Bonneville
POWER ADMINISTRATION

INTEGRATED PROGRAM REVIEW

Kickoff – June 18

INTRODUCTIONS

Marcus Harris, ACTING MANAGER, FINANCIAL PLANNING AND ANALYSIS

AGENDA

Time	Topic	Speaker
1:00 – 1:05	Introductions	Marcus Harris *Acting manager, Financial Planning & Analysis*
1:05 – 1:15	Strategic Plan	Dan James *Deputy Administrator*
1:15 – 1:20	Grid Modernization	Janet Herrin *Chief Operating Officer*
1:20 – 1:30	IPR Overview	Mary Hawken *Acting Chief Financial Officer*
1:30 – 1:50	Power Services	Joel Cook *Senior VP of Power Services*
1:50 – 2:10	Transmission Services	Richard Shaheen *Senior VP of Transmission Services*
2:10 – 2:25	Corporate	Janet Herrin *Chief Operating Officer*
2:25 – 2:40	Chief Administrative Office	John Hairston *Chief Administrative Officer*
2:40 – 2:45	Next Steps	Mary Hawken *Acting Chief Financial Officer*
2:45 – 3:00	Question and Answer	

STRATEGIC PLAN

Dan James, DEPUTY ADMINISTRATOR

2018-2023 STRATEGIC PLAN

BPA 2018–2023 Strategic Goals

#1 STRENGTHEN **FINANCIAL HEALTH**

#2 MODERNIZE **ASSETS & SYSTEM OPERATIONS**

#3 PROVIDE **COMPETITIVE POWER PRODUCTS & SERVICES**

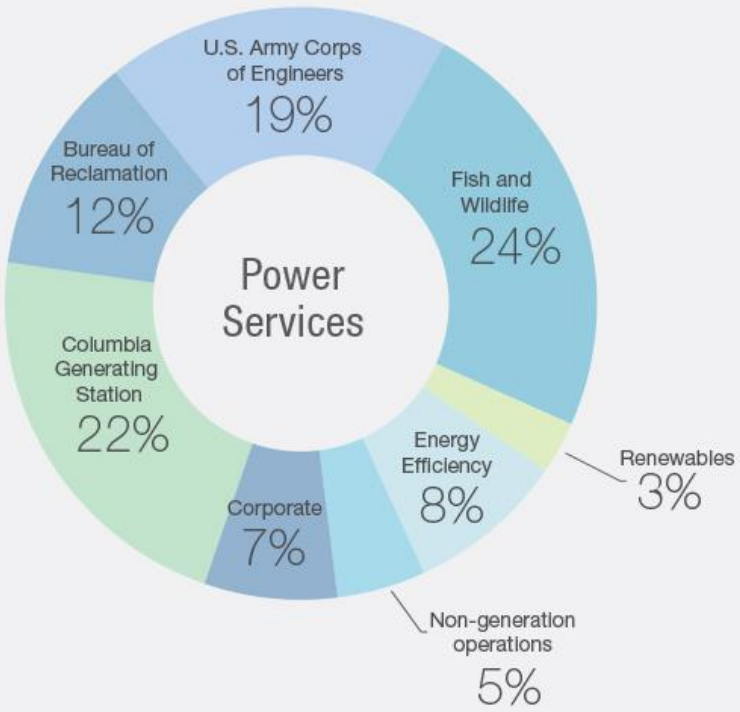
#4 MEET **TRANSMISSION CUSTOMER NEEDS EFFICIENTLY & RESPONSIVELY**

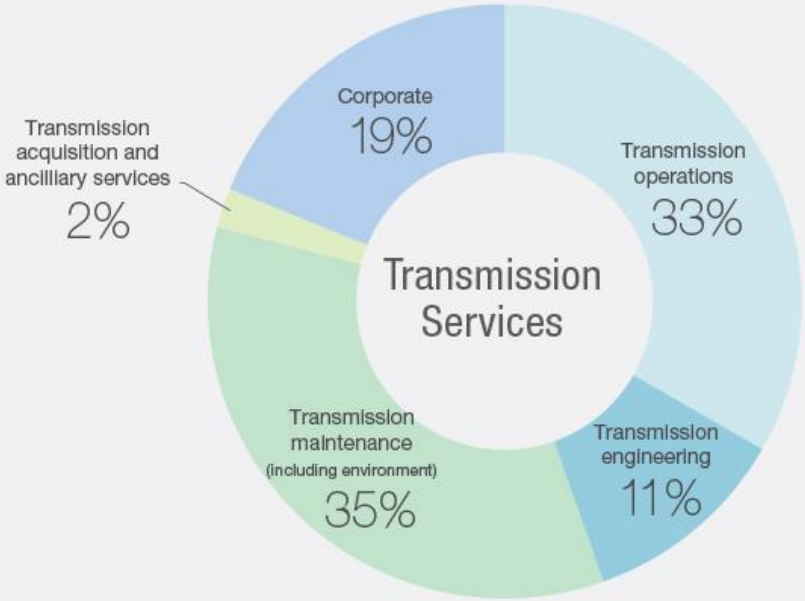
1: STRENGTHEN FINANCIAL HEALTH

Improve cost-management discipline

Hold program costs at or below the rate of inflation

Program costs:





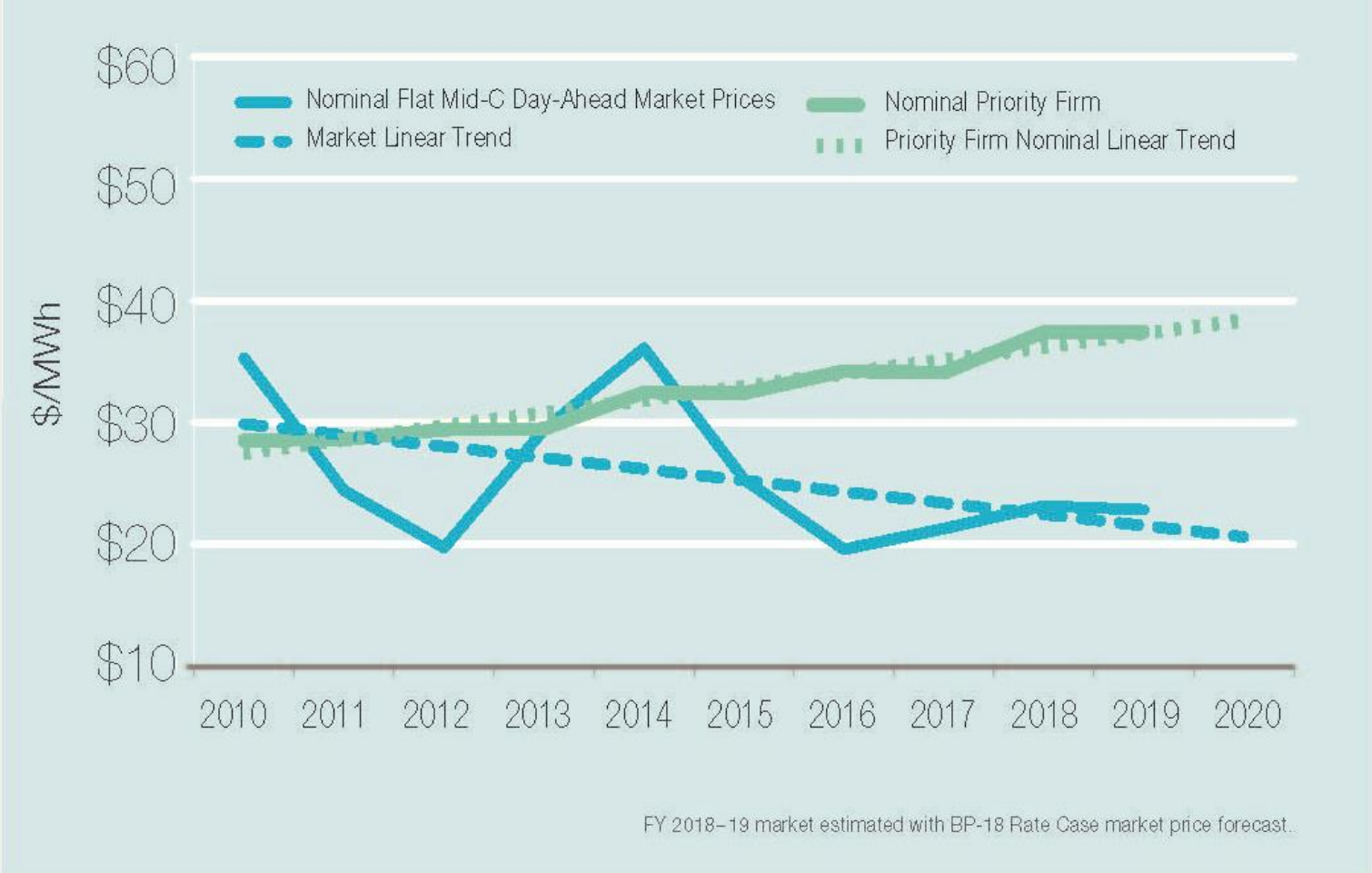
STRENGHTEN FINANCIAL HEALTH (CONT.)

