

Currently, 1,400 megawatts (MW) of new generation in the Northwest is either in service, under construction, committed to, or being negotiated by developers. This is significant competition to the existing federal system.

The costs of new generation have declined since the late 1970s while BPA's Priority Firm (PF) rate (available to public agency and co-operative customers) has increased. BPA's primary thermal generating plant alternatives to supplement the hydro system have shifted from nuclear during the 1970s and early 1980s, to coal in the 1980s, to gas in the 1990s. **Figure 1** shows how thermal resource costs have declined over time compared to the PF rate. BPA's once-overwhelming cost advantage is now thin.

**Figure 1:**



#### **ELEMENTS OF THE COMPETITIVE CHALLENGE**

- Deregulation Is Changing the Nature of the Electricity Industry
- Real Competition Is Coming From Other Power Suppliers
- Cost Pressures Are Growing Ominously
- Customers and Constituents Are Not Satisfied
- Internal Organization Not Ready To Be Competitive
- BPA's Revenue Gap Needs To Be Closed

The Energy Policy Act of 1992 has opened transmission access in a way that might, one day soon, mean electricity consumers could decide to purchase power from anyone in the West, just as telephone users now have a choice of long distance companies. Faced with choices among their power suppliers, some of BPA's long-time customers are scanning the horizon for signs that the agency will still be able to offer competitive prices into the next century. They are weighing the financial risks of continuing to rely on BPA for their power, to buy power from other suppliers, or to develop their own generating resources.

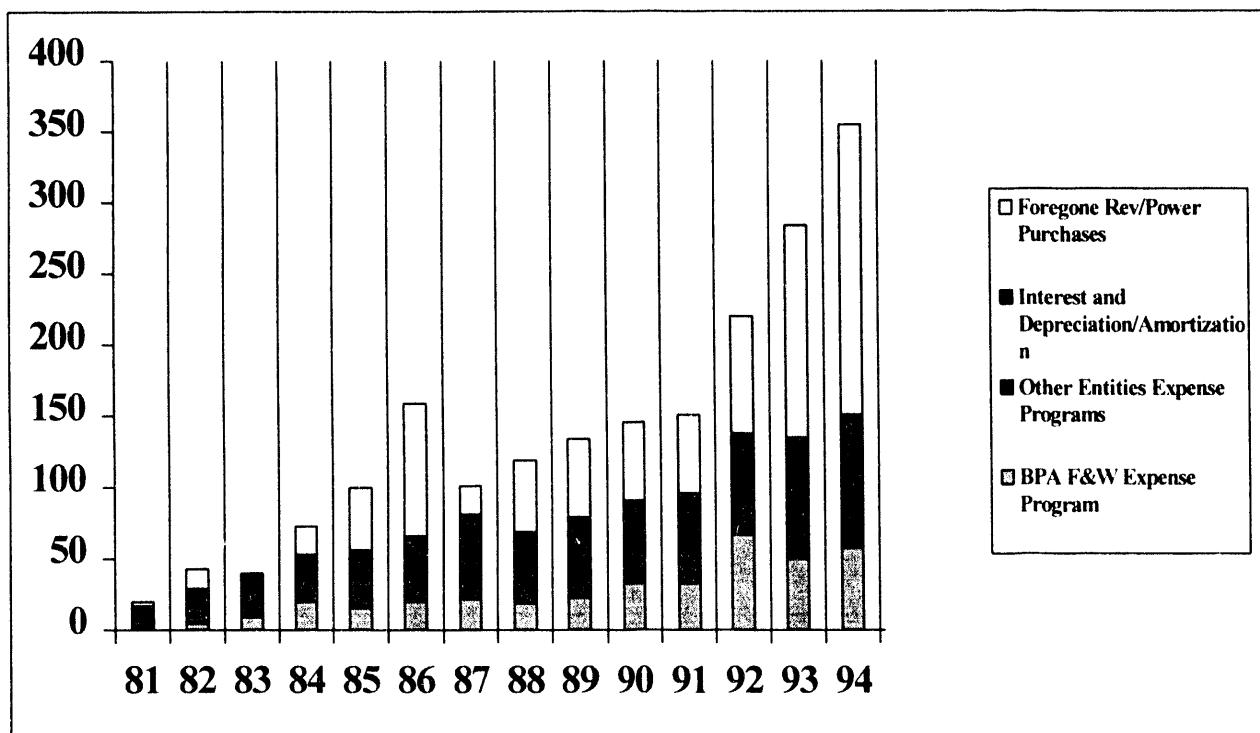
#### **BPA Has Substantial Cost Pressures**

BPA's commitment to help fish & wildlife affected by the construction and operation of the Columbia River hydroelectric system has meant major costs, as well as revenue losses from fish-related streamflow actions that have diminished power generation. Fish & wildlife costs between

1981 and 1990 rose from \$20 million to \$150 million (see **Figure 2**). During the last three years, since the listing of Northwest salmon under the Endangered Species Act (ESA), investments have increased by roughly \$200 million, from \$150 million to \$350 million. Costs are increasing because fish & wildlife results have not materialized.

**Figure 2:**

## BPA F&W Investments



Besides planned expenditures, there have been additional and unexpected costs. This spring when adult spring chinook counts dropped well below pre-season predictions, the National Marine Fisheries Service (NMFS) ordered an emergency spill program at eight dams on the lower Columbia and Snake Rivers. This caused BPA to forego nonfirm and surplus firm power sales, with revenue losses likely to total an additional \$30 to \$40 million.

**ESA Uncertainties.** In March, U.S. District Court Judge Malcolm Marsh ruled that NMFS' standard for no jeopardy in the agency's 1993 biological opinion on Columbia River operations was inadequate. A settlement group is now considering how to fix the inadequacies the judge found in the opinion; these talks may result in changes in the proposed operations of the federal hydro system in 1995 through 1998. This could mean additional actions will be ordered to protect ESA-listed fish, actions that could affect BPA's revenues and expenses.

In today's competitive environment, it is clear that there is a limit to how much cost BPA can incur for fish & wildlife activities without losing customers and related revenues. While we do not know exactly where that limit is, we believe our present costs are dangerously close to it.

## **BPA Customers Have Choices and Challenges**

If customers take an optimistic view of future gas prices and a pessimistic view of BPA's ability to control escalating costs, particularly non-power costs, they might conclude the time is right to begin diversifying their power supply portfolios. For BPA, this means its share of the market would decline. Customer perceptions of the size and likelihood of financial risks such as fish & wildlife costs, repayment reform, and nuclear plant decommissioning could play a large role in such decisionmaking.

A worst-case scenario would have BPA losing thousands of average megawatts of load by the end of the century. Some of the reasons this is possible are discussed below.

**Retaining Loads.** Now more than ever there is considerable risk that some of the Northwest's aluminum plants may permanently close or operate only intermittently. The industry is facing a great deal of international competition, for example, from the former Soviet Union, which has been undercutting worldwide aluminum prices for some time. If our rates were to rise to around 35 mills, it is possible half of the aluminum smelters in the Northwest could go out of business. This would mean a huge loss of load to BPA--about 1,450 average megawatts (aMW).

Even if such a dire scenario does not come to pass, we are facing an immediate risk of load loss from utilities deciding to build their own new generating resources, like Clark Public Utilities' current negotiations to build a natural gas-fired combustion turbine (CT), Snohomish PUD's request for proposals for 250 MW of new resources, and certain aluminum smelters, which are also considering their own gas-fired combustion turbines. Just the loss of load from Clark and Snohomish's acquisition of alternative resources could cost BPA \$20 to \$30 million in lost revenue, even after allowing for resale of the power by BPA.

Other competitive forces include low energy prices being offered by other electric utilities that could potentially serve current BPA customers and the possibility of retail wheeling. Retail wheeling means the sale of electricity from a utility or other supplier to a customer in another utility's retail territory.

Industrial plants served by some of our public utility customers may decide to build their own generating plants. BPA projects that the amount of industrial load served by public utility customers which is at risk of being lost to such competition by 1997 is almost 700 aMW, if natural gas prices are at medium-to-low levels, and 1,100 aMW, if gas prices stay low. Additionally, BPA estimates that over 100 aMW of commercial load could be lost to natural gas suppliers, retail wheeling, and cogeneration.

***Our Markets Outside the Northwest May Diminish.*** The revolution in the electric utility industry is well under way in California. The California Public Utilities Commission has a retail wheeling proposal on the table. The availability of low-cost natural gas, the high penetration of independent

power producers, industrial bypass of local utilities, and the passage of the Energy Policy Act have increased the competition greatly for Northwestern utilities looking to sell power southward. In addition, in California, an economic downturn, the closure of defense plants, and incentives for demand-side management have reduced loads and power prices.

This means we may not be able to count on historic levels of nonfirm and surplus firm power sales to California, traditionally an important source of our revenue. Competition from independent power and inexpensive natural gas may constrain BPA's seasonal exchange opportunities, which have helped offset the costs of actions taken to provide water flows for fish at certain times of the year.

Signs of this can already be seen. Traditional BPA trading partners, such as Southern California Edison and the Los Angeles Department of Water and Power, are now successfully competing with BPA in short-term and long-term seasonal (summer and winter) capacity sales.

## **BPA's Customers and Constituents Have Not Been Satisfied**

In developing the Business Plan, we surveyed customers and non-customer constituents to assess their needs, wants, and degree of satisfaction. One survey showed only six percent of customers were "extremely satisfied" with BPA; 55 percent were "somewhat satisfied." Over one-third voiced overall dissatisfaction with BPA, either "extremely dissatisfied" (7 percent) or "somewhat dissatisfied" (29 percent).

In the surveys, customers said we are not focused on their needs or on our business relationship with them. Instead of concentrating on providing reliable, low-cost power, some characterized BPA as a social service agency fulfilling various "political" purposes.

Customers questioned the efficiency and cost-effectiveness of some of BPA's programs and said the agency needs better cost accounting and more accountability. They called BPA's procedures too complex, costly, and time-consuming, and said "process" seemed to be our most important product.

Most successful businesses, including other electric utilities, have much higher customer satisfaction ratings. Our ratings were consistently 30 to 50 percent below those desired by our customers. With these high levels of dissatisfaction, the threat of our customers turning to other power suppliers is not idle.

Our non-customer constituents also voiced dissatisfaction. They said they want better communication with BPA decisionmakers and consistent administrative policies within the organization. In some cases, they said they thought BPA's behavior reflected a lack of commitment to the legislative mandates of the Northwest Power Act. They too want BPA to be a more reliable partner and to build mutual trust.

## **BPA's Corporate Culture Showed A Need For Change**

In addition to external dissatisfaction, we found that our employees clearly saw the need for the agency to undergo a transformation. We conducted a "cultural audit" to measure our organizational

strengths and weaknesses. The audit consisted of individual interviews, focus group dialogues, and two employee surveys. It focused on information processes, internal values, professional behavior, decisionmaking, conflict resolution, "politics," and motivation.

The audit identified common themes of frustration with cultural constraints that prevent BPA employees from being as productive as they want and need to be. The constraints related to teamwork, communications, and lack of connection and integration between the work of different parts of the agency. In short, our employees indicated the current organizational culture simply did not nurture the kind of performance required in today's competitive environment.

### BPA'S FINANCIAL CONDITION

**Revenues.** BPA continues to experience lower than expected revenue due to poor water conditions. The continued drought has caused year-end projections of nonfirm and surplus sales to be approximately \$80 million less than what was projected in the 1993 rate case filing. In addition, revenues from aluminum smelters are \$20 million lower than projected, mostly due to low aluminum prices and decreased load as smelters comply with the "Brussels Agreement," which calls for cutting back on production.

BPA's revenues from the Southwest have been lower than projected due to lower California loads. There has been less transmission capability due to the earthquake in January 1994, which damaged the southern end of the DC Intertie. As of May 1994, BPA's 1994 revenues are projected to be \$150 million lower than predicted in 1993.

**Expenses.** Year-end projections of total expenses are approximately \$45 million lower than projected in the 1993 rate case, due to cost control measures and savings from Supply System bond refinancings. These were slightly offset by reduced interest earnings on lower cash balances, and by increased short-term power purchases.

**Net Revenues.** BPA expects to have a loss of \$81 million in fiscal year 1994. The actual net revenue results depend on such uncertainties as aluminum prices, the amount of this year's runoff, purchased power expenses, AND additional fish-related costs.

**Reserves and Repayment.** BPA projects that it will have reserves of \$180 million at the end of fiscal 1994, approximately \$110 million less than projected in the 1993 filing. The agency will meet in full its repayment obligation to the U.S. Treasury at the end of FY 1994.

**Interim Rate Adjustment (IRA).** The IRA rate adjustment allows up to a 10 percent rate adjustment in FY 1995 if reserves are projected to fall below the IRA trigger point of \$145 million at the end of FY 1994. This trigger point is \$35 million less than the current year end reserve projection. The trigger point is adjusted downward by the amount that expenses which BPA can control are expected to exceed what was forecasted in the 1993 rate case filing. Projected expenses are expected to underrun the rate case plan by about \$45 million, requiring no downward adjustment to the IRA trigger point.

BPA's Second Quarter Review, released in May 1994, does not project an IRA to be triggered for FY 1995, but a final decision on the IRA will not be made until the Third Quarter Review is completed in mid-August.

***Outlook for FY 1995.*** Revenues are likely to stay below projections due to continued poor water conditions and low aluminum prices and loads. Revenues from the Southwest are expected to be low, reflecting low oil prices.

Expenses are expected to exceed 1993 projections, due to purchased power expenses related to providing fish flows. As of May 1994, BPA expects a loss of \$65 million in FY 1995. BPA's reserves are projected to be at approximately \$80 million by the end of fiscal 1995, \$285 million less than projected in the 1993 filing.

## **BPA's Revenue Gap**

The competitive marketplace, rising costs, and lack of customer satisfaction have implications for our financial situation. BPA's funds come from power purchases by customers. If they choose to buy elsewhere, BPA's revenues will fall. It is unlikely that revenues lost can be recovered fully through resale of the power elsewhere.

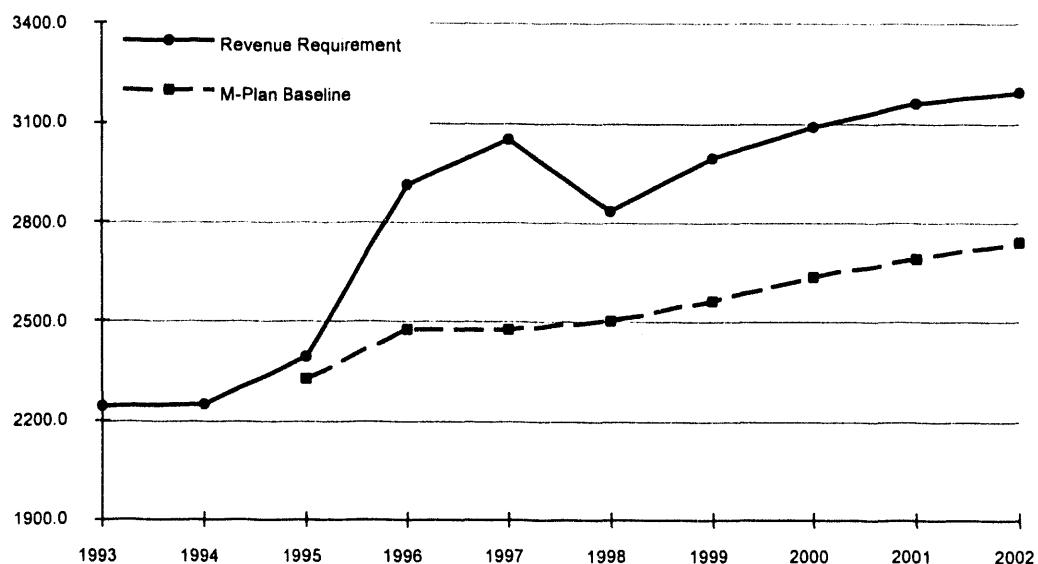
BPA has been facing a revenue gap. The gap is the amount by which BPA's pre-Business Plan spending plans exceed the revenues the agency can reasonably expect to sustain. BPA's ability to continue to meet its mandates by spending more and raising rates appears to be at an end.

