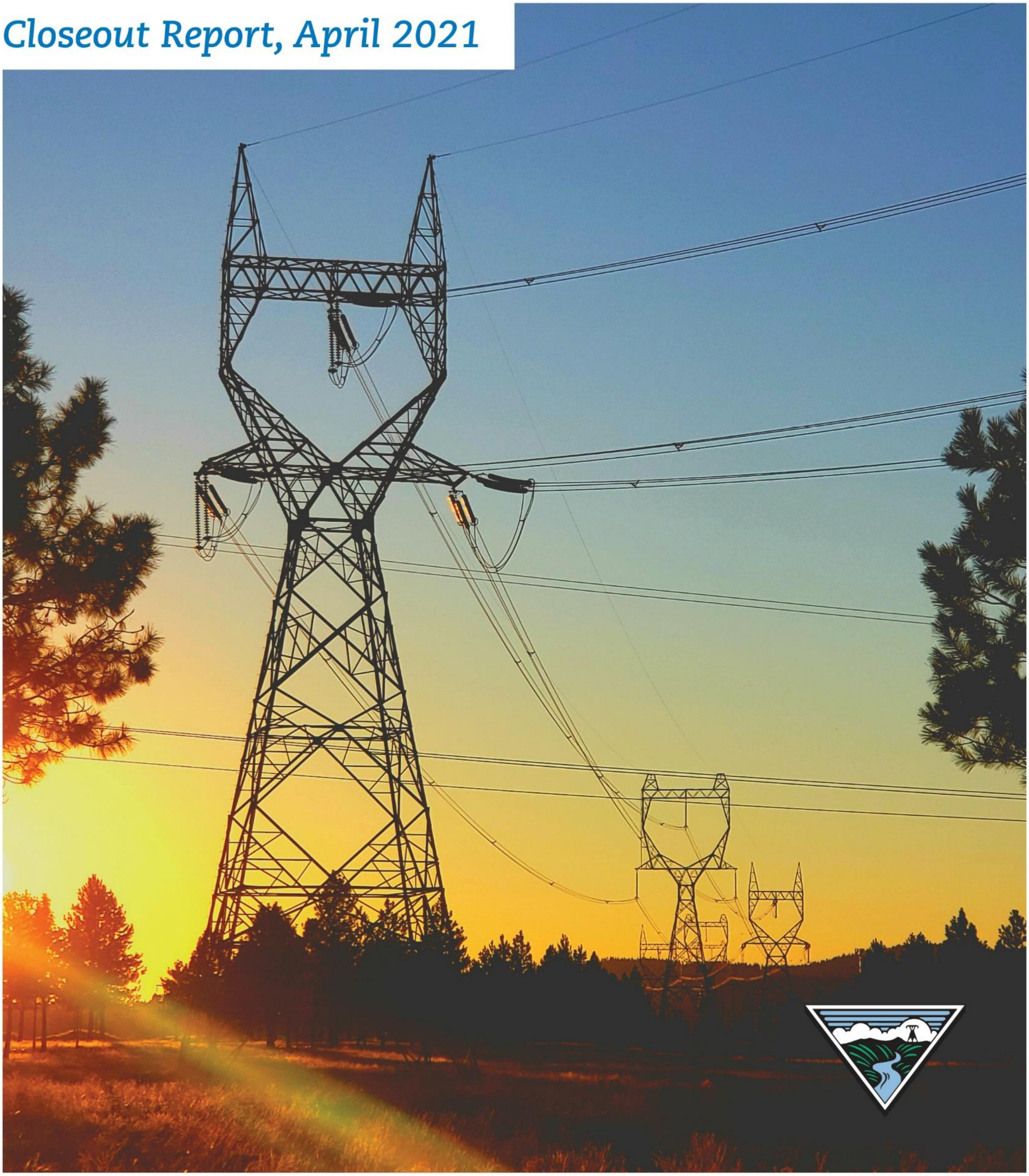
BONNEVILLE POWER ADMINISTRATION

Integrated Program Review 2

Closeout Report, April 2021



Note from the Administrator

The Bonneville Power Administration (Bonneville) has concluded the BP-22 Integrated Program Review 2 (IPR 2) public process. The following IPR 2 Close-Out Letter and Report includes the final program dollar adjustments to be included in the BP-22 final rates along with a narrative explanation. I appreciate the thoughtful questions, comments and feedback we received, which helped Bonneville consider its projected spending levels for the BP-22 rate period.