- Build financial resiliency.
  - Debt utilization: Lower our debt-to-asset ratio.
  - Debt capacity: An “all of the above” financing strategy.
  - Liquidity: Maintain 60 days cash on hand.
- Maintain high investment-grade credit ratings.

2: MODERNIZE ASSETS AND SYSTEM OPERATIONS

- Administer an industry-leading asset management program.
- Modernize federal power and transmission system operations and supporting technology.

Priority firm power rates 2010–2020



4: MEET TRANSMISSION CUSTOMER NEEDS EFFICIENTLY AND RESPONSIVELEY

- Use flexible, scalable, cost-effective and efficient solutions.
- Incentivize grid optimization and efficient regional resource development.
- Meet needs of Network Integration Transmission Service customers through clear business practices and streamlined processes.
- Offer more standardized products and services.

"A good business strategy achieves nothing without the people and culture to make it happen."

— BPA ADMINISTRATOR ELLIOT MAINZER

GRID MODERNIZATION

Janet Herrin, CHIEF OPERATING OFFICER

GRID MODERNIZATION

- Modernizing federal power and transmission system operations and supporting technology is a key agency strategic objective.
- The Grid Modernization KSI makes major steps toward a commercially efficient and operationally effective future for BPA and its customers.
- Continued investments in grid modernization are necessary to bring systems, staff and processes up-to-date.

GRID MODERNIZATION FY 20/21 FUNDING

- Held grid modernization expense spending levels flat and absorbed capital:
  - BPA is proposing to manage the incremental Grid Modernization KSI expenses within the $25 million rate period funding level.
  - Transmission and Power capital portfolios have been re-prioritized to absorb a total of $26 million from FY 2020 through FY 2021.

IPR OVERVIEW

Mary Hawken, ACTING CHIEF FINANCIAL OFFICER

2018 FINANCIAL PLAN HIERARCHY

Financial Health Objectives

COST MANAGEMENT
Maintain low rates; enhance asset value and reliability

DEBT UTILIZATION
Reduce interest expense; maintain financial flexibility

DEBT CAPACITY
Maintain access to secure and low-cost debt financing

LIQUIDITY
Maintain financial reserves for solvency and stability

Financial Policies and Established Practices

COST RECOVERY DEMONSTRATION
ensures Power and Transmission rates produce sufficient revenues to recover all costs over a rate period

FINANCIAL RESERVES POLICY
supports BPA's solvency, credit rating and rate stability

TREASURY PAYMENT PROBABILITY STANDARD
ensures short term solvency and repayment of the federal investment with a high degree of certainty

REPAYMENT METHODOLOGY
ensures the federal investment is repaid within 50 years

Statutory Obligations and Authorities

1. Establish the lowest possible rates consistent with sound business principles
2. Repay the federal investment over a reasonable number of years
3. Establish cost-based rates
4. Fund capital investments with Treasury bonds, appropriations, capital leases and revenues from rates

Financial Health Objectives

COST MANAGEMENT

Maintain low rates; enhance asset value and reliability

DEBT UTILIZATION

Reduce interest expense; maintain financial flexibility

DEBT CAPACITY

Maintain access to secure and low-cost debt financing

LIQUIDITY

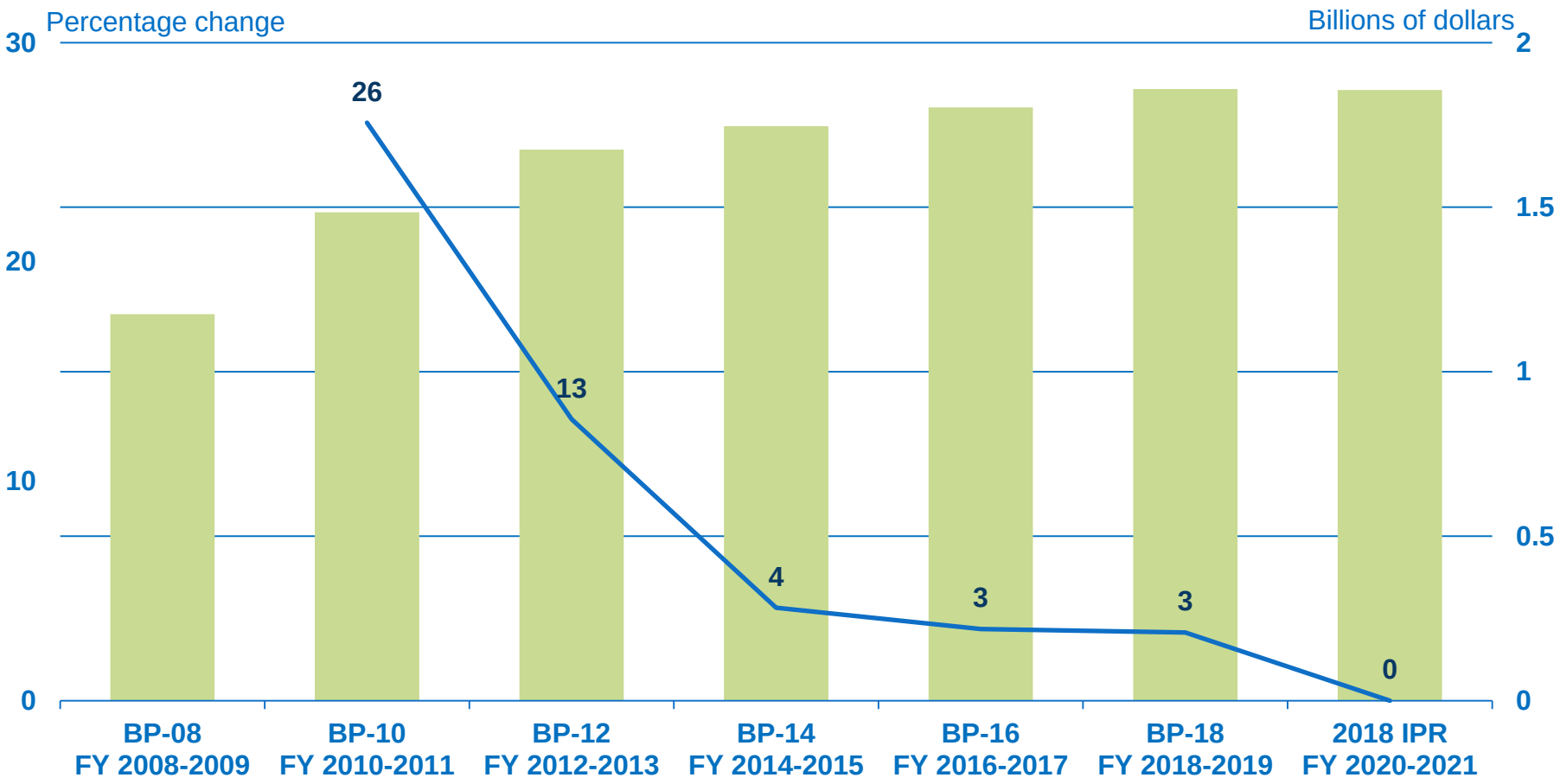
Maintain financial reserves for solvency and stability

KEY DIFFERENCES FOR 2018

- Spending decisions driven by BPA 2018-2023 Strategic Plan and Grid Modernization Key Strategic Initiative.
- Begin with firm cost constraints set by senior executives in line with strategic goals.
- Keep program costs flat in nominal terms relative to BP-18.

BENDING THE CURVE

Average annual program costs in billions of dollars and percentage of cost change by rate period



CHANGING OUR CULTURE

- Corporate memberships
- Subscriptions and publications
- Sponsorships
- Relocations
- Mileage
- Overtime
- Annual report

COST MANAGEMENT DECISIONS

- Library
- Aircraft Services
- Technology Innovation
- Lease terminations
- Transmission capital