**Figure 3** indicates that we had been planning to spend \$300 to \$600 million per year more than our anticipated revenues. Raising rates might bring in more revenues and close the gap. But more likely, in today's environment, raising rates could drive more of our customers to other suppliers.

Before the final Business Plan we intend to refine our estimates of the amount of revenue BPA can reliably sustain.

**Figure 3:**

**Base Case Revenue Gap**



## Other Financial Challenges

**Treasury Repayment Probability.** Our 10-Year Financial Plan included an assessment of BPA's normal operating risks. We determined in that plan that a combination of rate tools, including the IRA and a \$10 million cost deferral, together with an amount of planned net revenues, would result in a 95 percent probability of making Treasury payments in full and on time during the 10-year planning period. The amount of net revenues required to meet risks was set based on a target financial reserve balance of \$535 million. That was considered the level of financial reserves needed to help protect against extreme revenue shortfalls.

While we have not prepared a revised risk assessment, it is clear we are facing even more risk than before. Growing expenses connected to emergency fish flows and low water conditions are a main reason. In addition, we are facing increased business risk due to uncertainty about the proposed tiered rate structure and whether our unbundled products will generate the revenues anticipated.

**Debt Management.** BPA's current policy is to continue the agency's traditional reliance on debt financing and to fund capital investments with the least-cost source of funding, while trying to minimize use of BPA bonds issued to the U.S. Treasury. At the end of FY 1993, the Federal Columbia River Power System was 100 percent debt-financed; this includes Corps, Bureau, and BPA federal appropriations; BPA long-term debt; and non-federal debt. In FY 1994-95, BPA projects to borrow almost \$1 billion to fund BPA capital investments for transmission, conservation, and fish & wildlife.

A General Accounting Office evaluation of BPA's financial health released by Senator Mark Hatfield in May 1994 concluded that BPA's "policy of using debt financing for substantially all capital programs is risky and leaves little flexibility for meeting future challenges." Another problem addressed in the report is the percentage of BPA's debt that covers non-revenue-producing assets.

***Capital Investments.*** Strategic management of our capital investments is crucial for two reasons. First, most of BPA's costs are already fixed, which dramatically limits our financial flexibility in responding to changes in markets and costs. About 60 to 65 percent of BPA's annual revenue requirement is needed to satisfy long-term debt each year. Any additional capital investments will add to this high level of fixed costs.

Second, BPA's remaining Treasury borrowing authority to fund capital investments has dwindled to a point where it would have been fully obligated, at pre-Business Plan borrowing levels, well before 2000.

***Creditworthiness.*** Wall Street bond rating organizations use a combination of several factors to rate a utility's creditworthiness. In general, these include a utility's:

- Competitiveness--its market position
- Supply and demand characteristics
- Management
- Financial strength
- Governing regulatory statutes
- Demographics and service territory.

These rating factors have recently been changed to reflect the competitive environment; in the past, utilities were rated primarily on financial and coverage ratios. Third party BPA-backed bonds have AA ratings from all three major rating agencies. These bonds carry a long-term "negative outlook" from Standard & Poor's and Fitch.

All of these financial factors contribute to the challenge of developing a new direction for BPA. The Revenue Gap quantifies the magnitude of the change we have to make in order to become competitive.



## BPA HAS GOTTEN THE MESSAGE: OUR RESPONSE TO THE COMPETITIVENESS CHALLENGE

### BPA'S RESPONSE TO THE COMPETITIVE CHALLENGE

To carry out the proposed strategic direction, we propose the following key strategic actions in the draft Business Plan:

1. As part of a new marketing strategy, unbundle our products and offer new products and services to our customers to give them more choice to meet their needs more effectively.
2. Close the revenue gap, without raising tier 1 rates before 2000.
3. Reinvent all our functions to make them more cost-effective and better able to produce results.

Our approach to conservation will be through customer response to tiered rates, our new line of demand-side management products and services, and market transformation.

Our fish & wildlife strategy will become more comprehensive, aimed at obtaining better results from a biological perspective, and at controlling costs.

We will open access to our transmission system and work to achieve more customer satisfaction and lower costs. Opening access will foster competitive markets and will free BPA to participate in those markets.

4. Transform BPA into a high-performing business organization, committed to cost control and customer satisfaction.

To respond to the new marketplace; the needs of our customers, constituents, and employees; and our financial situation, we are proposing a new strategic direction. The intent of the new direction is simple: to steer the agency through the competitive challenges it faces so that it can be successful in achieving its legislative mandates.

The new strategic direction is based on the concept that business success will give us the financial strength we need to fulfill our mandated responsibilities in the new competitive environment.

In addition to the Mission, Values, and Strategic Business Objectives, which are included here, BPA's new strategic direction includes a statement of Business Concept, Management Philosophy, and Stakeholder Commitments. These key parts of the strategic direction are included in the draft Business Plan, and are well worth reviewing.

## BPA'S NEW STRATEGIC MISSION

BPA provides electric power, transmission, and energy efficiency services in increasingly competitive markets. Our success in the marketplace supports the achievement of our vital responsibilities for fish & wildlife. We succeed by satisfying our customers and enhancing the economic and environmental health of the Pacific Northwest.

We will remain the least-cost producer and a creative and flexible marketer in the region. Our success will help ensure financially strong Pacific Northwest communities.

We value the individual diversity, entrepreneurial spirit, personal responsibility, and public service of our fellow workers. We welcome new ideas and are accessible to the citizens of the Pacific Northwest.

## VALUES

We live the following values:

***Unity of Purpose.*** We trust and respect each other and dynamically share ideas and information throughout the organization, to achieve BPA's business results.

***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.

***Cost-Conscious.*** We are the low-cost producer. 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.

***Reliance On People.*** We recognize people as our greatest asset. We value diversity and technical and managerial excellence.

***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.

***Northwest Citizenship.*** We earn the high regard of the citizens of the Northwest by being open, honest, and fair-minded.

## Strategic Business Objectives

BPA's basic mandates described above have been defined by Congress. The following Strategic Business Objectives define the most important things for BPA to achieve--to ensure the mandates continue to be met through BPA's proposed new Business Concept. BPA must achieve all seven Strategic Business Objectives; none are optional.

Following is a summary of the SBO descriptions from the draft Business Plan.

### BPA'S STRATEGIC BUSINESS OBJECTIVES

Our proposed Strategic Business Objectives are:

- 1. Achieve high and continually improving customer satisfaction.** The ability to understand and fulfill customer needs is the key to success in a competitive marketplace. Aware that we can no longer rely on an inherent price advantage, we intend to give customers more choices by unbundling our products and services, tailoring them to individual customer needs, and setting and adhering to customer service standards.
- 2. Increase the value of our business and share the expanded benefits.** BPA is not a business, but our business success supports the achievement of our legislative mandates. We will expand our three basic lines of business where we have a significant competitive advantage and can provide the greatest value. BPA will increase the value of the business by setting and meeting net revenue targets for each business line. A key part of expanding the energy services business is turning conservation into a successful and growing business.
- 3. Be the lowest-cost producer of power and transmission services.** BPA intends to be the lowest cost power supplier, both for core services, where prices reflect its average costs, and "at the margin," by setting attractive prices for new increments of power and transmission. We will measure and track our costs against those of our competitors and will work to be lowest cost in both the short term and long term. Least-cost planning and the development of least-cost resources such as conservation will continue as an important part of our future, although methods will evolve. BPA will employ a three-faceted approach to conservation: market transformation through support for energy-efficient codes and similar efforts; an increased utility role in conservation development fostered by tiered rates; and BPA sales of DSM products and services. The realities of an increasingly competitive marketplace make low-cost production essential to BPA's survival.
- 4. Achieve and maintain financial integrity.** For BPA, financial integrity means: maintaining adequate economic access to capital; assuring full and timely payments to the U.S. Treasury and other creditors; recovering sufficient revenues to cover costs; and assuring that high quality and timely financial management information is available to our managers as well as interested parties outside the agency.

**5. Keep the power system safe and reliable.** BPA will continue its exemplary record of safety and reliability. BPA will measure and track safety and reliability results and hold managers and staff accountable for them.

**6. Invest in environmental results to sustain our competitiveness.** BPA is committed to maintaining the integrity of the Northwest's environmental and natural resources. We believe that a pro-active environmental protection track record is a competitive asset. We will make sure that our environmental investments, including those for fish & wildlife, produce measurable strategic results.

**7. Transform BPA to a high-performing, business-oriented organization.** We will make major improvements in our organization, systems and processes, and culture. The Leadership EDGE program will help smooth the transition to the New BPA.

BPA has to succeed in all seven Strategic Business Objectives. To ensure accountability for meeting the objectives, we will use critical success indicators (see **Figure 4**). These will monitor progress toward the SBOs, identify where changes should occur when progress is not being made, and measure the performance of individuals and teams.

In addition to agency-level critical success indicators, each part of the agency will have its own set of critical success indicators, linked to the agency-level ones. Managing the agency to these measurable indicators is key to our becoming an organization that focuses more on results than on process.

**Figure 4:**

STRATEGIC BUSINESS OBJECTIVE	CRITICAL SUCCESS INDICATOR	PRELIMINARY TARGET
1. Achieve high and continually improving customer satisfaction.	1a. Improving customer satisfaction targets: i. overall, ii. products, and iii. processes.	1a: i. Extremely and somewhat satisfied overall to 80% by 1997; ii. Extremely and somewhat satisfied with power products to 80% by 1997; and iii. Extremely and somewhat satisfied with processes to 70% by 1997.
2. Increase the value of our business, and share the expanded benefits.	2a. Net revenues/margins by segment. 2b. Corporate citizen measures ( <i>four or more groups</i> ).	2a. Target being developed. 2b. Target being developed.
3. Be the lowest cost producer of power and transmission services.	3a. Beat benchmarks (current and new acquisitions & additions) for: i. generation, ii. conservation, and iii. transmission. 3b. Acquisition of cost-effective conservation (average MW). 3c. Increasing system efficiency: planned MWH plus NWH ("negawatthours") per: i. FTE ( includes contractors), ii. capitalized assets (dollars - net of depreciation), and iii. overhead (dollars - budgeted G&A).	3a: i. Target being developed; ii. Target being developed; and iii. Target being developed. 3b. 265 aMW by 1997, 663 aMW by 2003; 3c: i. 1997=2.72 aMW per FTE; 2002=3.30 aMW per FTE; ii. 1997=0.66 aMW per \$ asset; 2002=0.71 aMW per \$ asset; and iii. 1997=169.7 aMW per \$ overhead; 2002= 151aMW per \$ overhead.
4. Achieve and maintain financial integrity.	4a. Financial reserves. 4b. Bond rating.	4a. Target being developed. 4b. AA bond rating.
5. Keep the power system safe and reliable.	5a. Recordable injury rate. 5b. Beat competitive benchmarks for system ave. interrupt. frequency index (SAIFI).	5a. Less than 4.96 recordable injuries per 200,000 staff-hours; 5b. 95% points of delivery experience 4 interruptions or less.

<p>6. Invest in environmental results to sustain our competitiveness.</p>	<p>6a. Fish &amp; wildlife program results:</p> <ul style="list-style-type: none"> <li>i. anadromous fish,</li> <li>ii. resident fish,</li> <li>iii. wildlife, and</li> <li>iv. cost management.</li> </ul> <p>6b. Environmental investments:</p> <ul style="list-style-type: none"> <li>i. cost effective measures implemented (percent), and</li> <li>ii. measures achieving objectives (percent).</li> </ul>	<p>6a. Targets being developed.</p> <p>6b. Targets being developed.</p>
<p>7. Transform BPA to a high performing, business-oriented organization.</p>	<p>7a. Cultural results:</p> <ul style="list-style-type: none"> <li>i. organizational/personal pride paradigm and</li> <li>ii. leadership/supervision paradigm.</li> <li>iii. diversity workforce and workplace measures</li> </ul> <p>7b. Structure, system and process results:</p> <ul style="list-style-type: none"> <li>i. client relations paradigm and</li> <li>ii. performance/excellence paradigm and profitability/cost effectiveness index.</li> </ul>	<p>7a.</p> <ul style="list-style-type: none"> <li>i. By April 1995, the Organizational/ Personal Pride paradigm index from the Cultural Audit will be at least 8 to 10 points higher than in April 1993 and 30 points higher in 2002 than in 1993.</li> <li>ii. By April 1995, the Leadership/ Supervision paradigm index from the Cultural Audit will be 8 to 10 points higher than in April 1993 and 25 to 30 points higher in 2002 than in 1993.</li> <li>iii. Targets being developed.</li> </ul> <p>7b.</p> <ul style="list-style-type: none"> <li>i. By April 1995, the Customer/Client Relations paradigm index from the Cultural Audit will be 8 to 10 points higher than in April 1993 and 25 points higher in 2002 than in 1993.</li> <li>ii. By April 1995, the Performance/ Excellence and the Profitability/Cost Effectiveness index will each be at least 5 points higher than in April 1993 and 20 points higher in 2002 than in 1993.</li> </ul>

## ALTERNATIVES TO THE BUSINESS PLAN APPROACH

In the course of developing the draft Business Plan, several alternative strategic directions were considered. These alternatives are addressed in some detail in the Business Plan EIS. In brief, the alternative strategic directions considered were as follows:

***Status Quo (No Action).*** This alternative maintains BPA's current methods of doing business and assumes a continued role in planning for long-term development of the regional power system, acquiring resources to meet customer loads, sharing costs and risks among its firm power customers and nonfederal customers using the federal transmission system, and administering its fish & wildlife function, to fulfill the requirements of the BPA's organic statutes. The EIS concluded that the status quo alternative would lead to a regional resource surplus and resulting environmental impacts of unneeded resources. If BPA were able to succeed by maintaining the Status Quo approach, this alternative would have moderate to low overall environmental impacts.

We have concerns that staying with the status quo may create a high risk that BPA would become uncompetitive, damaging BPA's ability to carry out its mandates.

***BPA Influences Customers to Support Regional Goals.*** Under this alternative, in addition to its own activities to acquire energy resources and to enhance fish & wildlife, BPA would exercise its position in regional power markets to promote compliance by its customers with the goals established by the Council and the Northwest Power Act. If it could be successfully implemented, this alternative would have the fewest environmental impacts. Because loads would be reduced by higher prices, reducing the need for resources and the impacts of resource operations.