As described more fully in the attached report, Bonneville will move forward with the proposed adjustments to the costs (spending levels) the agency intends to recover in its BP-22 rates as discussed at the March 2 public workshop. Those adjustments include a two year total reduction of $53 million to the Transmission capital and facilities program for the BP-22 rate period. In addition, Bonneville will include a two year total reduction in Transmission capital of $73 million for rate-setting purposes only, similar to the “lapse factor” concept suggested by some commenters and as used for the 2010 and 2012 rate cases. Together, these adjustments reduce for ratemaking purposes the two year transmission capital program by approximately $126 million.

Also, as described in the report, I have concluded that Bonneville’s projected spending for its Fish and Wildlife (F&W) program is sufficient to meet the agency’s environmental obligations.

I would like to thank you again for your engagement and support during IPR 2. I look forward to working with you to sustain Bonneville’s role as an engine of the region’s economic prosperity and environmental sustainability.

Sincerely,

John Hairston Digitally signed by John Hairston
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John Hairston, Administrator and CEO

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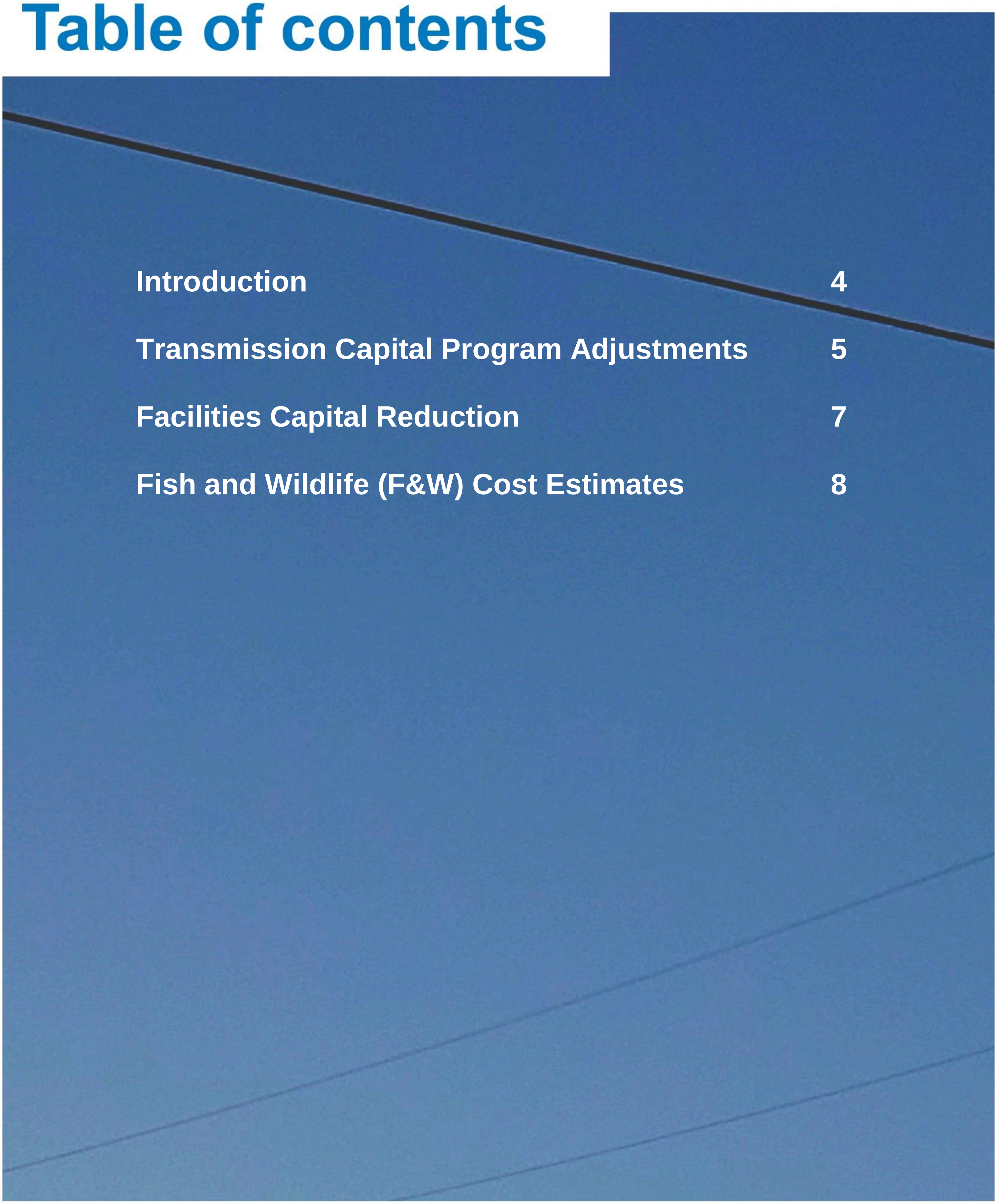