RATE COMPONENTS

POWER SERVICES

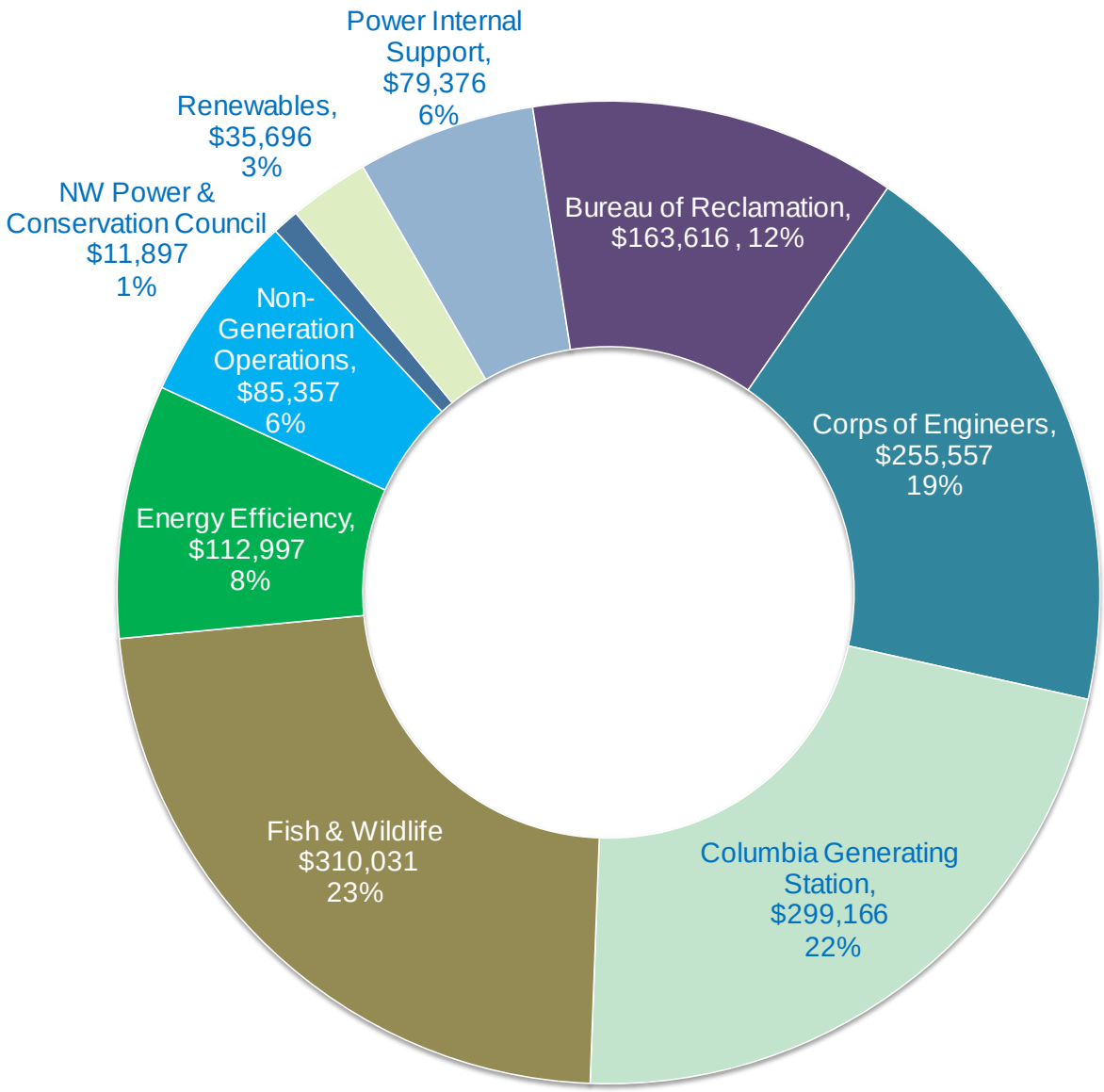
Joel Cook, SENIOR VICE PRESIDENT OF POWER SERVICES

OVERVIEW

Power Services proposes an expense reduction of $6 million a year compared to BP-18 spending levels after absorbing approximately $35 million annually in inflationary pressure.

- Power Services is committed to BPA's cost-management objective.
- In partnership with the Corps of Engineers, Bureau of Reclamation and Energy Northwest, IPR expense levels were prioritized and focus on programs that deliver the greatest value to the region.
- Capital levels for the Fed Hydro system support a ramp up to $300 million annually by FY 2023 to increase power production and reliability.