BPA's once-strong ability to promote compliance with the Council's plan appears greatly weakened by competitive forces. BPA is concerned that attempts to use its position to direct its customers are likely to drive more customers away from BPA to their other options, leaving BPA financially weakened and less able to carry out its mandates.

***Market-Driven BPA - Proposed Action.*** This is the strategic direction alternative described below, which drives the rest of the actions proposed in the draft Business Plan. BPA would fulfill its legislative mandates by becoming a full participant in the competitive market for power, transmission, and energy services and by pursuing the other elements of the strategic direction presented below. BPA would use its success in the markets to ensure the financial strength necessary to fulfill its mandates under the Northwest Power Act and BPA's other organic statutes. Impacts of the proposed action are less than those of the Status Quo alternative because of lower CT operations and DSI loads, but more than the impacts of the BPA Influence because total loads are higher.

Though there are uncertainties, this alternative currently appears to offer the best chance of equipping BPA to meet its mandates in the new competitive environment.

**Variant of Market-Driven: Market-Driven with Fully-BPA-Funded Conservation.** We examined a variant of the Market-Driven alternative that included continued funding of BPA conservation programs at historical levels, instead of the reinvented approach proposed in the Market-Driven alternative. Environmental impacts of this alternative are between those of the Market-Driven and BPA Influence alternatives.

**Maximize BPA's Financial Returns.** Under this alternative, BPA would operate more like a private, for-profit business, and would manage its resources to produce the most revenue while continuing to fulfill the requirements of the Northwest Power Act and BPA's other organic statutes. This alternative emphasizes obtaining the highest net revenue for marketable products and minimizing costs for activities that do not produce revenue. This alternative has substantially worse overall environmental impacts than Status Quo, Market-Driven, and BPA Influence. Only Minimal BPA has greater environmental impact. Higher loads and less conservation result in the need for more generation, hence, more impacts.

BPA believes this alternative would be inconsistent with its statutory obligations and charter as a government agency.

**Minimal BPA Marketing.** Under this alternative, BPA would minimize its role in the competitive market, at least with respect to service to customer load growth. BPA would confine its activities to meeting its existing firm power obligations and its revenue requirements through the long-term allocation of current federal system capability while attempting to continue to fulfill the requirements of the Northwest Power Act and BPA's other organic statutes. The overall environmental impacts of this alternative would be the worst among the alternatives. Under this alternative, the least amount of conservation is achieved.

This alternative would require changes in BPA's statutory authority. We are concerned that this alternative might mean that, because of the competitive challenges, BPA would lose the financial strength necessary to carry out its mandates fully. It also could lead to more fragmented, and potentially less efficient and environmentally sound, development of the regional power system.

**Short-Term Marketing.** In this alternative, BPA would emphasize short-term (5 years and less) marketing of power and transmission products and services, while continuing to attempt to fulfill the requirements of the Northwest Power Act and BPA's other organic statutes. BPA energy conservation would be limited by the potential volatility of loads under short-term marketing. Fewer long-term resource acquisitions would be made. This alternative would have overall environmental impacts comparable to, but slightly lower than, the Maximize Financial Returns alternative. High loads and less conservation result in more impacts of generation.

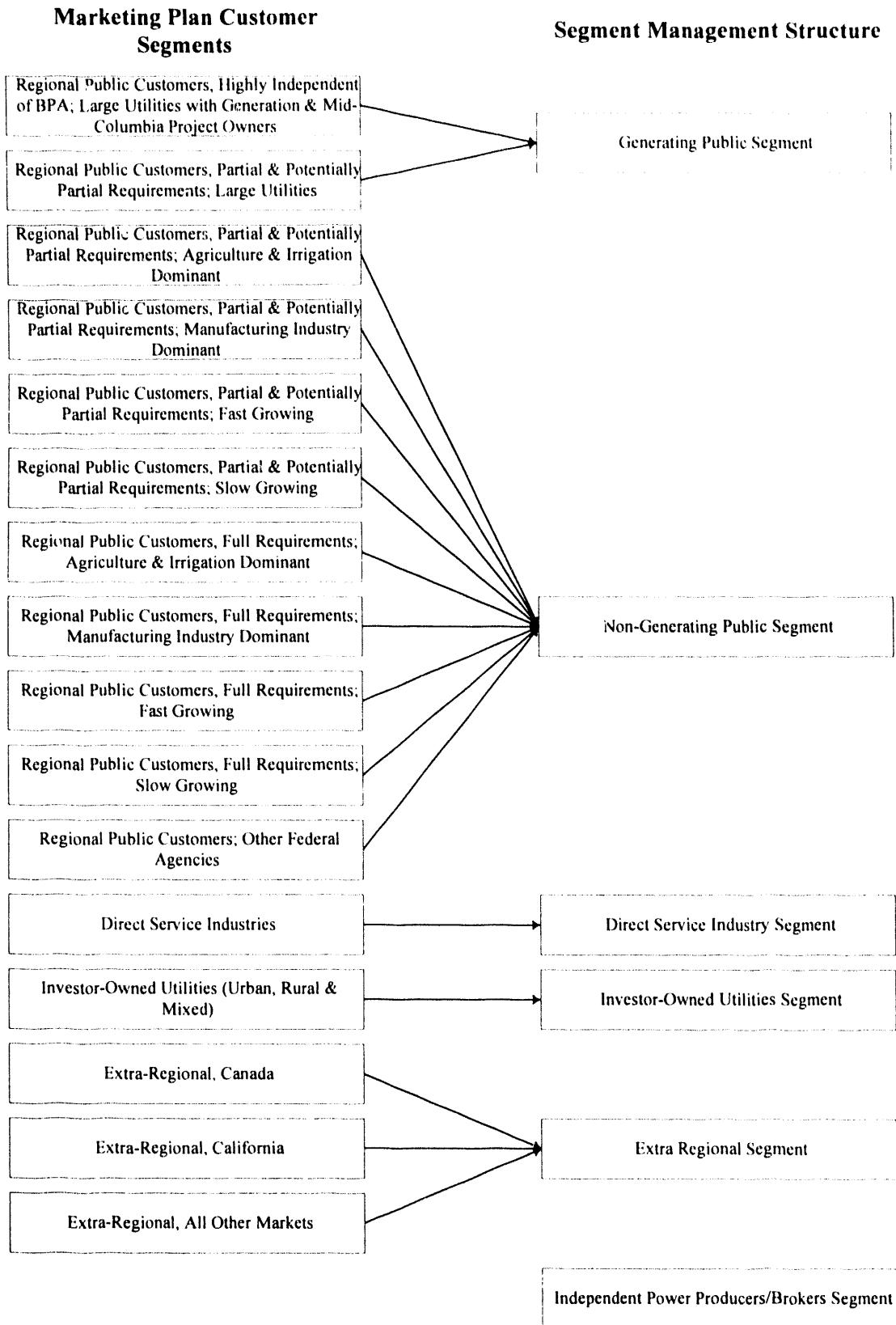
BPA has similar concerns with this alternative as with the Minimal BPA Marketing alternative.

## **A NEW MARKETING STRATEGY: UNBUNDLING PRODUCTS AND CUSTOMER CHOICE**

We took our first step toward developing a new marketing strategy with the publication in February 1994 of our Strategic Marketing Plan. The objective of that plan was to move BPA's traditional mission into the new competitive reality of the 21st century. The draft Business Plan builds on the principles and components of the Marketing Plan.

We have grouped our customers into "segments" based on common characteristics and needs. Segmentation makes it easier to identify products and services needed by a particular group of customers. Segment managers will prepare segment plans that take into account the needs and wants of each customer so the most effective product mix can be created. **Figure 5** shows the different customer segments.

**Figure 5:**



## A New Approach to Meeting Customer Needs

BPA has historically sold power in relatively inflexible "bundles" of products and services. Rates have simply reflected the average of all BPA's costs. This approach limited the amount of choice customers had about what they bought, exposed all customers to the risks entailed in new BPA investments, and reduced utilities' incentive to conserve by rolling the costs of new resources into the generally lower costs of existing resources.

We are proposing to change our rate structure to encourage investment in cost-effective conservation and also to reflect the actual cost of new resources. We propose to divide our rates into two tiers and "unbundle" our products and services. We will market three distinct business lines of products and services to serve the different customer segments and produce revenues.

### The Three Business Lines

Our proposed three business lines are Power, Transmission, and Energy Services.

**Power Business Line.** This includes three product lines: tier 1, tier 2, and unbundled products and services. Briefly, tier 1 products would serve most of existing regional customers' firm loads; tier 2 would serve regional firm power requirements in excess of tier 1, including load growth; and unbundled products would be available for a customer's needs other than its firm power requirements served and priced under tier 1 and tier 2.

We propose to implement tiered rates and unbundled product lines over the next three rate cases. By October 1995, we will establish rates for tier 1 and tier 2 service along with a limited number of unbundled products. In the 1997 rate case, we will establish rates for most of the unbundled product line, and in the 1999 rate case, remaining products and services will be priced.

The tier 1 and tier 2 rates, as well as some unbundled products, are proposed to apply to both existing and new power sales contracts. Customers can choose to keep their existing contracts until they expire in 2001, but will need the flexibility of a new contract if they want the greater choice offered by products and services in the unbundled product line.

Our intent with tiered rates is to give customers a greater incentive to pursue energy efficiency and more choice in deciding whether to meet their load growth by buying additional requirements load service from BPA, by combining purchases from another supplier with unbundled products from BPA, or by relying exclusively on other suppliers. Tiering power rates will enable BPA to price tier 2 service to recover its costs and to price unbundled products and services competitively. It will also give BPA the discipline of a very competitive marketplace to hold down costs.

### Tier 1: Existing Requirements

Our proposed tier 1 product line would make capacity and energy available to meet the firm power requirements of preference customers, federal agencies, and Direct Service Industries (DSIs). Tier 1 billing amounts would be based on a percentage of customers' historic BPA load and at

prices generally based on the costs of existing federal resources. Each customer's monthly billing amount for tier 1 energy and capacity would be further divided into light and heavy load hour amounts.

Tier 1 service would not be an allocation of federal resources. It is a pricing construct for a portion of BPA's firm requirements service based on historical loads and is used for costing and pricing purposes only.

Tier 1 service alone would not be sufficient for customers to meet their total firm requirements loads. We are proposing that customers provide us 4.5 years notice of how much tier 1 product they will purchase in each month. They can decide to use all or part of their monthly amount, but must pay for the full amount they said they would take.

## **Tier 2: Load Growth**

The proposed tier 2 product line would provide capacity and energy to serve load growth and existing loads above tier 1 service. Tier 2 service would be available to both preference and non-preference customers.

BPA may use its purchased power and nonfirm energy to meet tier 2 loads during the next five and possibly ten years, but would maintain resource options from its Resource Contingency Plan in case they are needed. BPA might acquire other resources when specifically requested by customers.

Tier 2 service would be separate only from the point of view of ratemaking, assigning costs, and shielding customers from risks for which they are not responsible. The entire federal system would, however, continue to be operated to serve BPA's total firm power requirements and to maximize total net benefits, including requirements for reliability and other obligations.

We expect the load growth business to be highly competitive. In the past, our market share has been bolstered by rates based on BPA's average power costs which have been too low for competitors to beat consistently. Now we propose tier 2 pricing be based on the costs of purchased power and new resources. This will place BPA in direct competition with alternative suppliers to meet the load growth of existing customers. Prices would be cost-based, be set consistent with the Northwest Power Act, and would reflect risks incurred.

We propose that the tier 2 rate include the costs of power purchases, nonfirm purchases included in power purchases, and resources used to support tier 2 sales, and that these costs be recovered through revenues from tier 2 products.

Customers would be able to choose the tier 2 service features they want. These would include different notice periods and contract lengths. Eventually BPA may consider offering, and customers may be able to purchase tier 2 products tied to a specific resource, a portfolio of resources, or to the short-term market. Customers could build their own portfolios combining different products.

We intend that tier 2 products become a self-supporting line of business and that in time they would increase BPA's net revenues.

## Unbundled Product Line

Our proposed unbundled product line would consist of all of our remaining power products and services in excess of our obligation to provide delivery of tier 1 and tier 2 service. Our unbundled product line would be available to both utility and non-utility customers.

Unbundled products (see box) could be purchased individually or as part of packages that allow BPA customers to meet their individual needs. Customers could purchase unbundled products and services to complement any firm load requirements service under tier 1 and tier 2, or power acquired from other sources.

As transmission access is opened up and deregulation proceeds, the demand for BPA's unbundled products is likely to increase. We expect to be able to produce unbundled products from our current system for the next five to 10 years, using the flexibility of the hydro system to provide higher value unbundled products and services that increase revenues. Most of the services would be offered for less than five-year periods. We expect the unbundled product line to become self-supporting and eventually to increase our revenues.

### UNBUNDLED PRODUCTS

Unbundled power products we are proposing to offer include:

***Generation Integration Services.*** For customers who have their own resources, BPA proposes to offer shaping services to allow them to optimize or guarantee the output of their non-federal generation.

***Coordination Services.*** Generation products and shaping services provided under the Pacific Northwest Coordination Agreement may be provided to reservoir owners that provide similar services.

***System Support Products.*** BPA may offer services designed to support the electrical integrity of the regional power system. BPA could provide such service to distribution systems within BPA's control area and to other utilities' control areas when necessary.

***Shaping Services.*** These would allow customers to shape forecasted amounts of tier 1 and tier 2 service deliveries to meet their actual daily loads. BPA could also provide load regulation to match actual deliveries to a customer's load within an hour.

***Surplus Power Products.*** BPA may offer capacity and energy products in excess of its firm requirements obligations and participate in transactions in the nonfirm and surplus power markets. Surplus firm products would provide guaranteed delivery of specified energy under negotiated terms and conditions.

***In-Lieu Power for the Residential Exchange.*** New residential exchange contracts are proposed to include terms and conditions for actual delivery of power in lieu of exchanging power. BPA will propose shortening the notice required for in-lieu in new contracts to reflect current market conditions for resource development and removing contractual restrictions on the type of resources that can be used for in-lieu.

***Capacity with Peaking Energy.*** These products would provide specified quantities of energy on heavy load hours in exchange for cash or energy on light load hours.

## Transmission Business Line

This business line would include the transmission necessary for delivery of BPA power products and wheeling services BPA provides for other entities. We intend to operate our transmission system to enhance competition in wholesale power markets through open transmission access. We will provide transmission not only for our power business, but also for other Northwest loads, offering benefits at comparable prices.

The intent of the transmission business line is to stimulate a competitive energy market, increase the options for BPA to be competitive, and to capitalize on emerging markets and customer segments. To the extent possible, transmission would be managed as a separate, self-supporting line of business.

We propose to negotiate and support the transmission requirements of purchases and sales for BPA and its customers outside of the Northwest. We would also continue to contract with other parties for the use of their transmission systems to deliver federal power (e.g., extraregional transmission service) as part of our transmission business. A summary of a draft “business construct” and transmission principles developed by BPA and a customer review group are shown in the box below.

With respect to subtransmission, BPA is moving toward narrowing its role to providing bulk power transmission and having customers assume an increasing responsibility for subtransmission facilities.