1 Introduction

This IPR 2 process is a follow-on to the original IPR process (IPR 1) that concluded in the summer of 2020. The spending levels outlined in this report reflect Bonneville's current estimate of its costs and do not represent actual budget decisions made in the budgetary process proposed by the executive branch. Rather, the IPR costs are part of the costs to be recovered in rates for power and transmission. The IPR 1 process established the spending levels that served as the foundation for the initial proposal used in rate setting for the BP-22 rate proceeding. The IPR 1 process began in June 2020 with an initial publication and report. Bonneville then held a series of public workshops, accepted public comments, and issued a final Close-Out Report in September 2020 (September Close-Out Report).

In the September Close-Out Report, Bonneville committed to conducting this IPR 2 process to consider the changing economic conditions and impacts related to the Columbia River System Operations (CRSO) Environmental Impact Statement (EIS) and associated Endangered Species Act (ESA) consultations. Following publication of the September Close-Out Report, customers also asked for further discussion of the Transmission direct capital program and facilities spending. On February 12, Bonneville notified regional parties of the commencement of this IPR 2 process and announced a workshop for March 2, 2021. At that workshop, Bonneville addressed the following topics:

- Capital spending and execution plan for the Transmission and Facilities asset categories.

- Impacts of the CRSO EIS and associated ESA consultations.

At the March 2 workshop, Bonneville discussed reducing its projected capital spending for transmission investments by $53 million for the rate period. Bonneville also confirmed that its projected level of funding for its F&W program from IPR 1 would be sufficient to meet its various environmental obligations. Bonneville further noted that flexibility within the F&W program allowed that funding to be shaped to ensure that priority-funding needs for legal compliance are met.

Following the March 2 workshop, Bonneville opened a three-week comment period. By the close of the comment period, Bonneville received 10 public comments from customers, customer groups, and other interested stakeholders. After reviewing those comments, Bonneville is responding as follows.

2 Transmission Capital Program Adjustments

Several comments indicated interest in the Transmission capital budget for the BP-22 rate period. Many commenters pointed out Bonneville has spent, on average over the past five years, about 21% below its forecasted capital budget. Because of this historic underspend, a number of commenters recommended that Bonneville perform a more holistic review of its capital forecasts.

During the March 2 IPR 2 workshop, Bonneville identified and explained several reasons for this underspend, including experiencing reductions in labor resources compounded by a shift toward more labor-intensive transmission projects. Bonneville is addressing this resource constraint with the Secondary Capacity Model (SCM), which has created a second path to execute capital work. Bonneville will continue to use its existing labor resources to complete work but will be adding on contract services to use a single contract firm, via SCM, who acts as an owner's consultant to oversee the work and use its own design builder and sub-contractors. This will allow Bonneville to complete customer work in a more timely fashion.

While Bonneville is already seeing benefits of the Secondary Capacity Model, two commenters recommended Bonneville take immediate action by applying an additional 10% discount to the Transmission direct capital projection through a "lapse factor." The lapse factor would approximate potential capital underspending and would be applied to the final IPR cost projection used for ratemaking. Bonneville agrees that for this rate period a lapse factor would be reasonable and the agency will assume a 10% lapse factor in the Transmission capital program used for rate setting. This adjustment reduces the Transmission direct capital spending by $73.4 million over the BP-22 rate period. *See* Table 1.