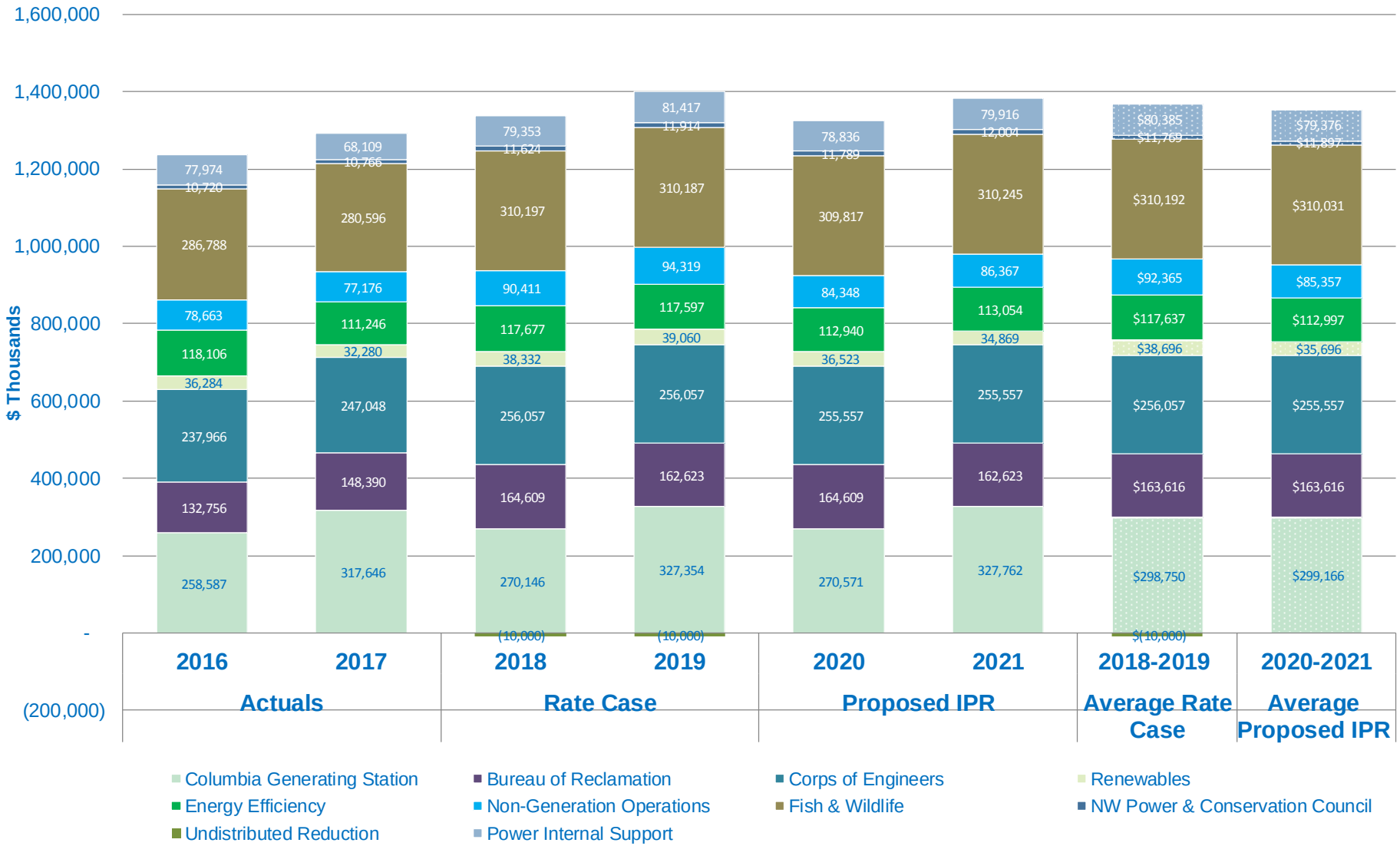
IPR FY 2020-21 AVERAGE



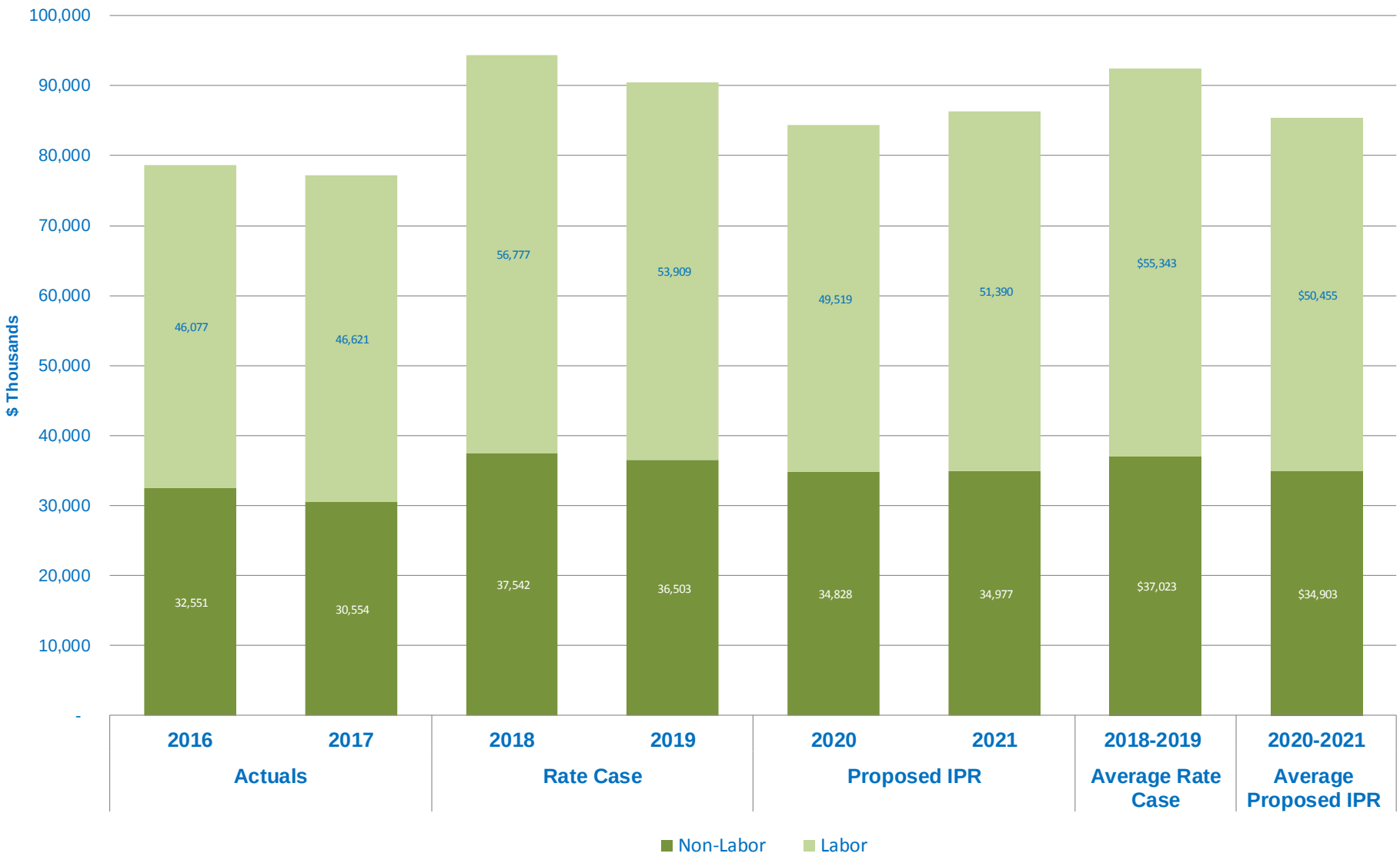
	FY2018-19 Average
Total	$1.359 Billion

	FY2020-21 Average
Total	$1.354 Billion

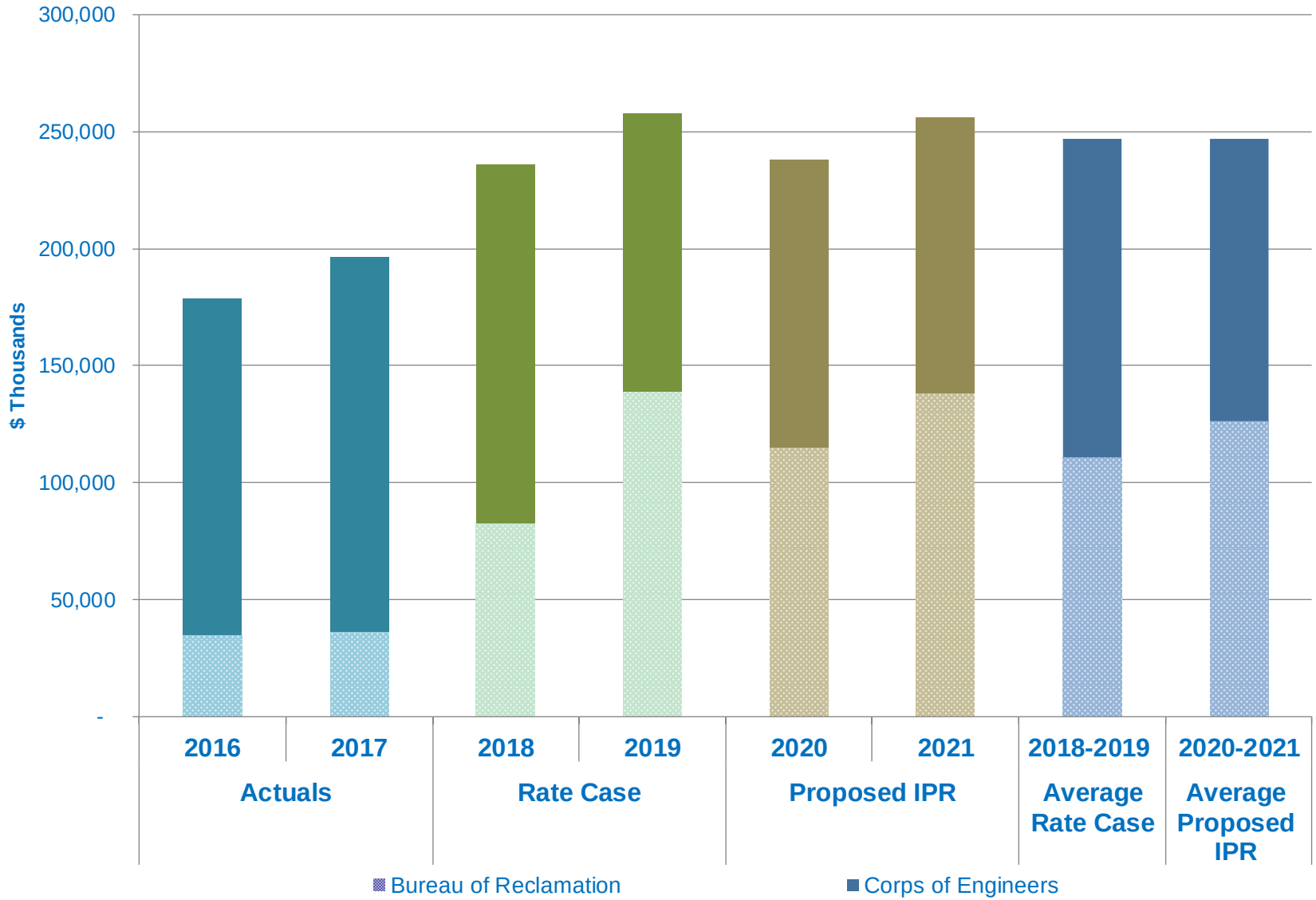
EXPENSE SUMMARY



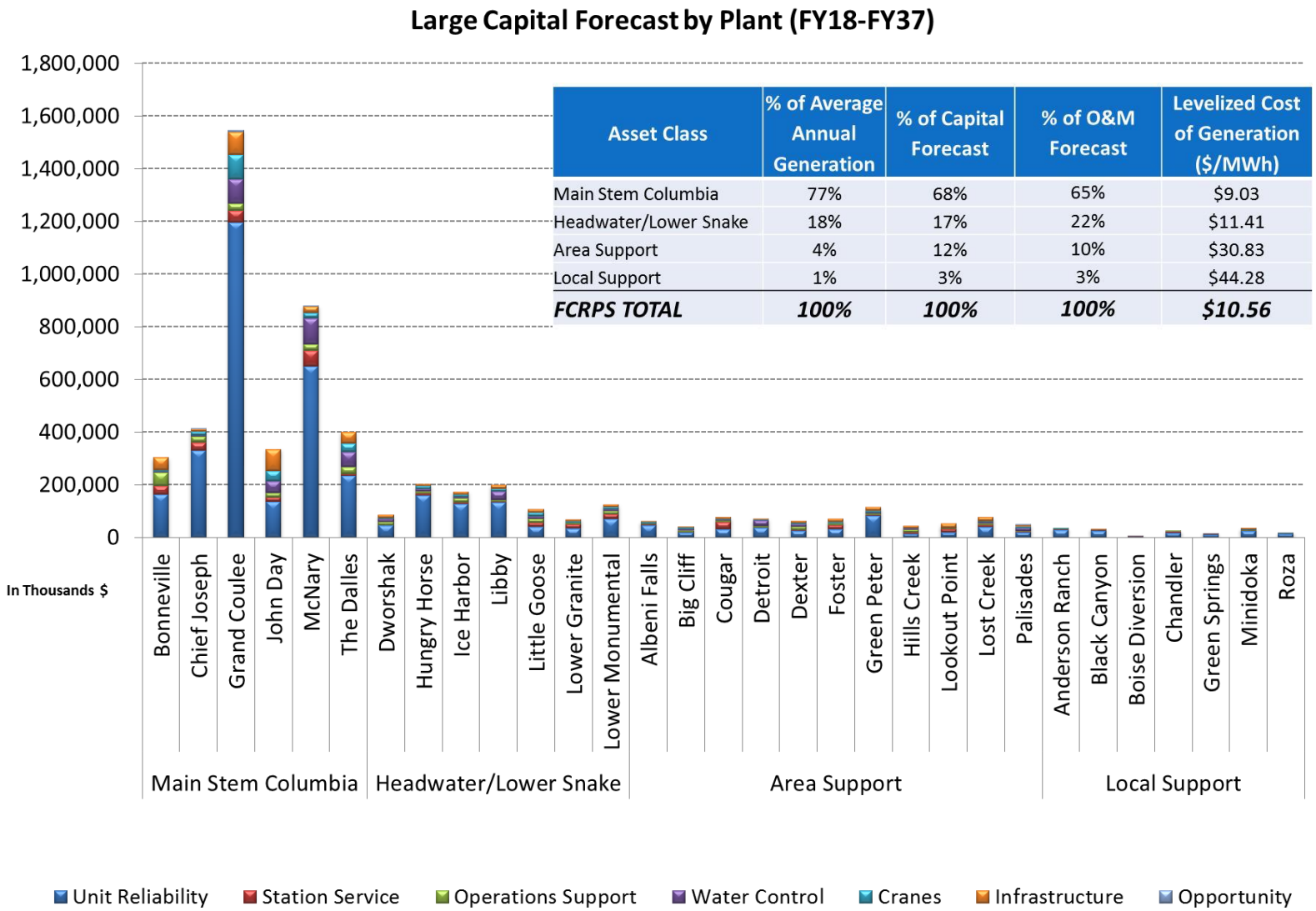
NON-GENERATION OPERATIONS



CAPITAL SUMMARY: FED HYDRO



LONG-TERM CAPITAL INVESTMENTS



Asset Class	% of Average Annual Generation	% of Capital Forecast	% of O&M Forecast	Levelized Cost of Generation ($/MWh)
Main Stem Columbia	77%	68%	65%	$9.03
Headwater/Lower Snake	18%	17%	22%	$11.41
Area Support	4%	12%	10%	$30.83
Local Support	1%	3%	3%	$44.28
FCRPS TOTAL	***100%***	***100%***	***100%***	***$10.56***