## TRANSMISSION BUSINESS CONSTRUCT AND PRINCIPLES

### BUSINESS CONSTRUCT

***Open Access Model:*** To the extent possible we will provide network transmission services based on the following business construct:

1. BPA and its customers will foster competition in wholesale power markets through open transmission access.
2. BPA will be a full participant in this competitive wholesale power market. BPA may engage in market pricing of unbundled power products provided that a workable competitive market exists for such products and further pricing principles for tier 2 and unbundled services are established.
3. BPA's transmission system is managed as a separate line of business (Transmission Business Line.)
4. The rates, terms, and conditions of the Transmission Business Line services are such that the business line recovers its costs but does not subsidize other business lines.
5. As part of the Transmission Business Line, BPA will continue its role as the region's primary transmission provider. The Transmission Business Line and other regional transmission providers operate, plan, and construct new facilities in coordination with regional transmission users to assure adequate transmission capacity to meet all regional loads.
6. Adequate access to capital for regional transmission providers is essential to the success of this business construct.

### TRANSMISSION PRINCIPLES

1. BPA's network transmission system is operated to provide transmission services for Northwest federal and nonfederal loads on a comparable basis.
  - a. Existing Transmission Customers. BPA will continue, as a first priority, to provide reliable transmission to meet BPA's existing firm power and transmission obligations, and renewal of those obligations. BPA's existing transmission obligations shall include transmission of industrial firm power and replacement power to each DSI up to its contract demand in the current Power Sales Contract and shall continue at such level under any renewal of the Power Sales Contract. The same transmission priority will apply to Northwest utilities or DSIs that reduce or eliminate power purchases from BPA but continue to use BPA transmission for delivery of nonfederal power to their loads--so long as the conversion does not unduly increase transmission constraints.
  - b. New Transmission Requests. Where a Northwest customer has the right to buy power from nonfederal suppliers to serve Northwest loads, transmission will be provided for such purchases on the same basis as if BPA had acquired and sold the power.

2. There is reciprocal treatment among all providers of regional transmission. For extra-regional users of the regional transmission system, reciprocity shall also apply. However, no party will be required to take reciprocal action contrary to applicable law or FERC regulatory requirements.
3. If there are competing requests for new services over constrained transmission capacity priority should be given to those requests for service to in-region loads.
4. BPA's transmission policies, including pricing and rate making, should be simple and clear.
5. Rates, terms and conditions for BPA network transmission services of general applicability shall be developed as an integrated package, in an open process.
6. BPA transmission rate design will favor an embedded cost approach, provided that such an approach does not unduly burden BPA's existing federal and nonfederal transmission customers.
7. Power and wheeling customers should be charged on the same basis, and the same price, for the same transmission services.
8. Transmission service is provided at the lowest rates that are consistent with recovering total transmission costs.
9. Transmission policies (e.g., rates, access, terms and conditions) and practices (e.g., planning) will provide appropriate signals for efficient transmission development and use, to the extent practicable.
10. Principles shall be developed for reservations of transmission capacity for federal and nonfederal use, including availability, terms, prices and conditions.
11. BPA should pursue participation in the Westwide and Northwest Regional Transmission Groups. BPA should ensure its participation is consistent with these principles.
12. BPA and other Northwest transmission providers should not be required to provide transmission services on constrained paths which are likely to cause uncompensated spill from reservoirs which otherwise could be used to generate power.
13. These principles have not been determined to apply to network nonfirm transmission or curtailments, or to non-network transmission such as interties, interconnection facilities or ancillary services.

## **Energy Services Business Line**

In keeping with the changes in the electric industry, we propose to begin offering customers a broad-based set of energy services. We believe this business line is key to meeting regional goals and values described in the Northwest Power Planning Council's Power Plan. The energy services business line would provide our customers with an expanding menu of services to meet the changing needs of their own markets.

## DSM Product Line

Our first energy services product line would be demand-side management (DSM) products and services. DSM refers to strategies for reducing loads by influencing when and how customers use electricity. BPA's DSM line would include products and services for at both energy conservation, the historical focus of Northwest DSM activities, and peak load management.

This demand-side focus is one that electric utilities are learning to adopt as the energy market becomes more competitive. DSM can serve as the cornerstone for a relationship between BPA and its customers which focuses on their needs, for example, to manage their wholesale power bills and to improve the use of their assets. To be competitive, DSM products must be offered as a real alternative to power products, priced competitively, and delivering verifiable "negawatts."

After 15 years of successful conservation development in the region, we have established a strong partnership with our customers. Through conservation programs, we have developed day-to-day working relationships with utilities operating centrally designed programs. The new energy services business line would build on these relationships.

As described later, the DSM product line is one element of our proposed three-pronged approach to meeting the Council's conservation targets.

The DSM product line would support utility and end user conservation and load management through financing, installation, and technical and marketing support. Customers could use DSM products and services to offset load growth in tier 2 or to meet load management objectives and improve asset utilization. Product types are described below.

***Energy Service Charges.*** We propose to obtain loan authority that will allow us to invest in utility conservation programs in fiscal 1995 and beyond through use of a wholesale energy service charge (ESC). Utilities would be able to finance efficiency projects for their customers using upfront capital from BPA and repay the costs on their wholesale power bills. Utilities could choose to offer incentives, a retail ESC, or a combination to their customers. We will also consider wholesale ESC financing arrangements that base repayment terms and conditions on shared savings.

Through the ESC, utilities would be able to finance many efficiency-related ventures they could not finance under BPA's previous incentive program. These include: energy measures that have non-energy benefits, such as higher quality energy-efficient windows; the total costs of measures, not just incremental costs; innovative measures, such as energy-efficient office equipment; and administrative costs.

***DSM Support Services.*** BPA's financing support could be packaged with a range of technical services, such as energy audits and engineering design assistance, which utilities could purchase for an additional service charge. Utilities would be able to call upon the advice and assistance of BPA's energy-efficiency experts, many of whom have years of experience with conservation programs.

**Load Shaping.** BPA will also offer a load-shaping service, which would allow utilities to choose between our power peaking capacity and our DSM products. Our unbundled product line offers peaking capability as a separate product. DSM's value is that it can reduce peak load requirements. During the winters of 1989 and 1990, load analysis showed that homes built to the Model Conservation Standards helped reduce peaking problems as well as the costs of purchased power.

Our load-shaping DSM products may include a package of end use measures, such as radio controlled water heaters or thermal storage, which can reduce peak demand. We may also offer consulting services to help utilities design retail rate strategies that encourage industrial users, for example, to move production shifts to off-peak hours. Payments could be based on savings realized, at rates competitive with comparable unbundled power product offerings from BPA.

We expect that the energy services business line would become self-supporting by fiscal year 2000. The goal is to achieve 110 aMW of conservation through the sales of DSM products and services to utilities, DSIs, and federal agency customers by the end of 2003.

## Future Product Lines

Traditionally, BPA has performed construction and maintenance, transmission, and some distribution for customers on a reimbursable basis. Expanding these services to demand-side management marks a departure that could in the future be extended to other electric utility-related services. These might include engineering and technical consulting and integrated resource planning assistance, including load forecasting.

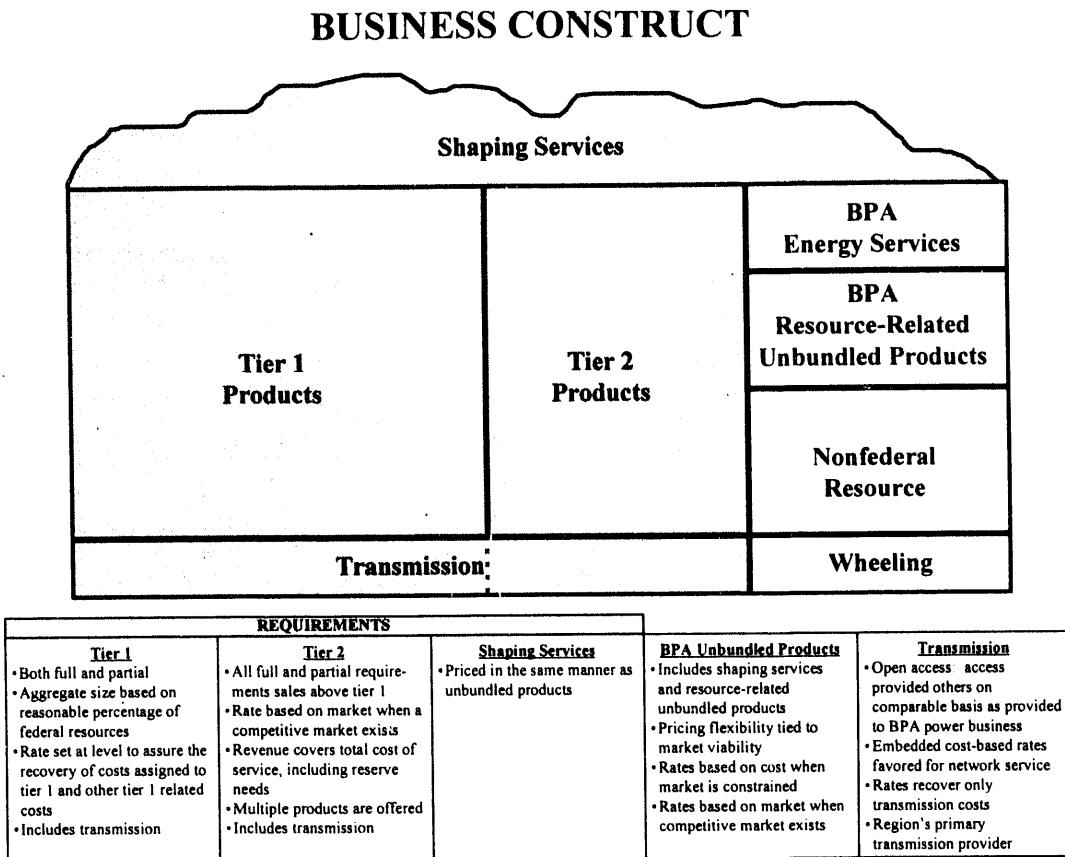
In time we may develop additional business lines. New technologies and alternative fuels are creating many new opportunities for electric utilities. Fiber optics technology represents one possible business line where BPA might offer value to customers.

## Service Packages

We have put together some initial service packages which can serve as the basic building blocks for BPA power sales. They are summarized below; the Business Plan contains detail on those packages.

**Figure 6** shows the basic framework of the packages.

**Figure 6:**



The basic tier 1 and tier 2 products would be monthly power. We would provide operating reserves (unloaded hourly generating capability or load restriction rights) needed to support tier 1 service. We would also provide transmission to existing points of delivery. If the customer needs a new point of delivery, BPA would provide main grid transmission only.

Most utilities that purchase power from BPA will need some basic shaping services. These enable them to have BPA increase or decrease their forecasted hourly deliveries to meet their actual hourly needs. They also permit utilities without Automatic Generation Control (AGC) to have BPA regulate load within the hour.

For utilities that decide to rely on resources other than BPA power to meet their loads, there are packages with different power and transmission products that enable these utilities to take full advantage of their alternate resource choices. Whatever resource a utility chooses, it must be accompanied by transmission from the resource to the load and sufficient operating reserves. Either BPA or another utility could supply these products.

We can also supply a generation guarantee product that would essentially take the guesswork out of resource operation. Purchase of this product means BPA would estimate resource output and

guarantee monthly amounts of resources to meet a customer's loads. Generation guarantee allows BPA to manage a utility's load even after the utility has purchased a resource.

## Pricing

BPA developed the following tiered rates principles in close consultation with customers and other interested parties. BPA plans to use these principles as a key foundation for its initial proposal in the 1995 rate case.

### PROPOSED TIERED RATES PRINCIPLES

1. Each customer has a contractual right to purchase an amount of power from BPA at a tier 1 rate that is based on the cost of the existing system.
  - a. The amount of power will be based on reasonable historical loads of each customer and a reasonable percentage of the existing capability of existing federal resources.
  - b. Tier 1 purchase rights are not an allocation of specific resources, but are a right to purchase power at a rate based on the actual cost of the identified resources.
  - c. Cost associated with load growth and unbundled products will be borne by those customers that purchase those products. Tier 1 customers will be the source of last resort for any unrecovered costs.
  - d. Any changes in the vintage purchase rights will be limited, clearly defined, and made only with the proper notice, but will explicitly recognize reductions in resource capability.
  - e. All the costs of the existing federal system will be included in the development of the tier 1 rate. To the extent that the federal system is utilized to provide load growth or unbundled services, a mechanism will be developed to recognize such use in establishing the tier 1 rate.
2. BPA offers load growth products at a separate rate or rates that recover the total cost of providing these services, including risk management and reserves, directly from the customers that purchase the services. These principles describe a fully functioning load growth business. It is recognized that there will be start-up issues.
  - a. Bilateral commercial transactions with customers assuming all benefits, costs and risks of new resources are the primary vehicle, during the transition to other potential constructs consistent with 1.c. above.
  - b. For customers seeking a firm full requirements service, BPA will offer a load growth product that includes resource portfolio management and reserves.
  - c. Generally, BPA will not develop resources unless customers request it to do so.
  - d. Tier 2 rates are intended to encourage customers to independently develop resources, including conservation.

- e. All resources acquired by BPA to serve tier 2 load growth are treated as FBS replacements.
- f. These principles do not preclude BPA from offering other products to meet the load growth needs of customers.
- 3. Other BPA unbundled products will be made available to customers and to BPA on the same terms and conditions (i.e., no internal transfer subsidies).
  - a. Principles will be established for pricing of its unbundled power services.
  - b. Tier 1 customers will be a beneficiary of unbundled market revenues from the sale of products produced from the existing system commensurate with the level of costs or risks tier 1 bears.
- 4. Conservation services are offered through an energy services approach where the total costs are recovered from the customer purchasing the service. Recovery of market transformation costs from tier 1 customers will be considered.

[Possible additions to Principle 4:]

- a. Tiered rates are not a substitute for programs/activities and may not be sufficient to ensure the acquisition of all cost-effective conservation and renewable resources.
- b. The amount and character of BPA investment in conservation and renewable resources (which should not be limited to the energy service charge approach) should be determined in other forums in parallel to the tiered rates process.
- c. Conservation acquisition momentum should be preserved and enhanced.
- 5. Tiered rates are implemented consistent with the Northwest Power Act and other organic statutes.
- 6. BPA ensures availability of transmission capacity under well-established principles governing access to existing facilities and sharing in new facilities.
- 7. BPA will establish structures and processes which assure accountability for the marketing and pricing of load growth and unbundled products, consistent with these principles.

Definitions:

Load Growth Products or Business: Products that serve tier 2 firm requirements.

Unbundled Products: All other non-tier 1 or load growth products.



## CLOSING THE REVENUE GAP, AND THE RATE GOAL

To close our revenue gap, we propose four strategic actions: retaining most of BPA's customer load (1,000 MW out of 1,400 MW); increasing our revenues from new products and the unbundling and rebundling of new and existing products; increased efficiency and productivity; and program "reinvention." These actions are fundamental changes to the way that we do business, because incremental changes will not yield the results necessary to close the revenue gap.

