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March 1, 2016

MEMORANDUM

TO: Council members

FROM: Tom Eckman

SUBJECT: Bonneville Presentation on Emerging Issues and
Status of Focus 2028

BACKGROUND:

Presenter: Peter Cogswell, Director, Intergovernmental Affairs
Kim Thompson, Coordinator Focus 2028

Summary: Bonneville staff will brief the Council on the major issues that are emerging in its Focus 2028 process. Bonneville initiated its Focus 2028 process to establish a common understanding of the types of industry changes and strategic choices Bonneville may face to maintain its financial strength and cost competitiveness. Key issues under discussion include Bonneville's approach to capital investment in the hydropower and transmission systems, its internal operating costs and program delivery models, including energy efficiency and fish and wildlife.

Relevance: Bonneville's financial health directly impacts its ability to carry out the Council's Fish and Wildlife Program and implement the Council Power Plans.

- Workplan:
1. Guide affordable, adequate, clean energy future – implement Sixth Plan and develop new Seventh Power Plan
 2. Promote regional fish and wildlife recovery - implement new 2014 Fish and Wildlife Program

Background: According to Bonneville, there are many factors that are placing upward pressure on BPA's long-term costs structure that could adversely impact BPA's long-term competitiveness. This led to the creation of the Long Term Financial and Rates Analysis, which allows BPA to analyze the impact that near-term decisions may have on future rates based on a variety of assumptions.

A key outcome of the Long Term Financial and Rates Analysis is the reference case, a 15-year analysis of the Bonneville Power Administration's financial condition and rates using spending levels from recent public processes and current cost escalation, as well as market and load forecasts. The reference case is meant to serve as a starting point for strategic discussions and the basis for comparing the financial and rate implications of future scenarios. This reference case is part of a suite of capabilities that will give BPA the ability to project the impact of decisions and industry changes on future rates and financials on a holistic level.

Focus 2028 discussions, which started in November of 2015, are taking place in advance of Bonneville's Capital Investment Review and Integrated Program Review processes to explore conditions and choices BPA and the region may face in the future.

More Info:

<https://www.bpa.gov/Finance/FinancialPublicProcesses/2028/Pages/default.aspx>

Focus 2028

“These are transformative times for the electric utility industry in the Pacific Northwest. The region faces a series of critical issues—from the continuing impact of low natural gas prices on wholesale electricity prices and the cost of maintaining the region’s aging assets, to emerging technologies, evolving markets, and new regulatory requirements. These and other factors are placing significant upward pressure on BPA’s long-term cost structure, while total outstanding debt also continues to rise.

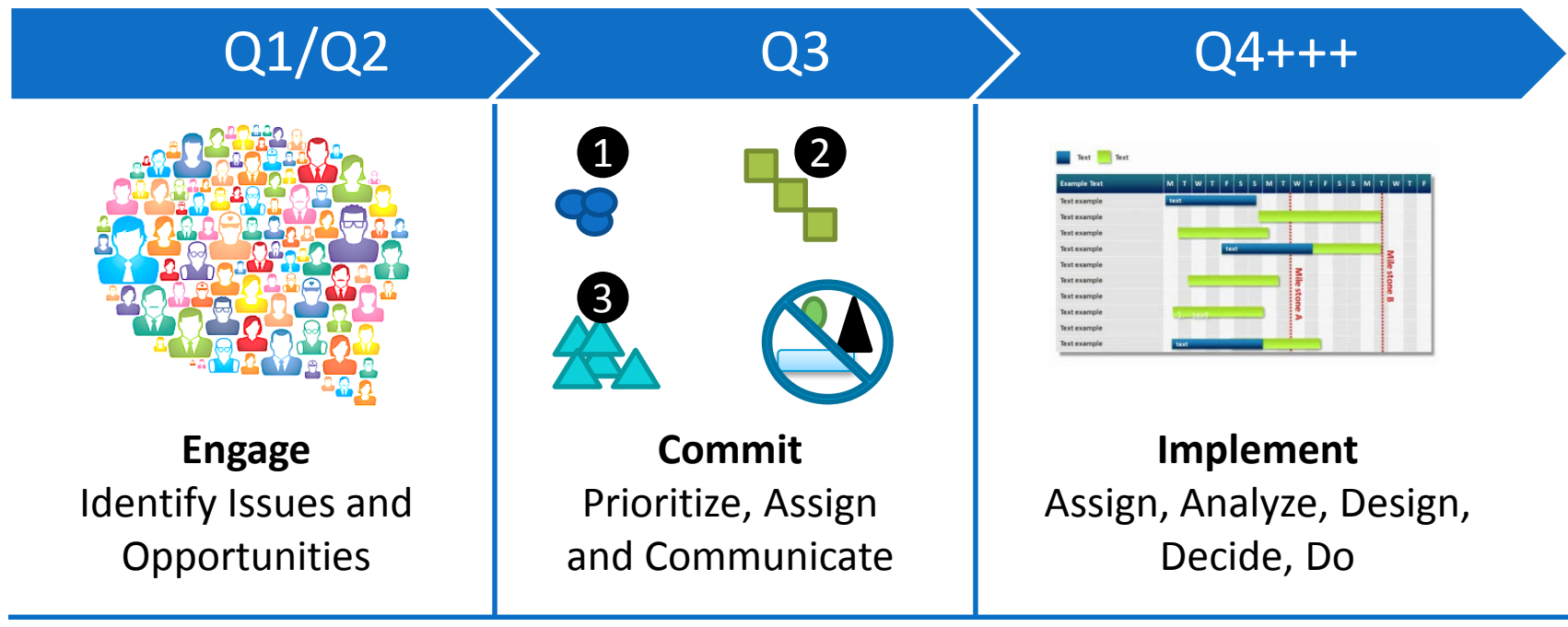
BPA’s ability to continue to meet its multiple statutory obligations and public purpose objectives depends on maintaining our cost competitiveness and financial strength. This is a shared objective for the many customers, tribes, and others that rely on BPA for important services and programs.”

-- Elliot Mainzer, BPA Administrator, BP-16 Rate Case Record of Decision

Objectives:

- Build holistic stakeholder understanding of above
- Introduce BPA’s Reference Case and long term rate analysis capabilities
- Seek input on potential actions and impacts to assets, operations, financial health, costs and rates
- Identify actions BPA will undertake to navigate toward a strong long-term competitive position

Focus 2028



Financial
Health

Cost
Management

Fed
Hydro

Fish &
Wildlife

Energy
Efficiency

Transmission