PRIORITIES

- Grid modernization
- Asset management strategy
- Maximize revenue enhancement and the value of the FCRPS

TRANSMISSION SERVICES

Richard Shaheen, SENIOR VICE PRESIDENT OF TRANSMISSION SERVICES

OVERVIEW

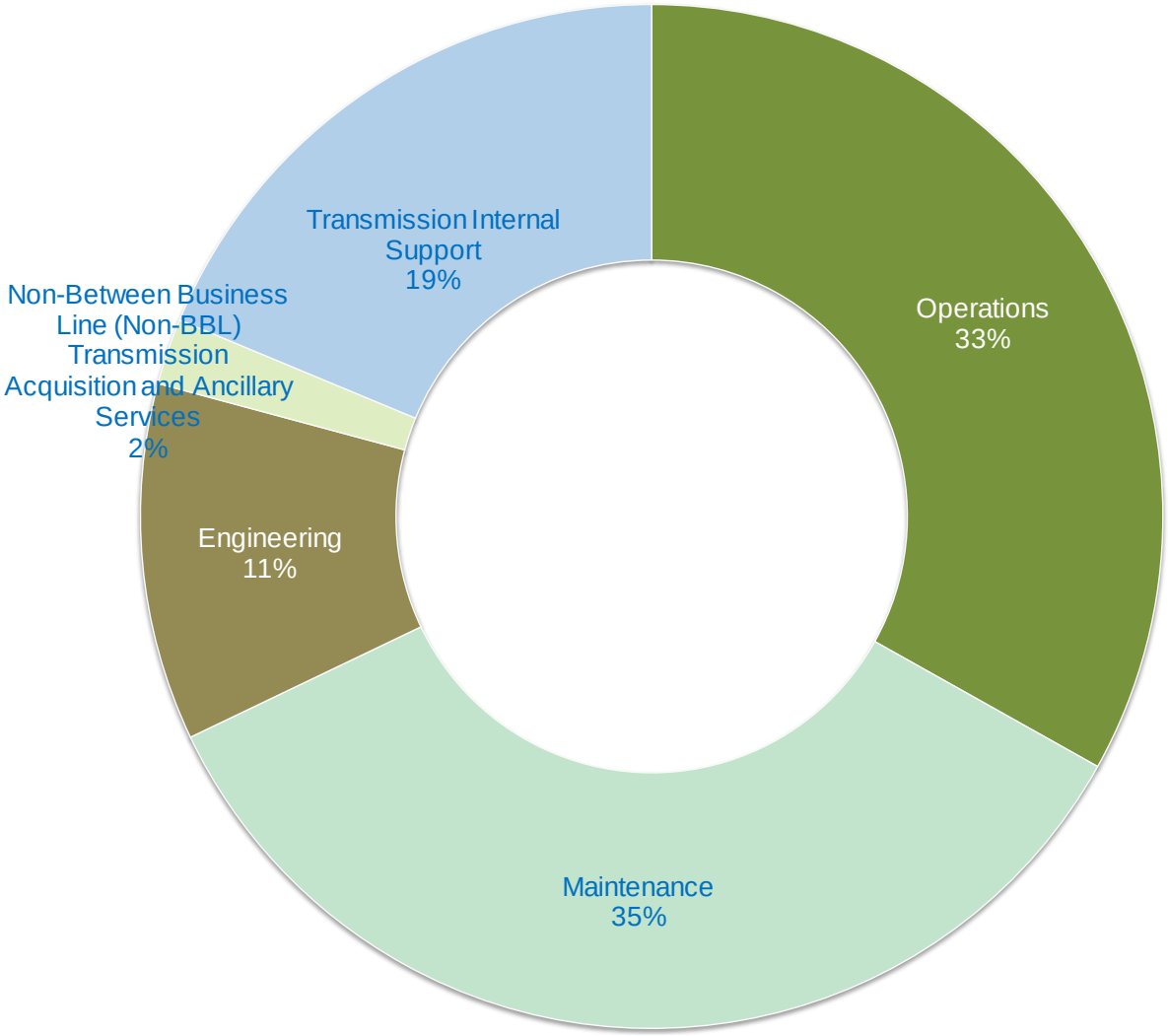
Transmission Services proposes to increase costs by $3 million a year compared to BP-18 rate case. This is still below the rate of inflation.

- Transmission Services is committed to BPA's cost-management objective.
- Expenses are prioritized to support safety, compliance and market transformation activities, as well as to modernize assets.
- Capital spending is set to achieve safety and high reliability, availability and adequacy standards, and to maximize economic value to the region.