**Figure 7** shows how we propose to close the revenue gap. Cost reductions averaging \$300 million per year from 1996 to 2002 are proposed, through:

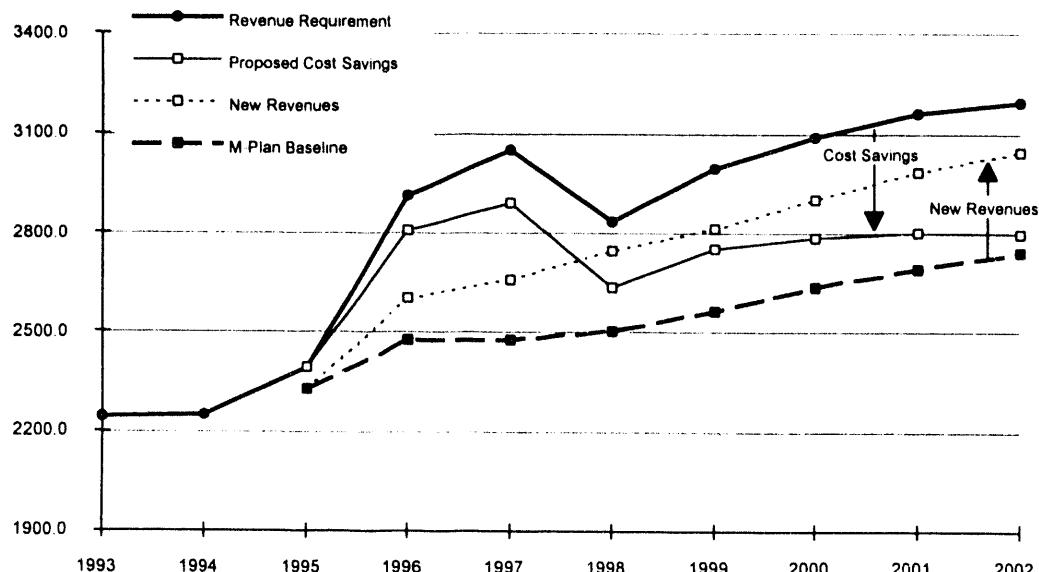
- Limiting net residential exchange costs to no more than \$200 million per year.
- Reducing long-term generating resource acquisitions in favor of short-term purchases.
- Reduced staffing.
- Productivity improvements identified through the Function-by-Function Review.
- Capital and expense reductions through “reinvention” of major BPA functions.

Revenue increases through sale of new and unbundled products average \$200 million per year, as the figure indicates.

These actions close the gap from 1998 through 2002, but fall short of closing it by about \$200 million in the next rate period--1996 and 1997. If BPA could raise rates to cover this remaining gap without incurring significant load loss, the increase would be approximately 8 to 10 percent in 1996 and 1997.

**Figure 7:**

### Closing the Gap with New Revenues & Cost Savings



Our intent right now is to propose **no increase in the price of tier 1 power above the current PF rate level before 2000**. We believe a tier 1 increase must be avoided to stabilize BPA's competitive position. To achieve this goal, we will continue to pursue alternatives for closing the revenue gap over the summer, with the assistance of comments from customers, interest groups, and employees.

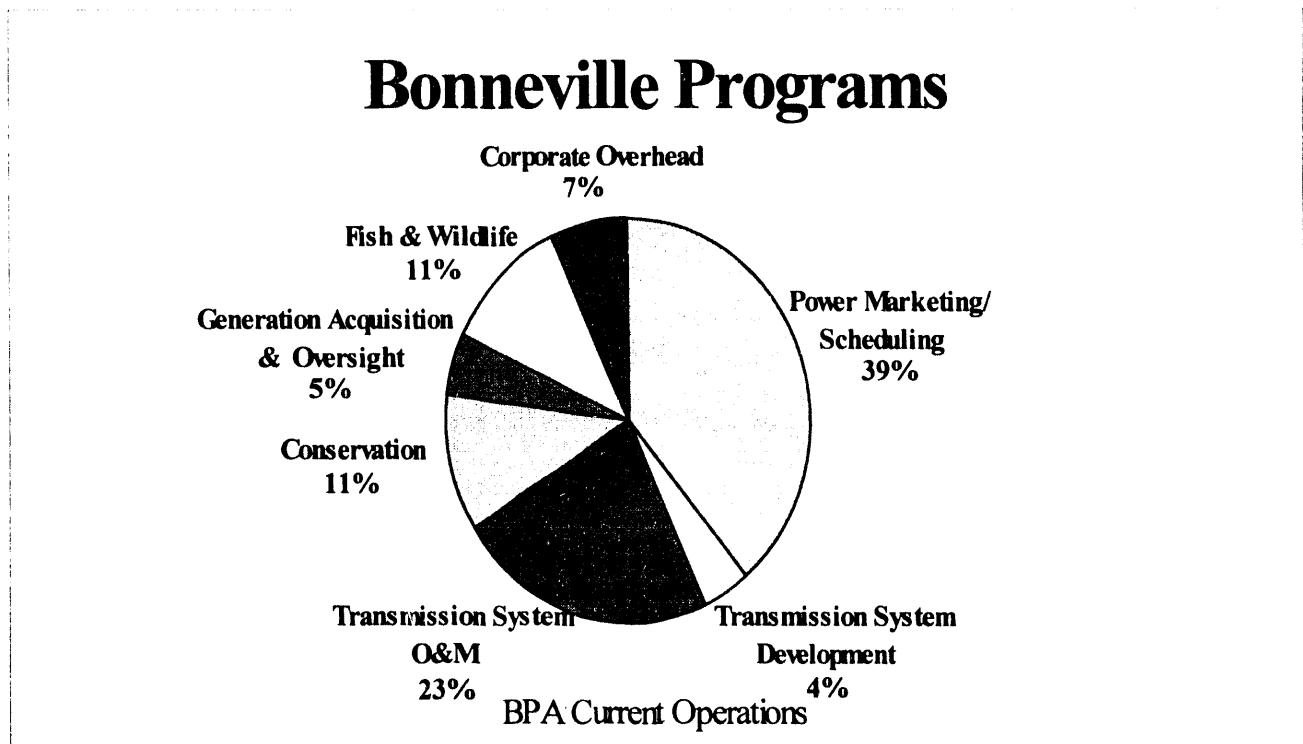
Our goal is to issue a final Business Plan this fall with sufficient gap-closure measures to support a no-rate-increase initial proposal for tier 1 in the 1995 rate proceeding.

## Stabilizing Major Program Funding

For the final Business Plan, we intend to update a refined assessment of the ability of BPA's revenues to sustain its costs, and in cases such as the fish & wildlife program, stabilize funding. We plan to do this in four steps:

1. Improve our estimates of the sustainable range of BPA revenues, given market constraints.
2. Compare the range of sustainable revenues with cost estimates for major BPA functions (e.g., transmission, energy conservation, power purchases, fish & wildlife, public and private debt service), including the range of cost uncertainty around each function.
3. Define which BPA functions are most at risk if BPA is unable to bring costs and revenues into balance.
4. Identify methods for stabilizing funding for functions such as fish & wildlife, given revenue constraints.

**Figure 8:**

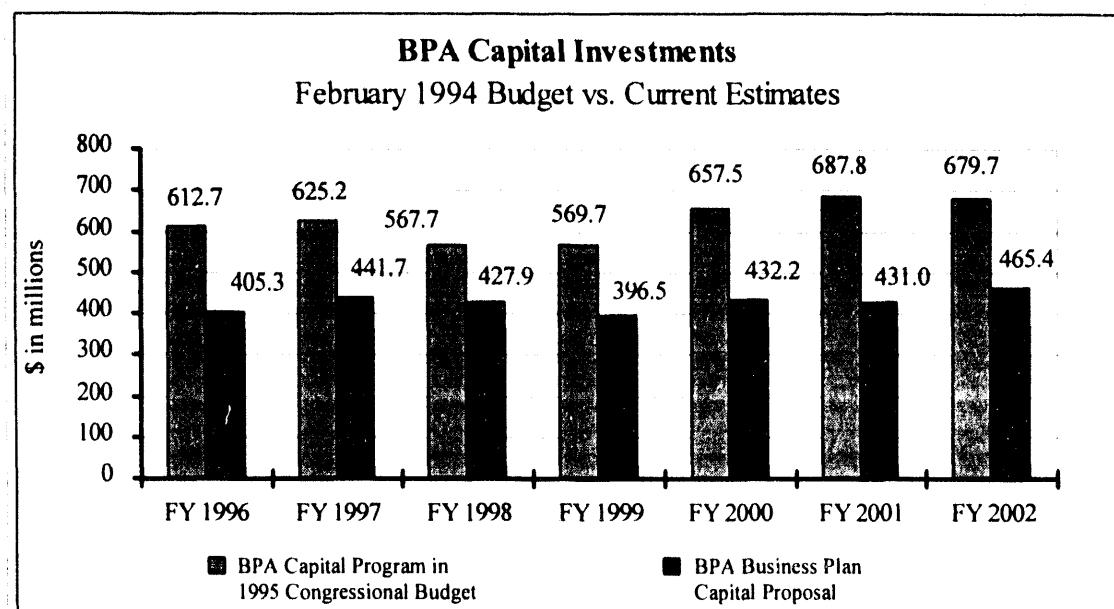


We intend to conduct these four steps in full consultation BPA customers, states, tribes, public interest groups, and federal agencies with relevant interests.

## Capital Investments

The capital spending we are proposing in the draft Business Plan has been reduced by about 32 percent for the FY 1996-2002 period, compared to our February 1994 Congressional budget submission. **Figure 9** shows our capital budget cost-cutting efforts. The reductions achieved came from "reinventing" some agency functions and eliminating or deferring all but the most essential planned capital investments.

**Figure 9:**



## Borrowing Cap

Pre-Business Plan capital investment plans would have exceeded borrowing caps for both the conservation and transmission/fish & wildlife before 2000. The proposed reinvention approach would solve the conservation cap problem by making conservation self-sustaining under the borrowing cap. But even after substantial capital costs, the transmission/fish & wildlife investment plans in the Business Plan still exceed BPA's borrowing limits by FY 1998. To get by under the current borrowing cap, at least until 2001, we propose:

- Further reductions in capital spending, through application of a new capital budgeting process.
- Revenue financing of about \$15 million of transmission capital and \$15 million of fish & wildlife capital per year.
- Shifting costs from the transmission/fish & wildlife authority to the conservation authority, to the extent possible.
- Exploring alternative sources of capital.

We will decide what combination of these steps to use in the final Business Plan.

## Financial Risk Mitigation

As mentioned earlier, several new risk factors have increased our already substantial cash flow risks. Among these are changes in hydro system operations to provide spring fish flows and the overall financial uncertainties related to our transition to tiered rates. The \$535 million financial reserve target we identified in our 10-Year Financial Plan as being sufficient to provide for a 95 percent Treasury repayment probability may now only provide an 85-90 percent probability.

Because the proposed business lines have very different financial risk profiles, we will develop a risk mitigation strategy for each, which will appear in the final Business Plan. We also intend to evaluate how financial futures and options contracts might be used to develop a managed, financial risk hedging program, in which BPA would pay a premium to transfer some of its "catastrophic" operating risks to other parties.

### APPROPRIATIONS BUYOUT

Since the mid-1980s, almost every President's budget has included a proposal to restructure BPA's repayment of appropriated debt. The repayment proposals have been put forth by those who think the low interest rates on BPA's debt are a taxpayer subsidy of BPA ratepayers and that the situation should be remedied by raising the interest rates on the debt or accelerating the time frame for repayment. Some of the proposals would have increased BPA rates by 10 to 15 percent.

In 1991, seeking to put an end to the subsidy criticisms, Senator Mark Hatfield requested a study of BPA's financing alternatives. BPA worked with the Public Power Council and others to analyze options for retiring BPA's debt to the U.S. Treasury. One idea considered was for BPA to issue bonds in the open market to refinance its entire repayment obligations.

The current proposal would replace BPA's outstanding repayment obligations with new appropriations repayment obligations. Principal on the new obligations would be set at the present value of BPA's payments on appropriated investments under a term schedule, plus \$100 million. The new principal would be assigned the current long-term interest rate, and existing due dates for retiring the obligations would be unaffected. The proposal is designed not to increase the deficit over the fiscal 1995-1999 budget period and not to have any appreciable effect on BPA's power and transmission rates. This legislation may be introduced this year.



## STRATEGIC ACTION PLANS AND PROGRAM REINVENTION

Under BPA's new organizational structure, all of our work falls into one of seven groups: sales and customer service; marketing, conservation, and production; transmission services; environment/fish & wildlife; corporate services; financial services; and legal services. Strategic action plans have been drafted for each group, aimed at carrying out the agency's strategic business objectives.

The plans present what each function proposes to accomplish, how it will be accomplished, and what it will cost. In many cases, the plans propose the reinvention of traditional BPA programs and functions. The section below presents highlights from the strategic action plans; please consult the draft Business Plan for details.

### Conservation Reinvention

BPA remains committed to achievement of all cost effective conservation; and is proposing a reinvented approach for doing so. The "reinvention" would rely on utility responses to tiered rates, new BPA DSM products and services, and market transformation to meet the Northwest Power Planning Council's savings target, currently set at 660 average megawatts for the year 2003, and to exceed that target where cost-effective. We have worked with our customers and constituents to develop a set of principles to govern our new approach to conservation (see box).

#### PROPOSED CONSERVATION REINVENTION PRINCIPLES

The overall goal of BPA's conservation reinvention is to meet the Northwest Power Planning Council's savings target, currently at 660 average MW for the year 2003, and to exceed that target where cost effective. Progress toward this goal will be evaluated through the use of annual targets.

BPA will achieve this goal through the following strategies:

**1. *BPA-Funded "Market Transformation" Programs.***

- a. Market transformation involves cost-effective electricity savings that are blocked by market barriers and subject to significant economies of scale or scope, so that BPA should take the lead in program design and investment. Market transformation programs are designed to generate regional benefits through large and permanent improvements in building and product designs and performance. Examples include support for statewide/regional efficiency codes and standards; BPA participation in the national Consortium for Energy Efficiency; and research and development.

- b. Program designs and funding will be determined by BPA through a consultative process based on a comprehensive joint analysis of cost-effective market transformation opportunities and priorities. This analysis will yield a more specific definition of the "market transformation" concept. Funding for programs falling under this definition are intended to be included in tier 1 rates.

2. ***Customer-Funded Efficiency Programs.***

- a. Each customer will commit in its power sales contract with BPA to develop and implement an Integrated Resource Plan that is consistent with existing IRP criteria and that includes a corresponding Efficiency Action Plan. Criteria will be confirmed through a consultative process.
- b. BPA, its customers, the Council, and other interested parties will collaborate on an independent mechanism to track accomplishments under the Action Plans.
- c. A performance accountability mechanism will be developed collaboratively before the final Business Plan.

3. ***BPA Demand-Side Products and Services.***

- a. BPA intends to transition to a new conservation development approach in FY 1996. However, BPA will assure that this transition from current BPA programs to "conservation reinvention" occurs on schedules and terms that are mutually acceptable to BPA and participating customers and that maintain regional momentum in conservation achievement.
- b. BPA will commit to sufficient actions to permit midcourse corrections if needed to meet savings targets, including but not limited to reductions in energy service charges to customers.