Table 1: Transmission Capital Summary with Lapse Factor

Capital Summary

($ thousands)	Final IPR		Final IPR Two Year Total	IPR 2		IPR 2 Two Year Total	*IPR 2 Reduction*
	2022	2023		2022	2023		
Asset Category Direct Spending							
Transmission Direct	312,000	327,000	639,000	312,000	327,000	639,000	0
Federal Hydro	264,120	281,260	545,380	264,120	281,260	545,380	0
Columbia Generating Station	115,377	113,780	229,157	115,377	113,780	229,157	0
Facilities	74,200	88,200	162,400	53,200	56,200	109,400	(53,000)
Fish & Wildlife	43,000	43,000	86,000	43,000	43,000	86,000	0
IT	19,928	19,828	39,756	19,928	19,828	39,756	0
Fleet	10,000	12,000	22,000	10,000	12,000	22,000	0
Security	8,000	8,200	16,200	8,000	8,200	16,200	0
Environment	5,580	5,590	11,170	5,580	5,590	11,170	0
Asset Category Direct Spending Total	**852,205**	**898,858**	**1,751,063**	**831,205**	**866,858**	**1,698,063**	**(53,000)**
Transmission Indirects	53,390	54,072	107,462	53,390	54,072	107,462	0
Corporate Indirects	46,208	46,484	92,692	46,208	46,484	92,692	0
PFIA	45,000	50,000	95,000	45,000	50,000	95,000	0
AFUDC	35,317	37,811	73,128	35,317	37,811	73,128	0
Grand Total	**1,032,120**	**1,087,225**	**2,119,345**	**1,011,120**	**1,055,225**	**2,066,345**	**(53,000)**
Lapse factor for rate setting purposes				**(35,700)**	**(37,700)**	**(73,400)**	
Grand Total less lapse factor for rate setting				**975,420**	**1,017,525**		

*The Initial IPR number for corporate indirects was inaccurately reflected in the Initial Publication. The accurate number is reflected above in the Average Initial IPR column.

The lapse factor was calculated by taking ten percent of the Transmission Direct and PFIA programs.

3 Facilities Capital Reduction

Another topic area discussed at the March 2 workshop was Bonneville's proposal to reduce Facilities capital spending by approximately $53 million over two years due to revisions in the Vancouver Control Center project schedule. Commenters generally supported this proposal but continued to raise concerns about the cost and necessity of the Vancouver Control Center and have asked for more information.

Bonneville will include the $53 million reduction in Facilities capital spending. *See Table 2*. In response to cost concerns regarding the Vancouver Control Center, Bonneville's assessment shows the Dittmer Control Center is at the end of its useful life and must either be upgraded or replaced to improve grid resilience, physical security, and support Bonneville's grid modernization objectives. We expect a business case with revised cost estimates will be available fall of 2021, and Bonneville will hold a public workshop after the business case is completed.

Table 2: Facilities Capital IPR2 Reduction

Capital Summary

($ thousands)	Final IPR		Final IPR Two Year Total	IPR 2		IPR 2 Two Year Total	*IPR 2 Reduction*
	2022	**2023**		**2022**	**2023**		
Asset Category Direct Spending							
Facilities	74,200	88,200	162,400	53,200	56,200	109,400	(53,000)

4 Fish and Wildlife (F&W) Cost Estimates

Bonneville received a number of comments on its projected F&W and related spending levels associated with the Selected Alternative in the CRSO EIS Record of Decision (ROD), with most commenters expressing support for maintaining Bonneville's projected cost levels.

One commenter raised numerous questions related to Bonneville's F&W spending projections, noting that these projections will be insufficient to meet various environmental statutory obligations. In general, the commenter contends (1) Bonneville's F&W spending does not take into account new costs from the CRSO EIS and Biological Opinion; (2) Bonneville has not taken into account new costs stemming from the state of Washington's Section 401 certification under the Clean Water Act; (3) Bonneville's F&W spending will be insufficient to meet the agency's statutory obligations, including obligations under the Northwest Power Act; and (4) Bonneville's funding of the Lower Snake River Compensation Plan hatcheries is unreasonably low. Bonneville appreciates the commenter's concerns and provides an explanation for each of these issues below.

(1) Bonneville's F&W Spending and the CRSO EIS and associated ESA consultations.