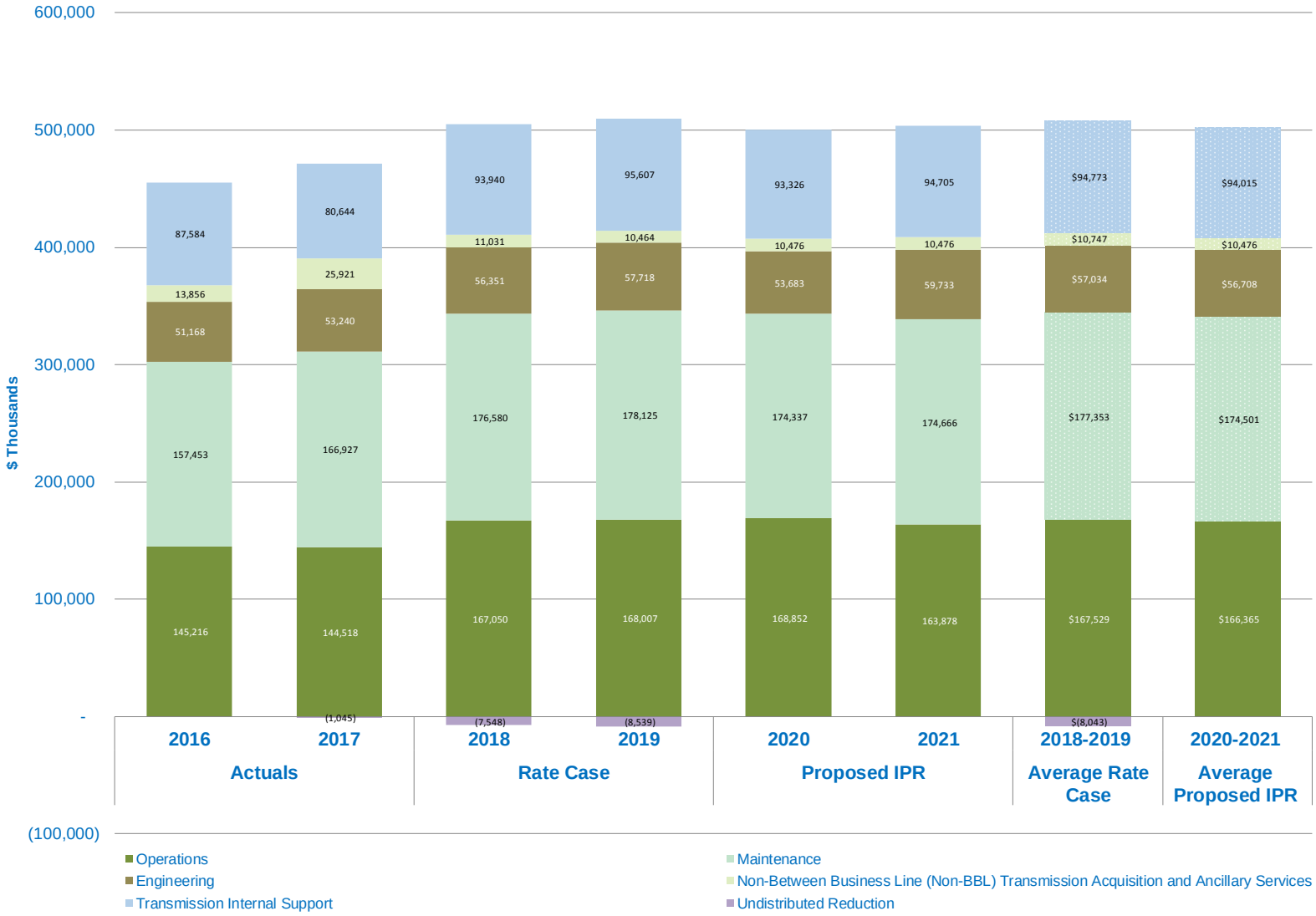
IPR FY 2020-21 AVERAGE

	FY2018-19 Average
Total	$499 Million

	FY2020-21 Average
Total	$502 Million



EXPENSE SUMMARY

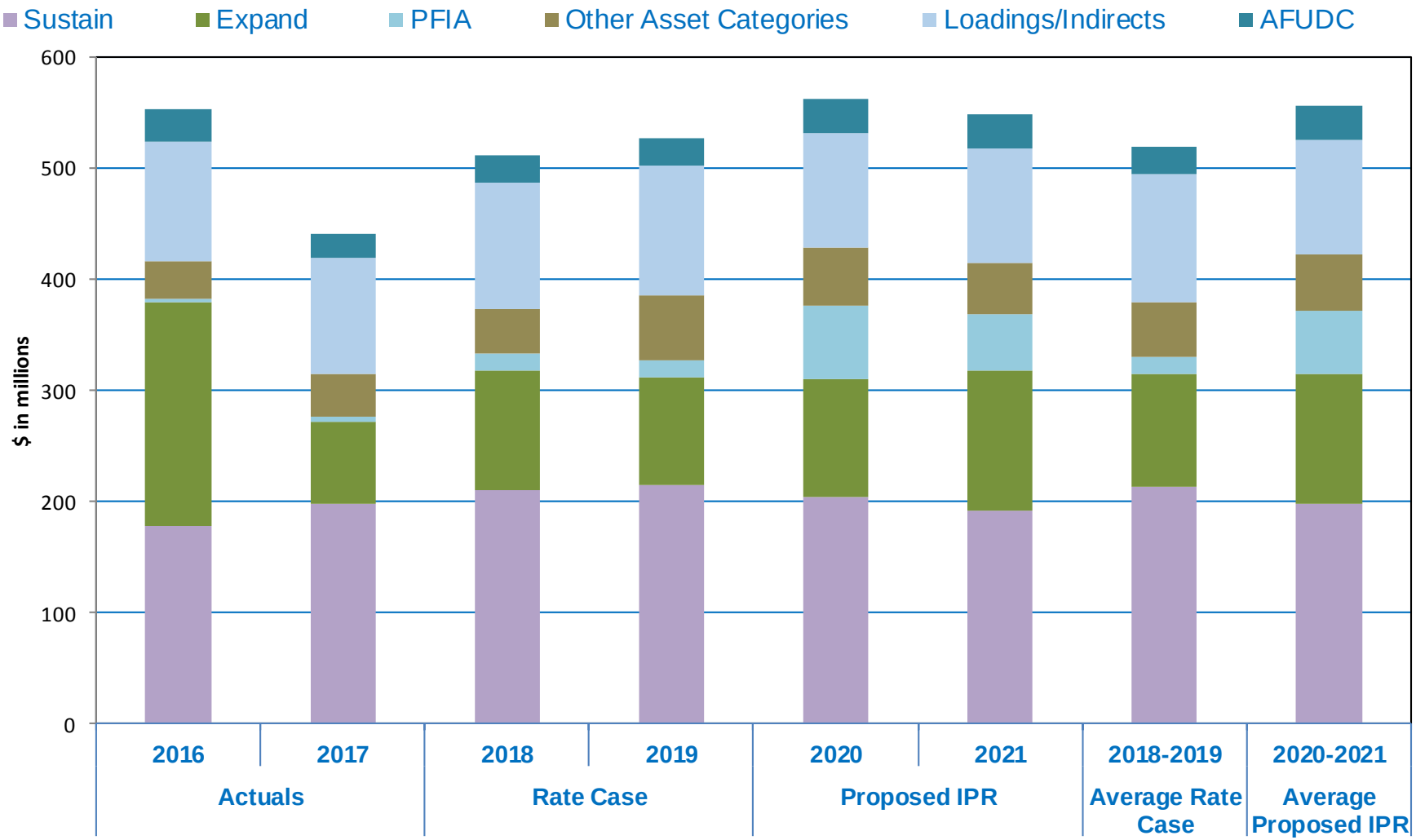


** Use of undistributed reductions were discontinued in FY20/FY21 proposed IPR. For comparability, total program levels shown on this chart should be netted down by undistributed reduction amounts.*

PRIORITIES

- Grid modernization and marketing support
- Asset management
- Responsiveness
- Cost management

CAPITAL SUMMARY



CORPORATE

Janet Herrin, CHIEF OPERATING OFFICER

OVERVIEW

Corporate proposes to reduce costs by $5.3 million a year compared to BP-18.

- Reprioritization led to cutbacks or elimination of some work.
- Largest reduction: Technology Innovation program reduced by $14.4 million for the rate period.
  - TI investments will be targeted toward technologies to modernize assets and operations.