***Conservation Goals and Accomplishments.*** BPA's goal is to achieve all cost-effective conservation, or a minimum of 660 aMW, between 1992 and 2003. The major contributors to meeting conservation targets are existing programs and other contractual obligations; utility-initiated programs, fostered by tiered rates; BPA's DSM products and services; and market transformation. **Table 1** shows specific year-by-year projections for all components in the strategy.

BPA has already realized 79 MW from FY 1992-1993 programs. Another 55 aMW are projected to be achieved through codes and standards put into place since the target was established. BPA's current regionwide programs will achieve 96 aMW assuming current budgets continue through FY 1995. Since targets have been exceeded for the past two years, there is reason to expect achievements may be greater than targeted in FY 1994-1995 as well. ESCO contracts, Targeted Acquisition Programs, utility power plants, and other special contracts put into place over the past couple of years are expected to achieve 101 aMW. These contracts are assumed to continue through the contract term. Most are expected to be completed by FY 1997.

Market transformation efforts are conservatively estimated to save 27 aMW. Substantially higher savings may be possible through market transformation.

**Table 1:**

<b>BPA CONSERVATION GOALS AND ACCOMPLISHMENTS</b> (\$ in millions)													
<b>ANNUAL INCREMENTAL</b>	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	<b>Cumul. 1992-2003</b>
Target from 1992 Conservation Implementation Plan	25	31	41	49	58	61	67	70	68	67	63	63	663
Adjustment due to targets met with codes/standards	0	0	-3	-5	-5	-6	-6	-6	-6	-6	-6	-6	-55
Revised Conservation Target	25	31	38	44	53	55	61	64	62	61	57	57	608
aMW savings accomplished to date	27	52											-79
End-consumer price response to retail tiered rates (net of fuel switching)	0	0	0	0	-2	-4	-4	-6	-6	-6	-6	-6	-40
Lost conservation potential due to fuel switching	0	0	0	0	-2	-2	-2	-3	-3	-3	-3	-3	-22
Existing contractual obligations	0	0	-39	-28	-13	-12	-4	-2	-2	-1	0	0	-101
Existing regional programs	0	0	-41	-44	-11	0	0	0	0	0	0	0	-96
Utility-initiated DSM (segments 1&3)	0	0	0	0	-5	-11	-13	-13	-13	-14	-15	-16	-100
Utility-initiated DSM (remaining segments, net of BPA ESC)	0	0	0	0	-1	-3	-4	-4	-4	-4	-5	-5	-30
Market transformation activities					0	-1	-2	-3	-4	-4	-5	-5	-27*
BPA DSM products & services (non ESC)					0	-2	-7	-10	-7	-5	-4	-1	-37
BPA Energy Service Charge business					-4	-5	-5	-6	-6	-6	-6	-6	-50
Yet to be acquired - annual increment	-2	-21	-42	-32	11	9	15	19	19	19	16	14	26
Yet to be acquired - cumulative	-2	-23	-65	-97	-86	-77	-62	-43	-24	-5	12	26	

## **Fish & Wildlife Strategy**

The rapid increase in fish & wildlife expenditures in recent years pose a special challenge. First expenditures, have risen from \$20 million in 1981 to \$350 million this year without a proportionate increase in results. Second, potential exists for even greater expenditures, coupled with uncertainty about how we will provide stability and predictability in this important area. This draft Plan describes mechanisms to focus on results and provide greater certainty. It is recognized, however, that BPA has only limited control over the size of its fish & wildlife expenditures. Yet, the magnitude of the expenditures, their volatility, and their institutional complexity makes success critical to BPA's long-term competitiveness.

During the past 10 years, BPA has defined its fish & wildlife success by the number of projects it has supported and the amount of money it has spent. For example, in 1993 alone, we funded about 200 fish & wildlife activities at an estimated cost of \$81 million. Even with these investments, the biological problems, such as the decline of salmon and steelhead runs, remain throughout the Columbia River Basin. We are committed to meeting our regional fish & wildlife responsibilities, but as the agency "transforms" to a more business-like focus, we intend to increase the emphasis on results.

In the future, we propose to measure our success not by projects funded or dollars spent, but by assessing whether there have been increases in actual numbers of fish in the water and wildlife in the air and on the ground. We propose to accomplish this by being a partner in a broader ecosystem-based planning effort.

### **KEY STRATEGIC FISH & WILDLIFE ACTIONS**

Our fish & wildlife strategic goal is: Through regional partnerships, BPA will meet its obligations to protect, mitigate, and enhance wildlife and fish resources of the Columbia River Basin, and to provide equitable treatment of fish & wildlife in power system operations. This will be accomplished in a holistic, biologically sound, and cost-effective manner, while increasing budget certainty.

To carry out this goal, our reinvented fish & wildlife program will:

- Achieve fish & wildlife results which are biologically sound, cost-effective, and fulfill BPA's obligations.
- Participate in developing and implementing an ecosystem management approach for regional fish & wildlife activities with the Council, state and federal management agencies, customers, local entities, and Tribes.
- Achieve greater operational certainty, which will enhance BPA's future ability to fund fish & wildlife results.

- Implement a sound financial strategy by:
  - framing BPA's obligation and develop strategies for achieving greater results with existing funds;
  - assuring direct program budget reliability;
  - linking O&M Reimbursable (Council/Corps/Bureau/U.S. Fish & Wildlife Service) budgets with BPA's direct program to achieve greater program accountability and results;
  - optimizing power purchases and spill-related power impacts; and
  - allocating a portion of net revenues for gain sharing.
- Improve external relationships, including government-to-government relationships with the region's Tribes.

### ***Key to Proposed Fish Strategy: Getting Results and Assuring Financial Stability***

We will measure future results by using the critical success indicators in the draft Business Plan to evaluate activities supported and funded. Expected and actual results, as credited toward regional goals and measurable objectives, will influence all aspects of fish & wildlife expenditures. We will work with the Council, Tribes, management agencies, and other interests to define these regional benchmarks. Currently, BPA funds fish & wildlife activities in three areas:

- The direct fish & wildlife program, which includes the Northwest Power Planning Council's program, and ESA and non-ESA-related activities that benefit fish & wildlife.
- Reimbursable operation and maintenance (O&M) and fixed expenses for the lower Snake River compensation plan and Corps of Engineers/Bureau of Reclamation hatcheries, and Corps fish passage facilities.
- Hydro system operations, such as power purchases for flow augmentation, reservoir drawdown, and spill for juvenile passage.

We are reviewing project results and expenditures for all three of these areas. We will also review our 1995 Annual Implementation Work Plan with our regional partners to determine how much funding is tied to fish & wildlife results and monitoring and evaluation, as opposed to process-related activities.

In addition to increased results, we will seek financial stability in the three areas listed above. We will provide a base annual budget for the direct fish & wildlife and O&M programs. In this budget, we will focus on projects that satisfy BPA's obligations and seek to improve cost management in areas such as contracting. The base may also be augmented by "gain sharing," or other financial agreements.

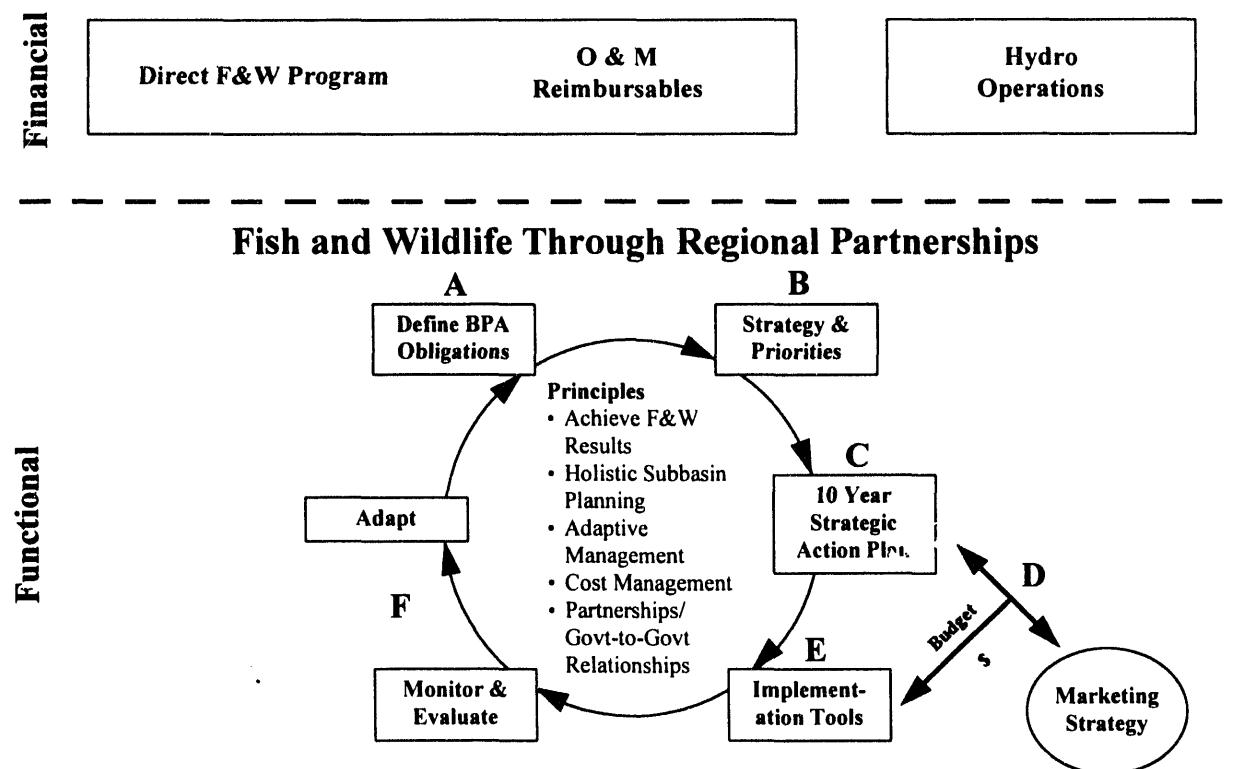
We also believe we can achieve greater efficiencies in the O&M Reimbursables budget. We will link the expenditures in this budget with those of the direct fish & wildlife program and see what that linkage tells us in terms of results funded. This should result in better coordination of results, possibly making more funding available for additional work.

We believe we can get fish & wildlife results, and stabilize funding by linking the direct program and the O&M program at a base-level range of between \$150 million and \$190 million in FY 1996, escalated through FY 2002. We also intend to achieve greater budget certainty for planned hydro system operations. This means controlling costs associated with power purchases and revenues foregone due to fish flows.

We are proposing a six-step fish & wildlife reinvention (Figure 10).

**Figure 10:**

## F&W Reinvention: A Financial & Functional Strategy



**A. Regional Goals and Objectives.** The Council's program, tribal priorities, and ESA recovery actions would remain the focus of BPA's project activities. We would improve coordination of our activities with others to achieve shared regional goals and measurable objectives for fish & wildlife. We support the Council's expansion of the Implementation Planning Process (IPP) to an ecosystem approach that addresses all of the Columbia River Basin's fish & wildlife resources. We recommend that the Council take the lead in defining and integrating regional goals and measurable objectives.

**B. Strategies and Priorities.** BPA's activities would be guided by the Implementation Planning Process (IPP) through 1995. The more integrated, ecosystem approach, assumed to be in place by

1996, would then be used to develop strategies and priorities for BPA's portion of the region's fish & wildlife activities.

**C. Strategic 10-Year Action Plan: Implementation Matrix.** This matrix would track fish & wildlife projects, hydro system operations, repayment, research, and other options; their expected and actual benefits (fish & wildlife results); and budget information over a 10-year period. The matrix would list all activities funded by BPA, on a subbasin basis, and compare and evaluate results toward cost-effectively achieving critical success indicators, measurable objectives, and financial commitments over time. These activities will come from the Council's program, ESA Recovery Plans, and Tribal priorities developed through the ecosystem planning approach.

Proposed actions would be categorized into: projects designed to produce or save fish & wildlife; research on critical uncertainties; and regional coordination costs. Projects would be prioritized to reflect their expected contribution to meeting regional objectives and satisfying BPA's obligations, using a public process.

**D. Linking Results to BPA Financial Performance.** The fish & wildlife funding target would initially be set by BPA's marketing strategy and by assessing actions to accomplish BPA's critical success indicators. The intent is budget stability, while maintaining a results orientation that satisfies BPA's fish & wildlife obligations. In good revenue years, BPA proposes to commit a percentage of net revenues over the agency's reserve target for additional work on fish & wildlife results.

**E. Implementation Tools.** We intend to fund activities using a broad range of tools, including trust agreements, funding transfers to other agencies or entities, contracts, grants, O&M reimbursables and/or cost-sharing with other agencies, Tribes, or groups. We will tailor each tool to assure the best biological results at the least cost.

**F. Monitoring, Evaluation, and Adaptation.** We propose to monitor the activities we fund for results. Monitoring and evaluation activities would include:

- monitoring fish & wildlife populations, habitat conditions, and biological responses;
- monitoring 10-Year Plan implementation by tracking the results of fish & wildlife actions;
- monitoring budget and cost management requirements;
- evaluating critical biological relationships; and
- evaluating the success of BPA actions and risk management efforts.

There will be a period of transition for the reinvention. Detailed plans and schedules to achieve reinvention goals will be developed with our regional partners by the end of FY 1995. By FY 1996, we expect many fish & wildlife actions would be prioritized. Projects would then be scheduled according to the implementation matrix. During FY 1997, all BPA fish & wildlife actions and accompanying budget targets would be planned and scheduled under the reinvention concept.

Besides fish & wildlife, the reinvention of our environmental management responsibilities will also include developing: an agencywide strategy to streamline the NEPA process; an environmental

risk management program to minimize future costs and impacts; and new and innovative tools to analyze and manage the impacts of our operations on air, land, and water, including chemical and waste management.

## **Sales and Customer Service**

We have created a completely new unit, Sales and Customer Service, to market our products and services. BPA realizes it must earn customer support and satisfaction by being the best among many choices in the marketplace. Sales will identify opportunities for BPA to offer new products and services and enter or expand markets.

Customer Account Executives are at the heart of our new sales strategy. These people will be on the front lines, accountable for achieving sale targets, and responsible for ensuring that one of our competitive advantages is the quality of our service to our customers. The Account Executives will work to build trust with customers, getting to know what they need and want, and how this matches up with what we can provide. They will have the authority to make decisions on commercial transactions, with minimal BPA internal review.

Account Executives will use the products available in the business lines to tailor transactions that meet customers' individual needs at prices that reflect the level of service and reliability desired. The extent to which customers choose to purchase our tier 2, unbundled, and DSM products will indicate the effectiveness of our Sales staff and our marketing policies.

## **Transmission Services**

Transmission Services is responsible for planning, designing, constructing, operating, maintaining, and replacing BPA's transmission system. Transmission Services is BPA's second-largest cost center, making cost control essential.

The four primary strategies for 1996-2002 for transmission services are: maintaining the safety and reliability of the transmission system; an increased focus on customers; optimization of the system (enhancing its capabilities and reducing bottlenecks); and improving BPA's competitive position by using the system more efficiently, and emphasizing cost containment. We intend to increase our knowledge of customer characteristics and needs and work to coordinate outages and work plans with customers.