In the CRSO EIS ROD, Bonneville, the U.S. Army Corps of Engineers and the Bureau of Reclamation adopted the Preferred Alternative identified in the Final EIS, which became the Selected Alternative. Through extensive coordination during the development of the CRSO Selected Alternative, the Biological Assessment, and during the consultation process, Bonneville, the Corps and Reclamation worked closely with the U.S. Fish and Wildlife Service and National Marine Fisheries Service to ensure that the Selected Alternative complies with the standards set forward in Section 7(a)(2) of the Endangered Species Act. The CRSO EIS ROD provided a comprehensive list of all mitigation and non-operational conservation measures for ESA-listed species from the CRSO EIS and Biological Opinions. For those mitigation actions that will be funded through the Bonneville Fish and Wildlife program in FY 2022 and FY 2023, Bonneville determined that its projected costs meet all CRSO obligations within existing funding levels for the BP-22 rate period.

Bonneville's F&W program spending is managed using the flexibility of multi-year planning and shaping of available budgets on an annual basis to support high-priority work that is most likely to be ready to implement. For many of the CRSO EIS mitigation actions and non-operational conservation measures in this subset, work in FY 22 and

FY 23 will be focused on planning and design. Based on historical spending levels, Bonneville anticipates that it can fit these planning and design costs within the available funding levels in both FY 22 and FY 23, even if not adjusted for inflation. If other funding needs arise, they will be incorporated through the start-of-year budget development process by deferring lower priority work or work that is not ready for implementation into out-year budgets.

The commenter also questions how Bonneville can hold F&W spending levels flat for the BP-22 rate period, when Bonneville noted in the CRSO EIS that the Selected Alternative was projected to produce at least 2% of additional rate pressure. The 2% rate pressure identified by the commenter refers to a high-level estimate of the rate impacts of the Selected Alternative as compared to BP-20 rates in July 2020, "all else equal." This general estimate was not a forecast of the actual rate increase for the BP-22 rate period. Subsequent changes in other rate drivers (*e.g.,* loads, market prices, hydro projections, and programmatic costs) combined to offset the CRSO EIS identified rate pressures. The overall combined impact allowed BPA to recover its costs while proposing flat BP-22 power rates relative to BP-20 rates.

(2) The State of Washington's Section 401 Certification Under the Clean Water Act.

The commenter questioned whether the proposed IPR spending levels meet potential Clean Water Act (CWA) compliance funding needs at Corps and Reclamation projects. At present, neither the Corps nor Reclamation have identified any additional separate costs associated with the state of Washington's Section 401 certification, nor does the commenter identify any such costs. The commenter speculates on potential increased costs in the future, but provides no information on which specific costs or projected costs should be included. The comment alludes to a need for "substantial changes to dam operations and/or invest in mitigation measures," but cites only a newspaper article acknowledging that "stakeholders and dam operators themselves will have opportunities to work out exactly what this means in the long run." The article does not include any statements of federal representatives, or any analysis or calculations regarding actual implications of recent CWA developments that would prompt Bonneville to consider changes to its cost projections.

(3) F&W Spending Under the Northwest Power Act

The commenter also raised a question about whether the proposed IPR spending levels meet Northwest Power Act requirements, including the requirement to exercise Bonneville's responsibilities "to adequately protect, mitigate, and enhance fish and wildlife, including related spawning grounds and habitat, affected by such projects or facilities in a manner that provides equitable treatment for such fish and wildlife with the other purposes for which such system and facilities are managed and operated." 16 U.S.C. § 839b(h)(11)(A). The "equitable treatment" provision of the Northwest Power Act applies to management and operation of the Columbia River System, not fish and wildlife spending levels. The commenter concluded that there are significant shortcomings in Bonneville's F&W spending, but provides no basis for their claim that Bonneville's current level of F&W funding is inadequate, and that more funding by Bonneville would avoid the continuing decline of anadromous fish. Nor did the commenter recommend what amount of Bonneville funding would be needed to meet the obligations the commenter believes are being violated. Bonneville described how it provides equitable treatment in the CRSO EIS and in its responses to comments on the draft EIS. For an overview of how Bonneville complies with its Northwest Power Act fish and wildlife mitigation duties, please see chapters 2, 5, and 7 in the CRSO and the accompanying ROD.