IPR FY 2020-21 AVERAGE

	FY2018-19 Average
Total	$102 Million

	FY2020-21 Average
Total	$97 Million

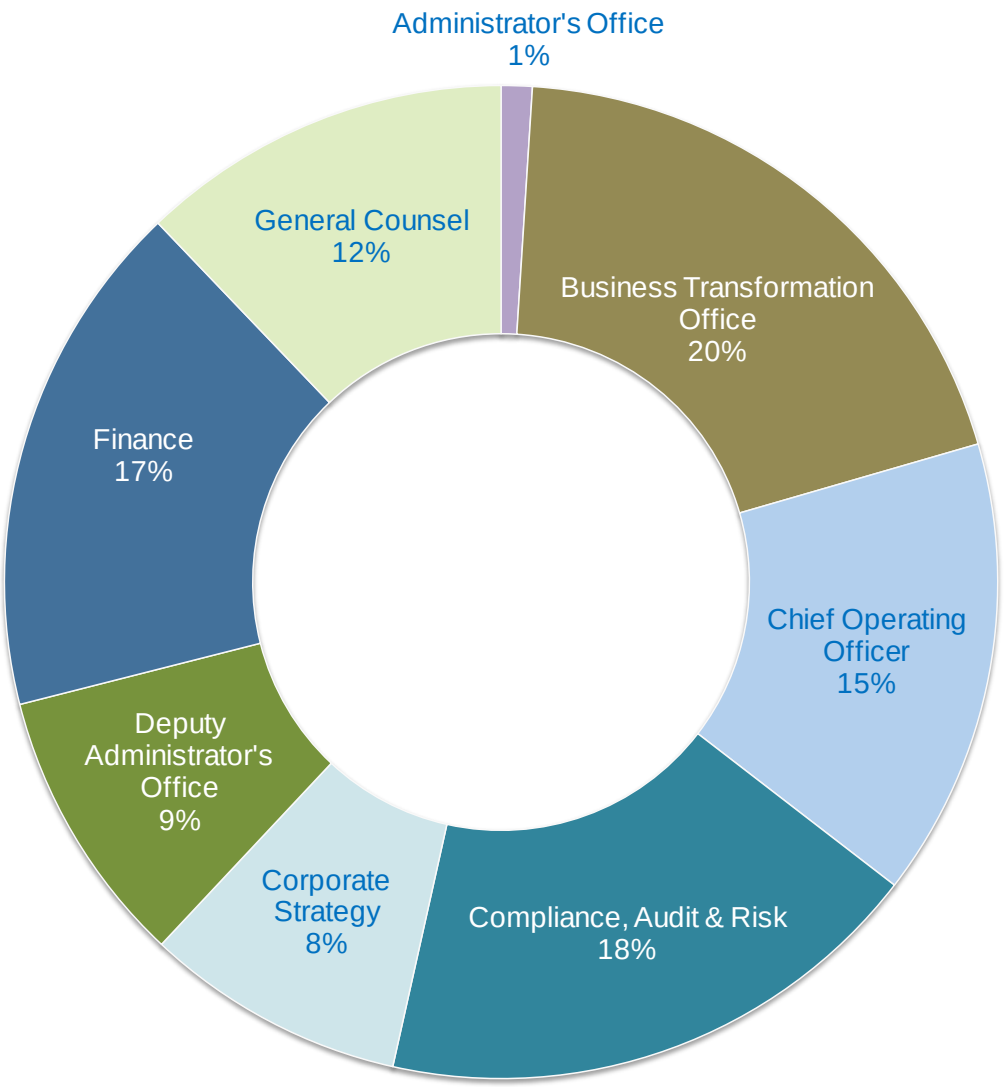
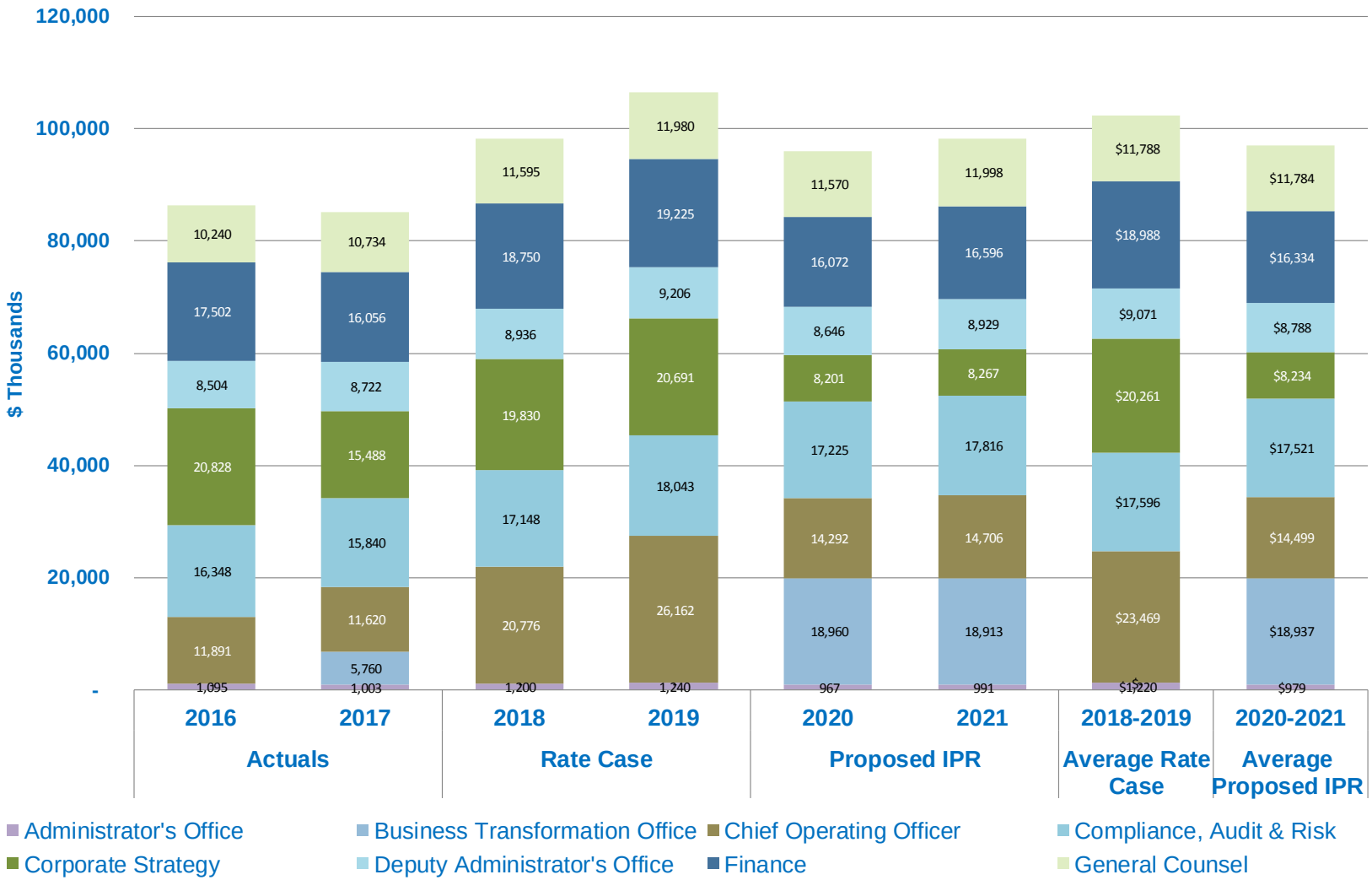


Chart does not include F&W

CORPORATE POOL – EXPENSE SUMMARY



The amounts in this chart are included in the Power and Transmission program totals and are not additive to the total agency spending proposal.

CHIEF ADMINISTRATIVE OFFICE

John Hairston, CHIEF ADMINISTRATIVE OFFICER

OVERVIEW

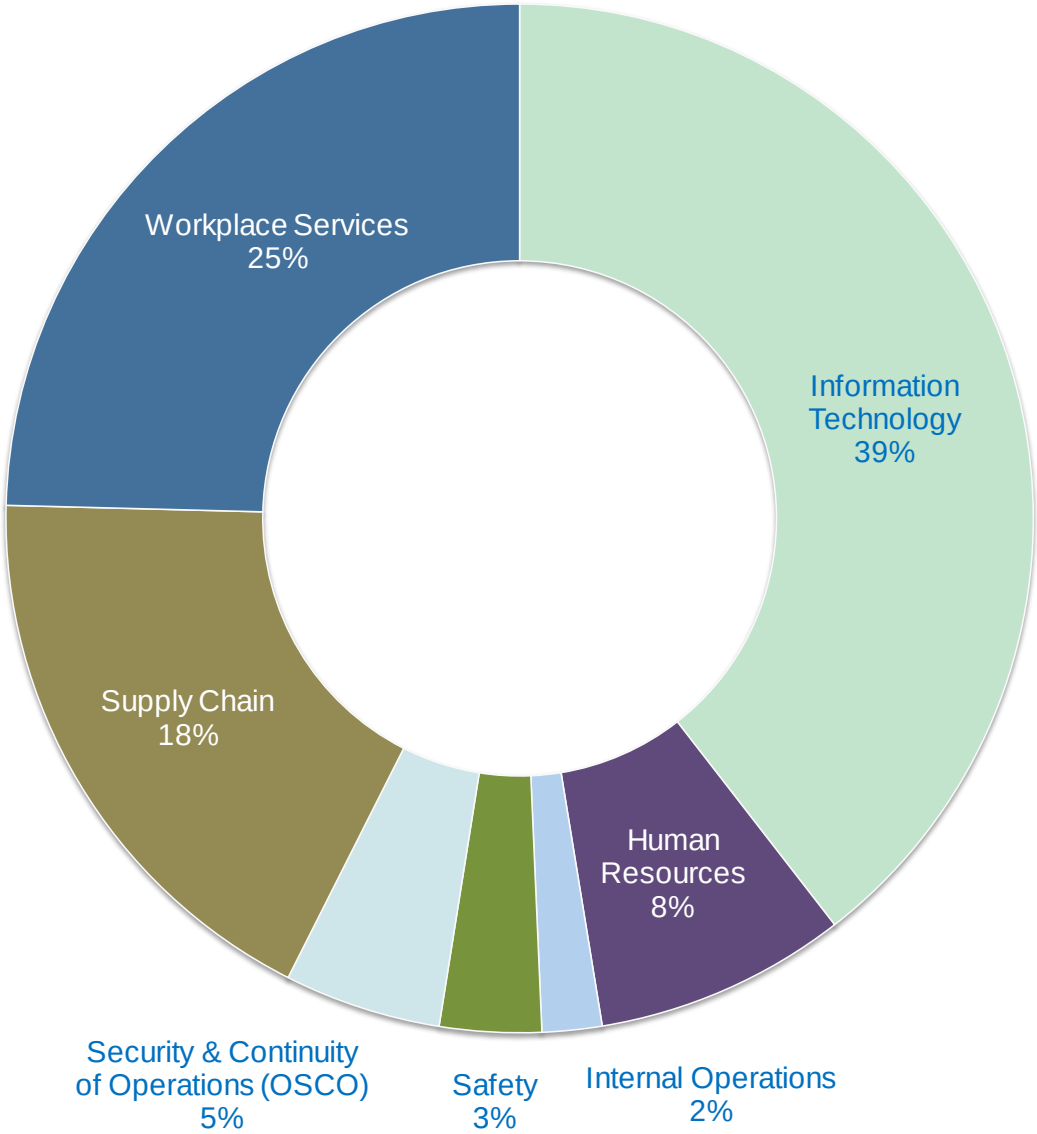
The CAO proposes to reduce costs by $16.6 million a year compared to BP-18 spending levels.