For the first time, customer reliability will be measured and compared to standardized reliability indicators. BPA has developed the System Average Interruption Duration Index (SAIDI) and the System Average Interruption Frequency Index (SAIFI) to provide information on the quality of service customers are receiving. This should enable us to evaluate actual levels of service and determine where improvements can be made. We are exploring the possibility of offering customers a choice about the levels of reliability of service they receive, with corresponding variations in price.

We plan to look for new or more efficient ways to use the transmission system to reduce costs and increase revenues, thereby decreasing the transmission system's contribution to rates and providing

new facilities which can respond to emerging market opportunities. We are also considering allowing customers to own, operate, and maintain their own stations and proposing a transformation credit for customers who take delivery at network voltage.

## **Internal Transformation to a High Performing Organization**

Carrying out BPA's new strategic direction will require internal organizational changes. BPA launched the Competitiveness Project early in 1993, designed to map out the transformation of the agency into a more business-oriented entity. The Leadership EDGE program gives direction for aligning BPA's organizational structure, systems and processes, and culture to support the new business direction. Only through people enabled by organization, systems and processes, and culture will BPA be able to achieve the results of the Business Plan. The goals of Leadership EDGE support BPA's strategic business objective 7, to "transform to a high performing, business-oriented organization." We have begun this transformation through the following actions.

***Organizational Changes.*** The need to change led to plans to cut costs, reduce the number of personnel, and reorganize into a streamlined, highly efficient organization. In March 1994, we announced a new organizational structure to be phased in over a seven-month period. A new business construct was developed to focus the organizational structure. The new structure downsized the executive office and consolidated BPA's functions into seven groups under new vice presidents.

The seven vice presidents will manage sales and customer service; marketing and production; transmission services; environment/fish & wildlife; corporate services; financial services; and legal services. These groups will support account executives who will directly interact with customers and constituents.

***Downsizing.*** As part of the effort to become more competitive, BPA will eliminate at least 600 to 800 positions over the next four years. Our plans to downsize have been helped considerably by the passage of the Federal Work Force Restructuring Act of 1994. It allows federal agencies to offer employees incentives to leave the government.

So far, over 250 employees have signed up for the program. Additional FTE savings are expected to be achieved through incentives that will be offered for both early retirements and voluntary separations in FY 1995.

***Systems and Processes.*** Each agency function has been identifying core work processes as high priority for redesign or development in order to accomplish the goals of the Business Plan. The interface and integration of these work processes and systems are being charted jointly in a work plan to ensure congruence and alignment across functions.

***Culture.*** Dramatic organizational change is hard on employees; internal norms and traditional ways of doing business cannot be changed overnight. To ease the transition, BPA has taken several initiatives. Last year, BPA conducted a cultural audit to assess its internal organizational strengths and weaknesses. The audit has been used as a resource in the development of BPA's Leadership

EDGE Plan. A Transforming Team is being formed to provide vision, energy, direction, and support to the Executive Team in aligning BPA's culture with its business objectives.

## **Financial Statements Supporting the Business Plan**

**Table 2** summarizes what we propose in terms of expenses and capital spending for 1996 through 2002. The spending levels in the table yield a reduction in our revenue requirements averaging \$297 million per year over the 1996-2002 period. **Table 3** presents our projected costs and revenues in an income statement format.

**Table 2:****BPA Expense and Capital Program Resource Levels**

(Pre-Distribution, \$ in millions)

**BPA Operation & Maintenance by Strategic Action Plan**

Sales and Customer Service

Mktg &amp; Prod. (Conservation)

Mktg &amp; Prod. (Scheduling, Mrkt, P. Purchases)

Mktg &amp; Prod. (BPA &amp; Other Entity O&amp;M)

Power Planning Council (Mktg &amp; Prod.)

Transmission Services

Environment/F&amp;W

Residential Exchange Implementation

Expensed G&amp;A, S. Services, IRM 1/

**Total System O&M**

	<b>FY 1996</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>
Sales and Customer Service	11.9	12.3	12.7	13.2	13.6	14.1	14.6
Mktg & Prod. (Conservation)	50.3	50.3	48.3	54.4	50.0	48.6	37.2
Mktg & Prod. (Scheduling, Mrkt, P. Purchases)	336.1	392.9	388.6	393.5	395.7	402.8	414.6
Mktg & Prod. (BPA & Other Entity O&M)	416.9	419.9	411.7	422.8	444.2	441.2	455.0
Power Planning Council (Mktg & Prod.)	8.8	9.0	9.3	9.5	9.9	10.1	10.5
Transmission Services	106.7	109.9	113.6	117.7	122.7	128.2	134.1
Environment/F&W	96.9	84.6	87.4	90.2	93.9	97.6	101.6
Residential Exchange Implementation	3.4	3.5	3.6	3.8	4.0	4.1	4.3
Expensed G&A, S. Services, IRM 1/	83.0	84.7	88.4	92.4	96.6	99.9	104.5
<b>Total System O&amp;M</b>	<b>1114.0</b>	<b>1182.2</b>	<b>1179.5</b>	<b>1214.2</b>	<b>1247.9</b>	<b>1264.6</b>	<b>1295.1</b>

**BPA Capital Obligations**

Mktg &amp; Prod. (Conservation)

Mktg &amp; Prod. (Associated Projects)

Transmission Services

Environment/F&amp;W

Capital Equipment (IRM/Corp. Services)

Sales &amp; Customer Service

Capitalized G&amp;A, S. Services, IRM 1/

**Total - Capital Obligations**

	<b>FY 1996</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>
Mktg & Prod. (Conservation)	97.9	94.9	94.9	96.3	95.2	93.5	89.3
Mktg & Prod. (Associated Projects)	23.2	11.7	1.9	0.0	0.0	0.0	0.0
Transmission Services	204.0	251.9	244.9	211.4	244.3	241.3	275.6
Environment/F&W	33.9	35.6	36.6	36.9	38.5	40.0	41.7
Capital Equipment (IRM/Corp. Services)	9.4	9.9	10.3	10.8	11.2	11.7	12.3
Sales & Customer Service	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capitalized G&A, S. Services, IRM 1/	36.8	37.6	39.2	41.0	42.8	44.4	46.4
<b>Total - Capital Obligations</b>	<b>405.3</b>	<b>441.7</b>	<b>427.9</b>	<b>396.5</b>	<b>432.2</b>	<b>431.0</b>	<b>465.4</b>

1/ The support activity costs shown below are distributed to BPA's expense and capital activities as shown above. The expense and capital amounts above do not add to the total amounts shown here due to G&A distributed to reimbursable activities.

**Support Activities**

G&amp;A, Support Services (Corp. Services, Various

Plans)

IRM Internal Services (Corp. Svcs.)

**Subtotal - Support Activities**

	<b>FY 1996</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>
G&A, Support Services (Corp. Services, Various	100.0	101.5	105.8	110.4	115.3	118.9	124.2
Plans)	20.6	21.6	22.6	23.8	24.9	26.2	27.5
<b>Subtotal - Support Activities</b>	<b>120.6</b>	<b>123.1</b>	<b>128.4</b>	<b>134.2</b>	<b>140.2</b>	<b>145.1</b>	<b>151.7</b>

**Table 3:****Revenue/Cost Summary in Income Statement Format**

(Post-Distribution, \$ in millions 1/)

	Actuals		2Q Review		Business Plan Proposal					
	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
<b>Operating Revenues</b>	1,942.5	2,165.0	2,325.6	2,600.2	2,657.0	2,744.0	2,812.8	2,898.7	2,980.6	3,042.1
<b>Operating Expenses</b>										
BPA Operations & Maintenance										
<i>BPA Controllable</i>	348.4	357.0	381.3	404.0	410.7	429.0	445.0	453.6	463.9	469.8
<i>BPA Non-Controllable</i>	233.2	196.4	196.3	201.6	149.3	135.4	136.5	132.8	134.9	137.4
<b>Total BPA O&amp;M</b>	<b>581.6</b>	<b>553.4</b>	<b>577.6</b>	<b>605.6</b>	<b>560.0</b>	<b>564.4</b>	<b>581.5</b>	<b>586.4</b>	<b>598.8</b>	<b>607.2</b>
Other Entities Ops. & Maintenance	431.8	444.1	450.5	508.4	622.2	615.1	632.7	661.5	665.8	687.9
<b>Total System O&amp;M</b>	<b>1013.4</b>	<b>997.5</b>	<b>1028.1</b>	<b>1114.0</b>	<b>1182.2</b>	<b>1179.5</b>	<b>1214.2</b>	<b>1247.9</b>	<b>1264.6</b>	<b>1295.1</b>
Nonfederal Projects Debt Service	437.9	468.0	517.8	553.3	552.3	574.1	638.3	641.1	637.5	590.8
Federal Projects Depreciation	219.2	230.6	242.9	278.4	292.6	303.0	318.9	325.4	332.5	348.1
Residential Exchange (Net) 2/	210.0	158.3	207.9	200.0	200.0	200.0	200.0	200.0	200.0	200.0
<b>Total Operating Expenses</b>	<b>1880.5</b>	<b>1854.4</b>	<b>1996.7</b>	<b>2145.7</b>	<b>2227.1</b>	<b>2256.6</b>	<b>2371.4</b>	<b>2414.4</b>	<b>2434.6</b>	<b>2434.0</b>
Interest Expense (Net)	360.5	391.5	393.9	370.6	374.1	377.1	379.0	370.2	363.3	359.7
<b>Total Operating and Net Interest Expense</b>	<b>2241.0</b>	<b>2245.9</b>	<b>2390.6</b>	<b>2516.3</b>	<b>2601.2</b>	<b>2633.7</b>	<b>2750.4</b>	<b>2784.6</b>	<b>2797.9</b>	<b>2793.6</b>
Planned Net Revenues for Risk	---	---	---	290.0	290.0	0.0	0.0	0.0	0.0	0.0
<b>Total Revenue Requirement</b>	<b>2241.0</b>	<b>2245.9</b>	<b>2390.6</b>	<b>2806.3</b>	<b>2891.2</b>	<b>2633.7</b>	<b>2750.4</b>	<b>2784.6</b>	<b>2797.9</b>	<b>2793.6</b>
<b>Excess of Revenues over Rev. Requirement</b>	<b>(298.5)</b>	<b>(80.9)</b>	<b>(65.0)</b>	<b>(206.1)</b>	<b>(234.2)</b>	<b>110.3</b>	<b>62.4</b>	<b>114.1</b>	<b>182.7</b>	<b>248.5</b>
	Actuals		2Q Review		Business Plan Proposal					
	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
BPA Internal Services 3/	121.6	128.1	135.5	120.6	123.1	128.4	134.2	140.2	145.1	151.7
BPA Capital (post-distribution obligations) 4/	446.1	434.3	447.8	405.3	441.7	427.9	396.5	432.2	431.0	465.4

1/ For this table, BPA internal services have been distributed to the direct program costs by a simplified method based on historical loadings. The amounts distributed to capital vs. expense, and individually to each program activity, may change as a new distribution methodology is determined.

2/ The net cost of the residential exchange has been held to \$200 million dollars per year for FY 1996-2002.

3/ BPA Internal Services include G&A, Support Services, and ADP Development and Operations. These costs are distributed to BPA's other programs and are thus included in the expenses above. The drop in internal services from FY 1995 to FY 1996 is a result of both cost reductions and a shift of some costs to direct programs that previously were budgeted as internal services.

4/ BPA's capital programs are shown here for information only. Their impact on accrued expenses is captured through depreciation and interest expenses.



## ENVIRONMENTAL ANALYSIS OF BUSINESS PLAN

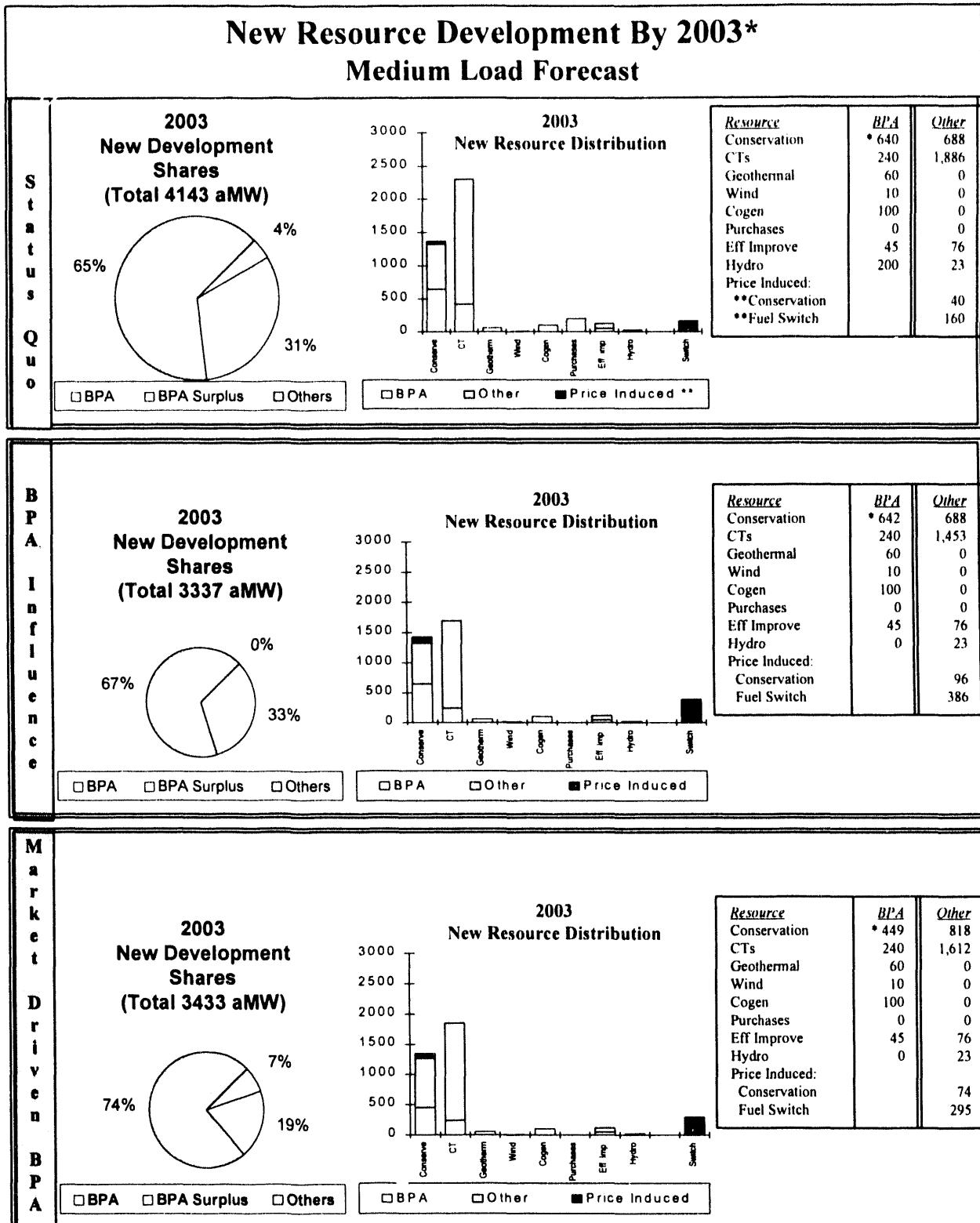
We have prepared a draft Environmental Impact Statement (EIS) which analyzes the environmental impacts of alternatives for the Business Plan. The strategies in the Business Plan that deal with marketing, conservation, and production; transmission services; and environment/fish & wildlife are the most likely to have environmental impacts.