(4) Bonneville's funding of the Lower Snake River Compensation Plan (LSRCP) Hatcheries.

The commenter also contends that Bonneville should raise the proposed spending level for its direct funding of LSRCP hatcheries because the state and tribal fisheries managers who operate the hatcheries for the U.S. Fish and Wildlife Service (USFWS) "have made clear that they need at least $5 million more per year in order to pay for 'non-routine maintenance issues,' and that they need a 'long-term plan determining how to pay for capital projects and unexpected costs in the program.'" Bonneville has a direct funding agreement with the USFWS to pay the expense costs, not the capital costs, of operating and maintaining the LSRCP hatcheries. The LSRCP hatchery facilities were constructed by the Corps with congressional appropriations; upon their completion and at the direction of Congress, jurisdiction and control of the facilities passed to the USFWS, along with responsibility to administer the LSRCP program.

Bonneville has not included direct funding for these potential non-routine and capital LSRCP hatchery costs in its planned spending levels for several reasons. First, the express authority for this direct funding agreement in section 16 U.S.C.§ 839d-1 authorizes — but does not require — Bonneville to provide funding directly to the Secretary of the Interior in amounts "that the Bonneville Power Administrator determines to make available …." This provision gives the administrator the discretion to provide funding directly; it is not obligatory. While Bonneville will ultimately recover the costs in rates for the power share of the LSRCP hatchery program, it can choose to provide funds for the program directly — as it does for annual operations and maintenance under the direct funding agreement with the USFWS — or to repay the Treasury for congressional appropriations made to the USFWS for the LSRCP. Bonneville has chosen to provide expense funding directly for only the annual operation and maintenance of the LSRCP, and Bonneville continues to recover costs in rates to repay Treasury for the power share of the capital appropriations for constructing the LSRCP hatcheries. Thus, the commenter's assertion that Bonneville cannot count on receiving an "assist" from Congress with respect to LSRCP is inaccurate and misplaced. Bonneville's financial obligations for LSRCP hatcheries are accounted for and addressed in the IPR process.

Second, the non-routine maintenance and capital projects noted by the commenter are not “unexpected costs.” Such costs are normal for aging infrastructure and typically planned for years in advance. For 20 years, Bonneville has been unequivocal that it would direct-fund routine annual operation and maintenance costs only, and that the USFWS is responsible for securing funds, presumably appropriations from Congress, for non-routine maintenance and capital facility costs. As such, Bonneville is not including the direct funding of non-routine and capital costs in the IPR spending levels.

Summary of F&W Spending Levels

As described above, Bonneville’s forecasted costs (spending levels) for FY 2022 and FY 2023 are adequate to meet agency obligations under applicable laws including the ESA, the CWA and Northwest Power Act. These projections are based on up-to-date information regarding Bonneville’s costs and responsibilities, and commenters have not raised any new information or noted changed circumstances in the IPR 1 or IPR 2 process to support the need to increase F&W spending levels. As established in the BPA 2018–2023 Strategic Plan, Bonneville will continue to prioritize projects that directly benefit fish and wildlife in a cost-effective manner, while ensuring a nexus between mitigation and impacts of the federal hydropower system. Furthermore, if additional costs occur during this timeframe, Bonneville has several risk mechanisms to ensure recovery of unforeseen costs incurred during the applicable rate period. Please see Bonneville’s public website for rate information related to these mechanisms.

5 Disclosures

BPA conducts the IPR 2 process to invite public review and comment on BPA's expected program costs for the upcoming rate period. Through this public process the public is afforded an opportunity to engage in meaningful dialogue with BPA regarding BPA's initial program spending levels. At the conclusion of the IPR 2 process, BPA issues a close-out letter and report in which BPA describes how its program funding and spending projections were informed by public comments. The projected program levels described in this close-out letter and report reflect BPA's estimate of the appropriate spending levels, i.e., costs, to assume in establishing new power and transmission rates.

Financial disclosure

FY 2022–2023 Final IPR spending levels were made publicly available by BPA on Sept. 30, 2020, and reflect information not reported in BPA financial statements.

FY 2022–2023 IPR 2 spending levels were made publicly available by BPA on Apr. 30, 2021, and reflect information not reported in BPA financial statements.

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