- Reducing overall IT costs through the implementation of a new IT strategy
- Terminating leases
- Reducing capital investments by absorbing or reprioritizing existing work to meet emerging needs

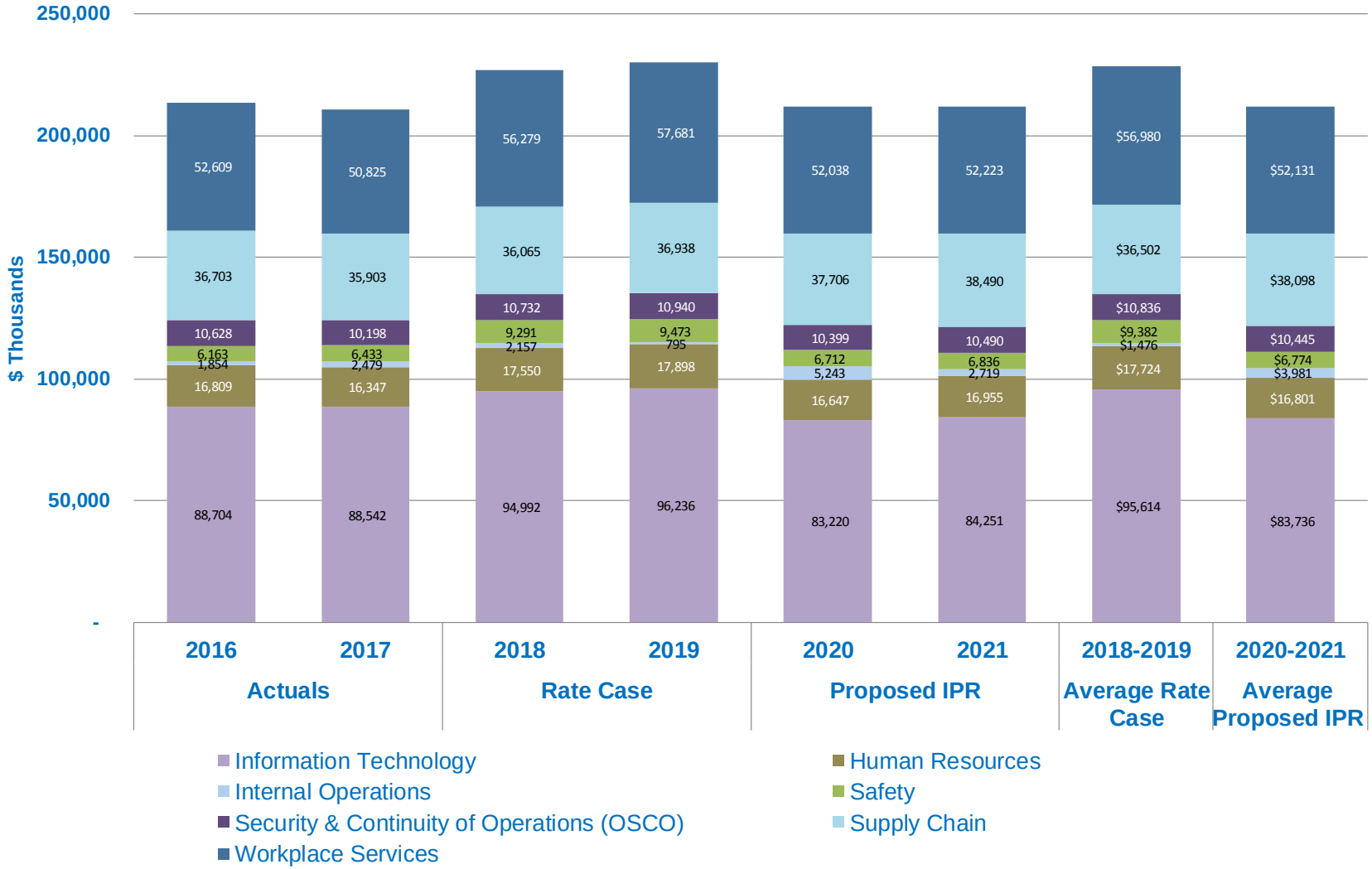
IPR FY 2020-21 AVERAGE

	FY2018-19 Average
Total	$229 Million

	FY2020-21 Average
Total	$212 Million



CHIEF ADMINISTRATIVE OFFICE POOL – EXPENSE SUMMARY



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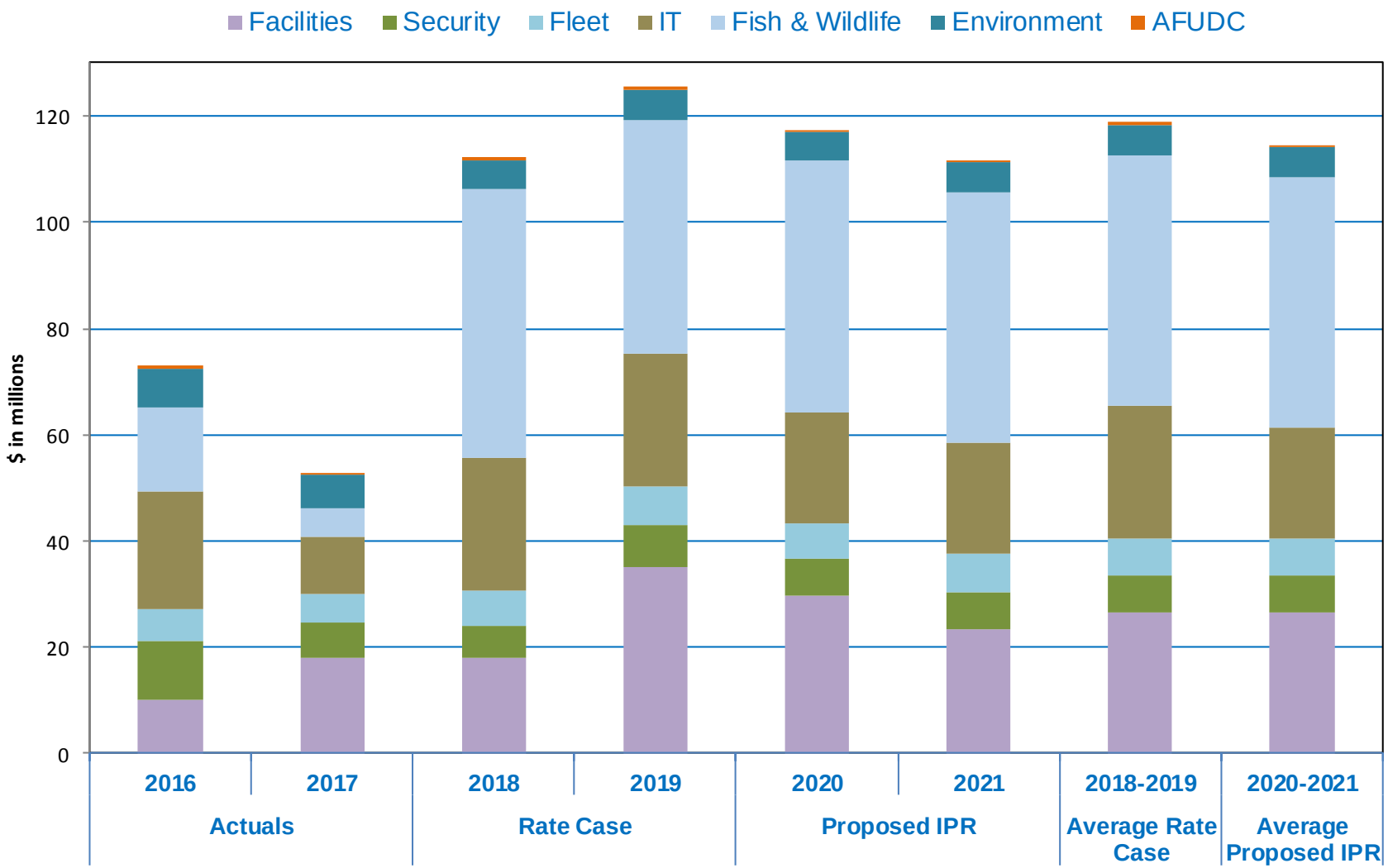
CAPITAL SUMMARY: CORPORATE AND CAO



NEXT STEPS

Mary Hawken, ACTING CHIEF FINANCIAL OFFICER

PROCESS OVERVIEW

- **June 7**
  - 2018 IPR initial publication released with summary and detailed documents
- **June 18 – July 17**
  - Kickoff and individual program workshops
  - Environment, Fish & Wildlife workshop held July 17
  - Remaining workshops all held the week of June 18
- **June 18 – Aug. 2**
  - Opportunity to comment on expense and capital spending proposals for FY 2020 and 2021
- **Late September**
  - 2018 IPR closeout report published with final spending levels

WORKSHOP SCHEDULE

	MONDAY JUNE 18	TUESDAY JUNE 19	WEDNESDAY JUNE 20	THURSDAY JUNE 21	TUESDAY JULY 17	THURSDAY AUGUST 2	FALL 2018
MORNING		**9 a.m.** Federal Hydropower	**9 a.m.** Grid Modernization	**9 a.m.** Energy Efficiency **11:30 a.m.** Capital-related costs	**9 a.m.** Environment, Fish and Wildlife	Close of public comment period	Release of IPR close-out report
AFTERNOON	**1 p.m.** Kickoff	**1 p.m.** Columbia Generating Station **2:45 p.m.** Information Technology	**1 p.m.** Transmission Services				

SUBMITTING COMMENTS

- Comment period open June 18 – Aug. 2
- Comments can be submitted:
  - Online at www.bpa.gov/comment.
  - By mail to BPA, P.O. Box 14428, Portland, OR 97293

QUESTION AND ANSWER

THANK YOU

2018 IPR Initial Publication is available at www.bpa.gov/goto/IPR.

Questions?

Send questions to BPAFinance@bpa.gov.
Answers will be posted to www.bpa.gov/goto/IPR.

FINANCIAL DISCLOSURE

This information was publicly available on June 18, 2018, and contains information not sourced directly from BPA financial statements.