The elements of the plan with the greatest potential to lead to environmental impacts are: the products and services BPA proposes to offer, and the resources, if any, BPA would acquire to supply those products and services; the pricing principles BPA would apply to those products and services; how the regional power system would be operated; and how BPA would conduct its fish & wildlife program.

The EIS provides BPA and the public with information on the possible environmental consequences of BPA's actions under this Business Plan and the alternatives to those actions. Based on this information, BPA will make decisions on policies and strategies that would permit BPA to operate successfully in the competitive marketplace and also fulfill its legal mandates. The six alternatives evaluated in the EIS were described earlier in this document, along with a brief summary of their environmental effects.

***Comparison of Alternatives.*** **Figures 11 and 12** summarize the results likely to occur under each of the alternatives in terms of how BPA's share of new resources would differ from that of other resource developers; how conservation and fuel choices made by consumers would differ; and how the types of resources operated in the region would differ.

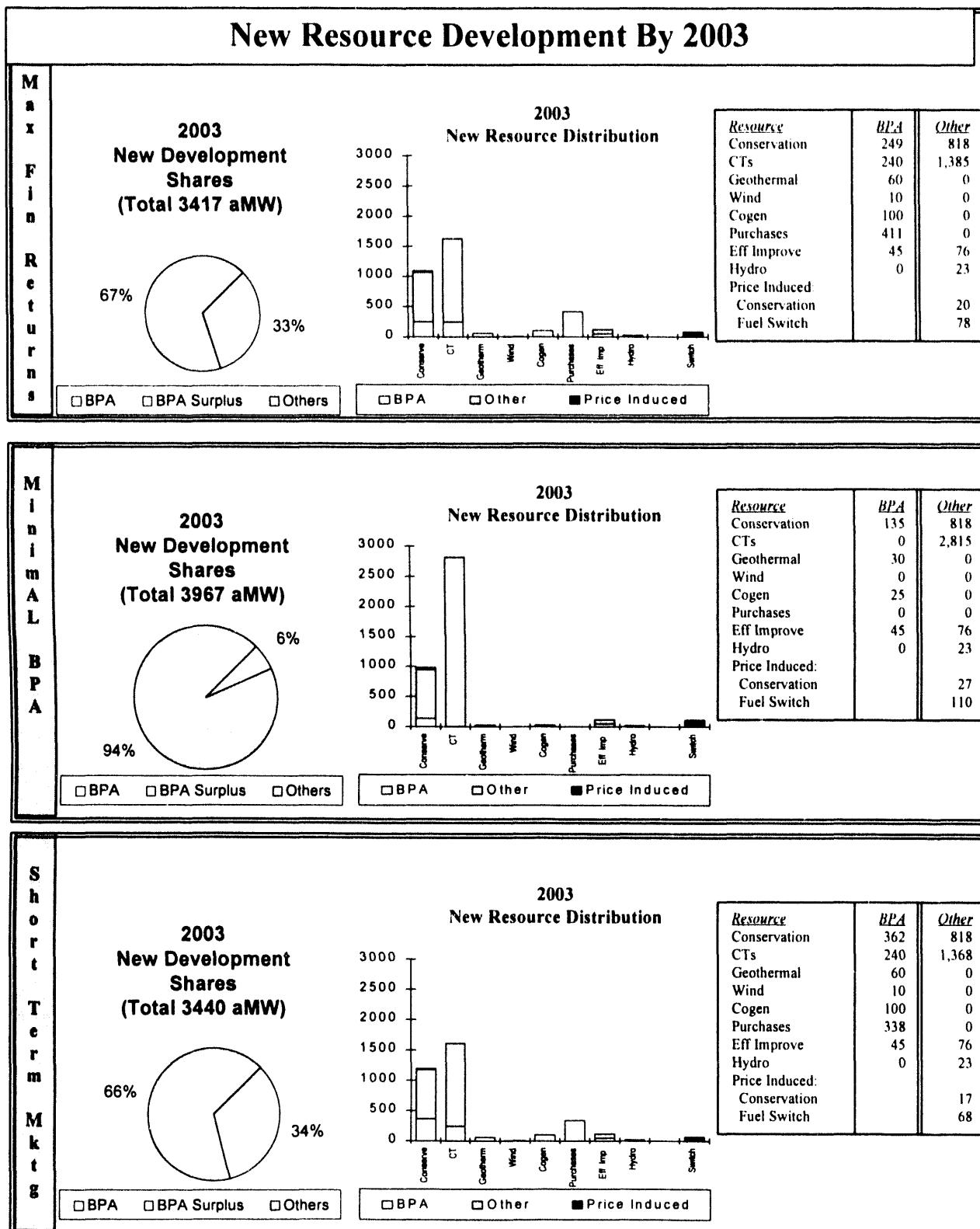
**Figure 11:**



\* The Status Quo, BPA Influence, and Market Driven alternatives remain committed to the 660 aMW target: Status Quo 640 aMW BPA funded and 20 aMW Independent Utility Designed; BPA Influence 642 aMW BPA funded and 115 aMW Independent Utility Designed/consumer response; and Market Driven 449 aMW BPA funded, and 212 aMW Independent Utility Designed/consumer response.

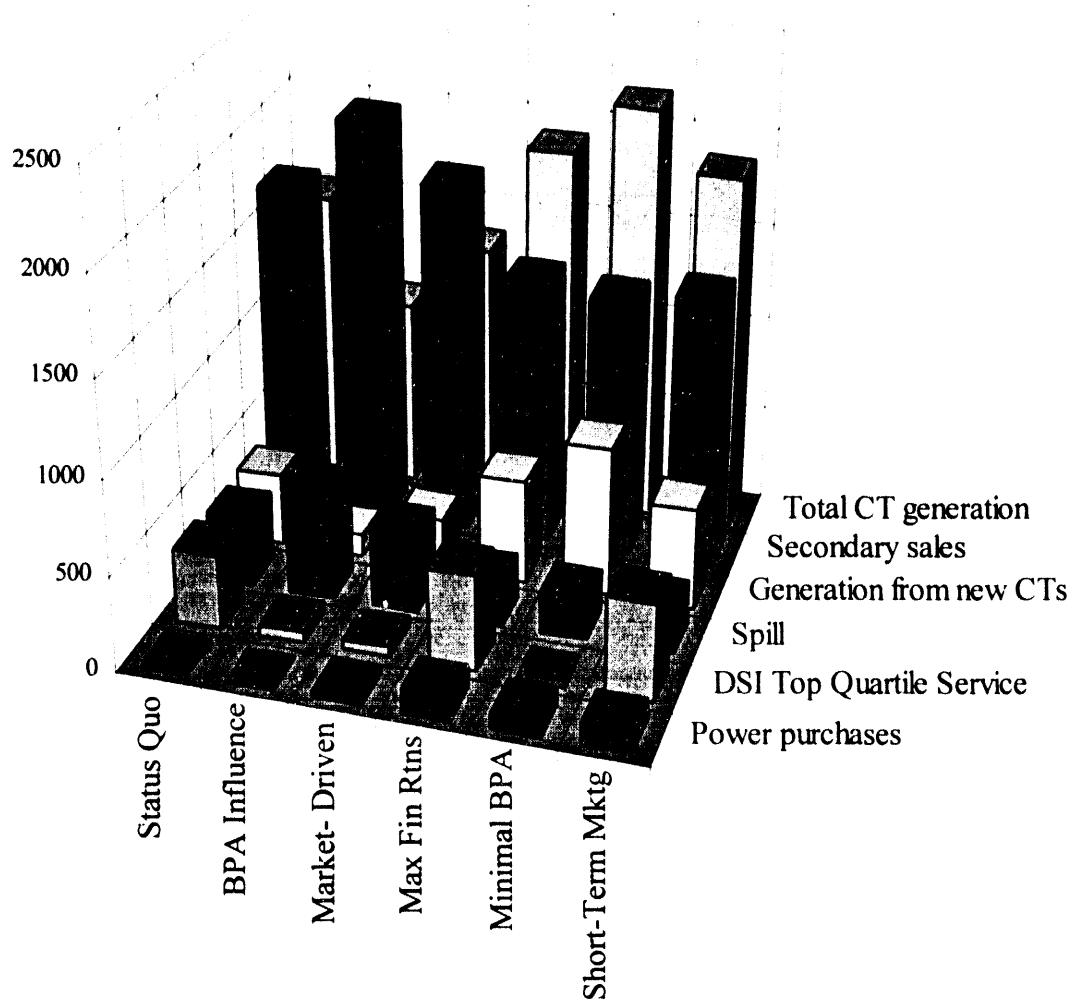
\*\* The 1993 White Book included these amounts of price induced conservation and changes in fuel choice in the loads and resources numbers.

Figure 11 (Continued):



**Figure 12:**

## Regional Operations Summary





## KEY ISSUES IN THE BUSINESS PLAN

Some of the proposals in the draft Business Plan raise issues that have been the subject of extensive regional debate. The discussion below highlights issues of particular interest to our customers and constituents. We are flagging them to inform readers of the draft Business Plan about some of the different viewpoints in the region and how BPA addressed them. Nothing is yet set in concrete. We hope there will be extensive comments on these issues and everything else in the plan so we can take them into consideration as we prepare the final version of the Business Plan.

### **1. Timing: How the Business Plan Fits In With The Rate Case and the Power Sales Contract Renegotiations**

BPA and others in the region have expressed concern that trying to fold tiered rates, a substantial departure from previous practice, into the 1995 rate case is too ambitious and may not offer enough time for public discussion. On the other hand, the rapid changes in the electricity market make it imperative that we start to change the way we do business as quickly as possible if we want to stay competitive.

We believe that it is essential to move fast and commit to a time schedule. BPA is proposing that the 1995 rate case include consideration of tiered rates and the related proposals in the Business Plan. By October 1, 1995, we hope to establish rates for tier 1 and tier 2 power along with a limited number of unbundled products. We also expect the new power sales contracts to be signed by October 1, 1995.

In the 1997 rate case, we propose to establish rates for most of the unbundled product line. Remaining products and services would be priced in the 1999 rate case.

We would like to hear what you think about this proposed schedule. We are also looking for suggestions and assistance about the best ways to get the discussion about tiered rates and the Business Plan out to a broad regional audience.

### **2. Tiered Rates**

In March 1994, BPA and its customers agreed on the proposed set of basic policy principles for tiered rates, including in this document, but there are a lot of questions still open with respect to this issue. Many tiered rates details will be worked out through the 1995 rate process, but the draft Business Plan offers an early chance for people to comment on BPA's proposed basic approach to tiered rates.

### **3. Conservation**

We remain committed to achieving the Council's target of 660 aMW of cost-effective conservation by the year 2003, but we propose to deliver conservation differently than in the past. After FY 1995, BPA would no longer fund conservation program costs out of regional rates; only market

transformation activities and the ongoing costs of previous programs would be funded this way. We would rely on tiered rates to encourage conservation development, the creation of our energy services business line, and market transformation efforts to enable the region to meet conservation targets.

Some in the region are concerned that the changes in our conservation program constitute an abandonment of an important regional program when it is working well. They question whether BPA is retreating from its responsibilities under the Northwest Power Act and ask if utilities will choose to invest in conservation without subsidies. They see centralized funding of the program by BPA as the best way to ensure accountability for regional conservation acquisition.

We believe the old approach is unsustainable in an increasingly competitive market. The demand-side management market is growing fast, it has real potential to reduce energy use, and our transformation to an energy service provider will make it easier and more cost-effective to provide these services to customers.

Another concern about BPA's conservation reinvention is that it is happening too quickly. Some have suggested a longer transition period is needed, so that rate-based conservation programs can be phased out more slowly.

We have worked with our customers and constituents to develop principles that will govern the agency's new approach to conservation. These talks have been productive and will continue. Comments from the public on the conservation reinvention proposals in the draft Business Plan will be useful to the agency in these ongoing talks and in formulating proposals for the final Business Plan.

#### **4. Transmission Issues**

The draft Business Plan contains business construct and a set of principles developed with BPA customers and constituents to guide BPA's approach to its transmission business. A key goal of these principles is to make sure that transmission access is not an impediment to the development of competitive markets. While most in the region like this new open access orientation, others have questioned whether it will result in BPA losing revenues that could be used for important regional programs.

Another issue involves our approach to transmission pricing. We plan to work with customers and constituents to develop new transmission policies and a pricing system by the end of FY 1995. BPA favors embedded cost pricing for transmission services over the network and over existing intertie capacity, as long as existing federal and non-federal transmission customers are protected from undue cost burdens. The draft Business Plan contains several new proposals, such as reciprocal treatment from other utilities with respect to pricing and access.

We are also considering selling some low voltage facilities to customers. How far in this direction should we be heading? What's the balance for BPA between maintaining its regional transmission franchise and being the principal enabler of an open access West Coast power market? We are seeking comments on these and any other transmission issues.

## **5. Fish & wildlife Issues**

Our proposed fish & wildlife strategy is refocused on getting results--that means more fish in the rivers and more wildlife in the air and on the ground. Our bottom line has really been hit by the rate of growth and spending in this area. Our challenge is to succeed in fulfilling our fish & wildlife mandates without being pulled under by the costs of trying to do so.

Our proposed fish & wildlife reinvention is intended to improve internal BPA accountability while enabling customers and constituents easier access to program involvement. We are reaffirming our dedication to accomplishing our fish & wildlife obligations, and we believe this can be done in the "more businesslike manner" we propose. We are anxious to renew partnerships with all those working to restore the biological legacy of the Columbia River Basin, and we welcome comments on how to make the new approach to fish & wildlife protection outlined in the Business Plan succeed.

## **6. Financial Issues**

The New BPA envisioned in the Business Plan must have a workable set of financial management strategies. We are proposing some changes to our current financial policies to provide this support.

We propose to change the way we make capital investment decisions. We will move from a series of program-by-program decisions to a single strategy so that all of our future capital investment decisions have to meet agencywide investment criteria.

We will try to reduce our new capital investments to the bare minimum required to meet the Business Plan's strategic objectives. We will use third party financing and ownership arrangements whenever possible. We will consider some level of customer revenue financing for BPA's capital programs and target a 95 percent probability to make our U.S. Treasury debt repayments. Please let us know what you think about the Business Plan's proposed financial strategies.

## **HOW TO COMMENT/GET A COPY OF PLAN AND THE EIS**

You can order a copy of the Business Plan Issue Alert (8 pages), the complete draft Business Plan (about 250 pages), and/or the Business Plan draft Environmental Impact Statement (two volumes) by calling 1-800-622-4520, or (503) 230-3478 in Portland.

The Issue Alert contains the schedule for public meetings on the draft Business Plan. If you need information about the meetings or have any other questions or comments, call (503) 230-3478, or 1-800-622-4519. Please address written comments or questions to BPA Public Involvement, P. O. Box 12999, Portland, OR 97212. The deadline for written comments is August 22, 1994.

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